Secretary of State

State of Oregon

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

Special Public Works Fund

July 1, 1995, to June 30, 1996

Audits Division

Secretary of State

State of Oregon

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

Special Public Works Fund

July 1, 1995, to June 30, 1996

Audits Division

No. 97-33

March 25, 1997

The Honorable John Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

William C. Scott, Director
Oregon Economic Development Department
775 Summer Street NE
Salem, Oregon 97310

This audit was conducted for the purpose of reporting on the financial statements of the Oregon Economic Development Department's Special Public Works Fund as of and for the year ended June 30, 1996. Our opinion on these financial statements is presented in the Financial Section of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

As also required by those standards, we reviewed the department's internal control and compliance with applicable laws and regulations. Our reports on the results of those reviews are presented in the Audit Results section of this report.

OREGON AUDITS DIVISION

Don Waggoner, CPA
State Auditor

Fieldwork Completion Date:
February 24, 1997

255 Capitol Street NE • Suite 500 • Salem, Oregon 97310 • (503) 986-2255
FAX (503) 378-6767 • INTERNET: Audits.hotline@state.or.us
http://www.sos.state.or.us/audits/audithp.htm

T A B L E   O F   C O N T E N T S

SUMMARY

This audit concludes that the Oregon Economic Development Department's Special Public Works Fund financial statements for the year ended June 30, 1996, which are included in this report, are fairly presented. The audit of the related internal control and compliance with applicable laws and regulations did not disclose any reportable conditions.

The Oregon Economic Development Department's Special Public Works Fund (SPWF) was established to make loans and grants to cities, counties, port districts, and special districts for public infrastructure to support industrial and commercial development. The SPWF is financed through Oregon State Lottery proceeds and the sale of revenue bonds. During the year ended June 30, 1996, the SPWF had operating revenues of $5.2 million, received lottery proceeds of $3.4 million, and issued revenue bonds totaling $4.7 million. The Oregon Economic Development Department used these resources to award new SPWF loans and grants.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Special Public Works Fund (SPWF) was created by the Legislature in 1985 with an allocation from the state lottery. The SPWF program is administered by the Oregon Economic Development Department (department) and operates under the provisions of Sections 285.700 to 285.753 of the Oregon Revised Statutes (ORS).

The SPWF program was created to assist local governments in meeting their infrastructure and economic development needs through loans and grants to cities, counties, port districts, and special districts for public infrastructure. SPWF loans and grants can be used for the improvement, expansion, and new construction of public sewage treatment works, public water supply works, public roads, public parking, public docks and wharves, public depots, public railroads, and public airport facilities.

William C. Scott, the director of the department, was appointed by the governor in April 1993. The Oregon Economic Development Commission consists of five members who are also appointed by the governor. Responsibilities of the commission include reporting biennially to the governor and legislative assembly on the success of economic development efforts.

FINANCIAL ACTIVITIES

Financing for the SPWF program includes lottery proceeds, revenue bond proceeds, loan repayments, and interest earnings. Since its inception in 1985, the SPWF program has been allocated $70.3 million in lottery moneys and has issued $66.8 million in revenue bonds, of which $21.8 million has been advance refunded. ORS 285.750 allows the department to have up to $200 million in revenue bonds outstanding for the SPWF bond program. The department uses the revenue bond proceeds to award loans to local governments for infrastructure projects. The remaining financing sources are used to finance loans and grants to local governments and to pay administrative expenses.

Each SPWF loan must be fully secured by the borrowing local government; typically, repayment is made from revenue bonds, water and sewer charges, or urban renewal district revenues. The maximum term of a loan is 25 years or the usable life of the project, whichever is less.

The SPWF program activities are accounted for in a Proprietary Fund Type-Enterprise Fund. Enterprise Funds account for the provision of goods and services where all or most of the costs involved are recovered through charges to the users of those services or from returns on investments.

AUDIT RESULTS

REPORT ON INTERNAL CONTROL

We have audited the financial statements of the Oregon Economic Development Department's (department) Special Public Works Fund (SPWF), as of and for the year ended June 30, 1996, and have issued our report thereon dated February 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of the department is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the department's SPWF, for the year ended June 30, 1996, we obtained an understanding of the internal control. With respect to the internal control system, we obtained an understanding of the design of relevant controls and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion.

Our consideration of the internal control would not necessarily disclose all matters affecting internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control or its operations that we consider to be material weaknesses as defined above.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Compliance with laws, regulations, contracts, and grants applicable to the Oregon Economic Development Department is the responsibility of the department's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the SPWF's financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards.*

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Economic Development Department's management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by officials and employees of the Oregon Economic Development Department during the course of the audit were very commendable and sincerely appreciated.

AUDIT TEAM

Nancy Buffinton-Kelm, CPA, CISA, Audit Administrator
Mary E. Wenger, CPA
Sarah Edwards

FINANCIAL SECTION

The Honorable John Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

William C. Scott, Director
Oregon Economic Development Department
775 Summer Street NE
Salem, Oregon 97310

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon Economic Development Department's (department) Special Public Works Fund as of and for the year ended June 30, 1996. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 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.

