Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division

State of Oregon

Oregon Tourism Commission

A Semi-Independent Agency

For the Biennium Ended June 30, 2009

Contract Auditor: Moss Adams LLP

2010-14
March 2010

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

STATE OF OREGON

OREGON TOURISM COMMISSION

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS
(With Supplemental Information)

FOR THE BIENNIUM ENDED

JUNE 30, 2009

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Oregon Tourism Commission

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Oregon Tourism Commission (Commission), 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 Tourism Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls 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 Commission'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in financial position of the governmental activities and the special revenue fund of the Oregon Tourism Commission, as of June 30, 2009 and for the biennium then ended in conformity with accounting principles generally accepted in the United States of America.

The Oregon Tourism Commission 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, 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 February 26, 2010, 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, and 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 Information section as listed in the table of contents.

Moss Adams LLP

Eugene, Oregon
February 26, 2010

OREGON TOURISM COMMISSION
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET – SPECIAL REVENUE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Special Revenue Fund	**Adjustments (Note 3)**	**Statement of Net Assets**
ASSETS:			
Cash and cash equivalents	$1,959,708	$ -	$ 1,959,708
Intergovernmental receivables	146,626	-	146,626
Capital assets, net	-	226,419	226,419
Restricted cash and investments	34,600	-	34,600
Total assets	$2,140,934	$ 226,419	$ 2,367,353
LIABILITIES			
Accounts payable	$ 250,219	$ -	$ 250,219
Compensated absences	-	114,574	114,574
Deferred revenue	38,274	(38,274)	-
Total liabilities	$ 288,493	$ 76,300	$ 364,793
FUND BALANCE			
Reserved for compensation	34,600	(34,600)	-
Unreserved	1,817,841	(1,817,841)	-
Total fund balance	$1,852,441	$(1,852,441)	$ -
Total liabilities and fund balance	$2,140,934		
NET ASSETS			
Invested in capital assets, net of related debt		226,419	226,419
Restricted		40,100	40,100
Unrestricted		1,736,041	1,736,041
Total net assets		$ 2,002,560	$ 2,002,560

See accompanying notes.

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

	Special Revenue Fund	Adjustments (Note 3)	Statement of Activities
REVENUES			
Lodging tax	$ 22,745,660	$ -	$ 22,745,660
Conferences	293,805	-	293,805
Intergovernmental	195,011	38,274	233,285
Interest	28,949	-	28,949
Other	4,882	-	4,882
Total revenues	23,268,307	38,274	23,306,581
EXPENDITURES / EXPENSES			
Personal service	$ 4,383,618	$ 40,836	$ 4,424,454
Tourism development	19,225,572	(7,513)	19,218,059
Total expenditures / expenses	23,609,190	33,323	23,642,513
Revenues over (under) expenditures	(340,883)	4,951	(335,932)
Net change in fund balance / net assets	(340,883)	4,951	(335,932)
FUND BALANCE, BEGINNING	2,193,324	145,168	2,338,492
FUND BALANCE, ENDING	$ 1,852,441	$ 150,119	$ 2,002,560

See accompanying notes.

NOTE 1 - 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity - The Commission is a semi-independent agency of the State of Oregon. The Commission was created in 2003 and consists of nine members appointed by the governor for four-year terms. Five commissioners represent the lodging industry, three commissioners represent tourism at large, and one commissioner is a public citizen. Pursuant to Oregon Senate Bill 2267 adopted on 11-27-03 the Commission was granted independent status by the Legislature and is organized under ORS Chapter 284, *Organizations for Economic Development*.

Basis of presentation and Method of Accounting - The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Commission are organized on the basis of a special revenue fund. Revenues are received from a 1% statewide transient lodging tax.

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 measureable 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.

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 received from the Department of Revenue and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Lodging taxes - The Commission receives lodging taxes based on a 1% statewide transient lodging tax which is collected and remitted to the Commission by the Oregon Department of Revenue.

Conferences - The Commission sponsors an annual conference on tourism. Commission revenues for the event are derived from attendees' registration fees.

Grant revenue - The Commission is the recipient of grant revenues as part of the Federal Scenic Byway Program. The purpose of the program is to protect and enhance highways with scenic, historic, recreational, cultural or natural features. Funding under the grant is federal funding under CFDA 20.205. The Commission is considered a sub-recipient.

Cash and cash equivalents - The Commission'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.

Equipment - Equipment with a cost of more than $5,000 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:

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

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

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

Balance Sheet - Special revenue 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:	$	226,419
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds:		
Compensated absences	$	114,574
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	$	(38,274)

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:

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds:		
Intergovernmental revenues	$	38,274
Change in compensated absences	$	40,836
Governmental funds report capital outlays as expenditures; in the statement of activity the cost of those assets is allocated over their estimated useful lived as depreciated expense:		
Depreciation	$	23,284
Computer hardware additions		(30,797)
	$	(7,513)

NOTE 4 - CASH AND CASH EQUIVALENTS

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 US Bank which is categorized as reserve fund for cash flow purposes.