As discussed in Note 1, the financial statements of the department's Special Public Works Fund are intended to present the financial position, results of operations, and cash flows of the Enterprise Fund - Proprietary Fund Type for only that portion of the fund of the state of Oregon that is attributable to the transactions of the department's Special Public Works Fund.

255 Capitol Street NE • Suite 500 • Salem, Oregon 97310 • (503) 986-2255
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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the department's Special Public Works Fund at June 30, 1996, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Reports in accordance with *Government Auditing Standards* on the Oregon Economic Development Department Special Public Works Fund's internal control and compliance are separately presented in the AUDIT RESULTS section of this report.

OREGON AUDITS DIVISION

Don Waggoner, CPA
State Auditor

February 24, 1997

Exhibit A

STATE OF OREGON

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

SPECIAL PUBLIC WORKS FUND

BALANCE SHEET

JUNE 30, 1996

ASSETS	
Cash	$ 25,437,428
Investments	5,166,097
Accrued Interest Purchased	18,652
Interest Receivable	2,244,953
Accounts Receivable	6,424
Loans Receivable	64,166,399
Due From Other Funds	19
Due From Other Agencies	851,562
Deferred Expenditures	261,187
TOTAL ASSETS	**$ 98,152,721**

LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	$ 51,843
Bond Interest Payable	1,159,594
Due to Other Funds	7,035
Due to Other Governments	2,091,004
Trust Funds Payable - Short Term	225,721
Bonds Payable - Short Term	1,565,905
Deferred Revenue	863
Vacation Payable - Short Term	8,924
TOTAL CURRENT LIABILITIES	5,110,889
LONG-TERM LIABILITIES	
Trust Funds Payable	243,731
Bonds Payable	39,650,520
Vacation Payable	26,772
TOTAL LONG-TERM LIABILITIES	39,921,023
TOTAL LIABILITIES	45,031,912
FUND EQUITY:	
Retained Earnings	53,120,809
TOTAL FUND EQUITY	53,120,809
TOTAL LIABILITIES AND FUND EQUITY	**$ 98,152,721**

The accompanying notes are an integral part of the financial statements.

Exhibit B

STATE OF OREGON

OREGON ECONOMIC DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

FOR THE FISCAL YEAR ENDED JUNE 30, 1996

OPERATING REVENUES:	
Interest Income on Loans	$ 3,509,863
Interest Income on Cash Balances	1,495,149
Investment Income	244,554
Other Income	32,785
TOTAL OPERATING REVENUES	5,282,351
OPERATING EXPENSES:	
Debt Service	2,148,111
Personal Services	520,037
Services and Supplies	104,531
Special Payments	5,440,198
Loss on the Sale of Investments	25,255
TOTAL OPERATING EXPENSES	8,238,132
OPERATING INCOME (LOSS)	**(2,955,781)**
OPERATING TRANSFERS IN (OUT):	
Operating Transfers-in, Lottery Proceeds	3,406,248
TOTAL OPERATING TRANSFERS IN (OUT)	3,406,248
NET INCOME	**450,467**
FUND EQUITY - BEGINNING	52,670,342
FUND EQUITY - ENDING	**$ 53,120,809**

The accompanying notes are an integral part of the financial statements.

Exhibit C

STATE OF OREGON

OREGON ECONOMIC DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 1996

Cash Flows From Operating Activities:		
OPERATING INCOME (LOSS)		$ (2,955,781)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Interest Received on Investments	$ (244,554)	
Interest Received on Cash Balances	(1,495,149)	
Interest Expense on Bonds	2,110,487	
Amortization of Deferred Bond Issue Costs	22,349	
Bond Issue Costs	(104,334)	
Loss on Investments	25,255	
Changes in Assets and Liabilities:		
Increase in Interest Receivable	(166,879)	
Increase in Loans Receivable	(9,142,763)	
Increase in Accounts Receivable	(6,424)	
Decrease in Due From Other Funds	2,827	
Increase in Accrued Interest Purchased	(18,652)	
Increase in Deferred Expenditures	(81,986)	
Increase in Accounts Payable	45,993	
Increase in Bond Interest Payable	192,588	
Increase in Due to Other Funds	2,261	
Increase in Due to Other Governments	1,524,057	
Decrease in Deferred Revenue	(41)	
Decrease in Trust Funds Payable - Short Term	(61,165)	
Increase in Vacation Payable - Short Term	1,583	
Increase in Vacation Payable - Long Term	4,748	
TOTAL ADJUSTMENTS		(7,389,799)
Net Cash Provided (Used) in Operating Activities		(10,345,580)
Cash Flows From Noncapital Financing Activities:		
Operating Transfers-in, Lottery Proceeds		3,406,248
Proceeds From Bond Sales		4,706,425
Principal Payment on Bonds		(1,455,000)
Interest Payment on Bonds		(2,107,056)
Bond Issue Costs		78,554
Net Cash Provided (Used) in Noncapital Financing Activities		4,629,171
Cash Flows From Investing Activities:		
Proceeds From Sales and Maturities of Investments		19,896,023
Purchases of Investments		(20,390,736)
Interest on Investments		244,554
Interest on Cash Balances		1,495,149
Net Cash Provided (Used) in Investing Activities		1,244,990
NET INCREASE IN CASH AND CASH EQUIVALENTS		(4,471,419)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		29,908,847
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**$ 25,437,428**