Concentration of credit risk - All investments of the Commission are made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments).

Custodial credit risk - deposits - Notification was received from the State of Oregon that effective 7/01/2009 changes had been made to ORS Chapter 295, governing the collateralization of public funds deposits. In order to deposit public funds in excess of the FDIC insured amount, all you need to do is to verify that the bank you use, or would like to use, is on the list of qualified depositories found on the Oregon Office of the State Treasurer's website. US Bank is on this list. Public fund depositors are no longer required to request the issuance of collateralization (COP) for balances over the FDIC insured amount. As of this date all current COP's were automatically cancelled. Banks are now required to provide quarterly reporting to the Treasury of their public funds deposits which will be the basis for their collateral pledging for the next quarter. Treasury will monitor each depository bank and ensure compliance with collateralization requirements for all Oregon public fund deposits. Banks will be able to pledge a reduced amount, 10% vs. 25%, if they are well capitalized; and in turn, the banks are required to share in the liability of a failed institution, should it ever occur. Poorly capitalized banks will still be required to pledge collateral equal to 110% of their deposits which will be monitored on a weekly basis.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the biennium ended June 30, 2009 was as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Buildings and improvements	$ 317,166	$ -	$ -	$ 317,166
Equipment	28,353	30,797	-	59,150
Total capital assets, being depreciated	$ 345,519	$ 30,797	$ -	$ 376,316
Less accumulated depreciation for:				
Buildings and improvements	$(122,900)	$(15,858)	$ -	$(138,758)
Equipment	(3,713)	(7,426)	-	(11,139)
Total accumulated depreciation	(126,613)	(23,284)	-	(149,897)
Total capital assets, being depreciated, net	$ 218,906	$ 7,513	$ -	$ 226,419

Depreciation expense for the biennium ended June 30, 2009 was $23,284, all of which was charged to governmental activities.

NOTE 6 - DEFINED BENEFIT PENSION PLAN

Plan description - The Commission is a participating employer in the Oregon Public Employees Retirement System (PERS). Commission 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 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 actuarially determined contributions from the employer and an employee contribution of six 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 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.

NOTE 6 - DEFINED BENEFIT PENSION PLAN (Continued)

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.

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.

- 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 State’s 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 Commission’s total Oregon General Obligation Pension Bond expense for the biennium ended June 30, 2009 was approximately $157,000, and is included in the Commission’s annual pension cost described in the table below.

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

	2007	2008	2009
Board contribution rates - PERS	5.62%	7.16%	5.15%
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	$ 1,038,609	$ 1,244,717	$ 1,530,816
Annual pension cost and bond assessment	$ 185,115	$ 237,895	$ 261,825

NOTE 6 - 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 unfunded actuarial liability (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 PERS 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 three 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.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS

The Commission'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.

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 Commission 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%.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

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 Commission 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%.

Commission contributions to the plans for the years ended June 30, 2008 and 2009 were $3,611 and $4,076 respectively, equal to the required contributions each year.

NOTE 8 - 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 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.

NOTE 9 - COMPENSATED ABSENCES

Vacation leave - Vacation leave paid time off is earned monthly, depending upon length of service, with a maximum accumulation of 300 to 350 hours depending on employee classification. Time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based upon current salary rates, was $114,574 at June 30, 2009.

NOTE 10 - EXECUTIVE COMPENSATION PLAN

The Commission has entered into an agreement with its Chief Executive Officer to provide an incentive based payment at the end of three years for achievement of certain goals for the Commission. The accumulated amounts related to future compensation have been reserved by the Commission and totaled approximately $34,600 at June 30, 2009. This balance is reported at restricted cash and investments in the financial statements.

NOTE 11 - LEASE COMMITMENTS

Office lease - The Commission leases its space under a lease agreement which expires June 30, 2012. Total lease payments for the two years ended June 30, 2009 were $463,866. The future minimum lease payments under the agreement are as estimated as follows:

YEAR ENDING JUNE 30,	AMOUNT
2010	$ 241,332
2011	254,605
2012	265,165
Total	$ 761,102

Other leases - The Commission leases space from the Port of Portland located at the Portland International Airport to operate and promote an Oregon welcome center. The agreement expires in June, 2013 unless terminated based on the provisions of the lease. Consideration under the agreement consists of donated services by the Commission for use of the space.

The Commission also leases space, on a month-to-month basis, for a welcome center located in Ashland, Oregon. Monthly rent under the agreement is $850 per month.

REQUIRED SUPPLEMENTAL INFORMATION

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, 2009

	Biennial Budget	Actual			Variance
	Original & Final	FY 2008	FY 2009	Biennial	Positive (Negative)
REVENUES					
Lodging tax	$22,844,325	$ 11,399,370	$ 11,346,290	$22,745,660	$ (98,665)
Conferences	-	169,450	124,355	293,805	293,805
Intergovernmental	-	10,100	184,911	195,011	195,011
Interest	-	24,036	4,913	28,949	28,949
Miscellaneous	-	7,875	(2,993)	4,882	4,882
Total revenues	22,844,325	$ 11,610,831	$ 11,657,476	23,268,307	423,982
EXPENDITURES					
Personal service	4,415,013	2,181,989	2,201,629	4,383,618	31,395
Tourism development	18,429,312	10,156,451	9,038,324	19,194,775	(765,463)
Capital outlay	-	-	30,797	30,797	(30,797)
Total expenditures	22,844,325	12,338,440	11,270,750	23,609,190	(764,865)
Revenues under expenditure	-	(727,609)	386,726	(340,883)	(340,883)
Net change in fund balance	-	(727,609)	386,726	(340,883)	(340,883)
FUND BALANCE, BEGINNING	247,538	2,193,324	$ 1,465,715	2,193,324	1,945,786
FUND BALANCE, ENDING	$ 247,538	$ 1,465,715	$ 1,852,441	$ 1,852,441	$ 1,604,903

See accompanying notes.

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 special revenue fund of the Oregon Tourism Commission, as of and for the biennium ended June 30, 2009, which collectively comprise the Oregon Tourism Commission's basic financial statements and have issued our report thereon, dated February 26, 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 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.

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 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. 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 Tourism Commission'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 2009-1 and 2009-2 are material weaknesses.

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*.

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

This report is intended solely for the information and use of management, the 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
February 26, 2010

Financial Statement Findings

2009-1

Condition

The internal control structure of the Commission 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 Commission maintains accounting records primarily on a semi-accrual basis of accounting. Preparation of a GAAP-based financial statement for the Commission 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 Commission financial statements.

Financial Statement Findings (Continued)

Cause

Semi-independent State Commissions such as the Oregon Tourism Commission 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 Commission'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 Oregon Tourism Commission appreciates the diligence of Moss Adams in completing this audit. We are also pleased that the compliance tests that were performed "disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*." As disclosed to Moss Adams during this process, the Oregon Tourism Commission became a semi-independent agency as a result of legislation passed in 2003. This legislative action necessitated the transition of Oregon Tourism Commission from a division within the Oregon Economic Development Department (OECDD) to its current status. As a result, the 2005-07 biennium was the first time that Oregon Tourism Commission was audited by the Secretary of State as an individual entity. Previously it was reviewed as an adjunct of OECDD. It is in this context that we offer the following observations on Financial Finding 2009-1 and 2009-2.

We were intrigued by the suggestion that we do not possess the appropriate acumen and knowledge to prepare and implement financial reporting in compliance with Generally Accepted Accounting Principles (GAAP). In the 2005-07 Secretary of State Audit Report for Oregon Tourism Commission (performed by Merina & Company), it was concluded by Merina & Company that "We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses…". We believe this is an important conclusion since our first audit showed professional competency. The same individuals that prepared the 2005-07 statements also prepared the 2007-09 statements and the same processes were used to produce the same financial statement. Oregon Tourism Commission certainly is committed to producing financial reports that comply with GAAP through transparent reporting processes. It is our intent to ensure this moving forward by contracting with a third party CPA to assist us with our reports on an annual basis and to make all general ledger equity account journal entries (like we did this year with the Salem-based firm Fischer, Hayes and Associates).

Financial Statement Findings (Continued)

2009-2

Condition

We believe that, at present, the Commission does not maintain an adequate set of financial records. The Commission's beginning net asset/fund balances were not reconciled with previous audited financial records.

Criteria

It is customary for net assets balances / fund balance to "roll-forward" from one accounting period to the next.

Effect

Such a system does not permit the preparation of accurate and reliable financial statements. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decisions on incomplete and/or inaccurate data. In addition, excessive time is spent in preparing and auditing the financial statements.

Cause

The infrequent nature of financial reporting creates conditions which diminish the significance for possessing a thorough understanding about basic financial reporting requirements.

Recommendations

Management should consider implementation of controls which ensures that at the close of an accounting period net assets / fund balance fully reconciled and "roll-forward" correctly. Management should consider implementing controls which restrict postings to the Commission's general ledger equity accounts unless authorized by senior management. The Commission may also consider having an outside CPA accounting firm assist them in adjusting the Commission's financial records at the close of each year.

Response

See response 2009-1