The accompanying notes are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

a. Reporting Entity

The Special Public Works Fund (SPWF) was created on July 1, 1985, as a program of the Intergovernmental Relations Division of the Executive Department. The program was subsequently transferred to the Oregon Economic Development Department (Department) on July 1, 1987. The Department is a part of the State of Oregon Reporting entity. The SPWF program operates under the provisions of sections 285.700 through 285.753 of the Oregon Revised Statutes (ORS).

Financing for the SPWF is made available through lottery proceeds and the sale of bonds. The Department has issued $66,865,000 in revenue bonds of which $21,775,000 have been advanced refunded. ORS 285.750 authorized the Department to have a maximum of $200 million in revenue bonds outstanding for the SPWF bond program.

The SPWF program makes loans and grants to cities, counties, port districts, and special districts for public infrastructure needed to support industrial and commercial development. SPWF loans and grants can be used for the improvement, expansion, and new construction of public sewage treatment works, public water supply works, public roads, and public transportation. Public transportation includes public parking, docks, wharves, depots, railroads, and airport facilities.

SPWF loans must be fully secured by the municipality (ORS 285.723). Sources of repayment can include revenue bonds, water and sewer charges, urban renewal district revenues, or other moneys. The loan agreements are full faith and credit obligations of borrowers other than counties, and those borrowers are unconditionally obligated to pay the amounts due, pursuant to their loan agreement, from their general fund and tax revenues. The maximum term of a loan is 25 years or the usable life of the project, whichever is less.

b. Basis of Presentation

The SPWF program is accounted for in the Enterprise Fund, proprietary fund type. Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises.

The accompanying financial statements are presented in conformity with generally accepted accounting principles (GAAP) applicable to state governments as interpreted by the Department of Administrative Services and presented in the Administrative Rules and the Oregon Accounting Manual.

c. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary type funds. Revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Budgetary Accounting

(1) The State of Oregon's budgets are approved on a biennial basis. The 1995-97 SPWF budget as approved by the 1995 Legislature in House Bills 5001 and 5035 included $21.7 million in lottery proceeds to be used for grants and loans. Of this $21.7 million, $6.8 million was derived from current biennium lottery revenues and $14.9 million represents lottery funds from prior biennia that have been committed but not drawn down. The amount of the $21.7 million that was earmarked for paying the administrative expenditures of the program was $1,009,504. The SPWF also has continuous spending authority in ORS 285.733.

During the biennium, the Department of Administrative Services approves spending limits for each quarter. The program's actual expenditures are monitored against approved budgets, quarterly allotments, and cash balances. Limitations lapse at the end of the biennium.

(2) Agency budgets are approved by the Legislature biennially. Increases in the budgets that may be necessary are approved by the Emergency Board of the Legislature during the interim. In January 1996, the Emergency Board increased the administrative budget of the SPWF by $44,352 for salary adjustments related to Public Employee Retirement System (PERS) contributions.

Legislatively approved limitations are financed from general governmental revenues or revenues of self-supporting activities of the State of Oregon. Limitations, except for Capital Construction, lapse at the end of the biennium.

Appropriated budgets include expenditure authority created by appropriation bills and related estimated revenues. All funds are subject to legislative approval. Non-appropriated budgets and some non-limited financial activities are also subject to allotment control by the Department of Administrative Services.

e. Bond Issuance Costs

Bond Issuance Costs were recorded as current period debt service expenses through June 30, 1994. Any bond issuance costs, including underwriters' discounts, incurred after June 30, 1994, are reflected as deferred expenditures and apportioned ratably over the term of the related bond issue based on the Bonds Outstanding method of amortization.

f. Cash Equivalents

For purposes of the Statement of Cash Flows, highly liquid investments are not considered to be cash equivalents, even when purchased within 30 days of maturity. All repurchase agreements and purchased investments are considered to be investments. All investments are valued at cost.

g. Receivables

Receivables are amounts due representing revenues earned or accrued in the current period. Interest receivable includes interest due on loans, investments, and cash balances. Loans receivable are shown in total. An allowance for uncollectible accounts was not established because the program has not had any defaults and none are anticipated.

Loans Receivable:

	Through June 30		
	1996	1995	1994
Number of Loans Outstanding	142	123	109
Total Amount Outstanding	$64,166,399	$55,023,636	$50,055,016

h. Short-Term Interfund Receivables/Payables

During the course of operations, many transactions occur between individual funds for various reasons. These receivables/payables are classified as "Due From Other Funds" and "Due To Other Funds" on the balance sheet.

i. Fixed Assets

Fixed Assets are reported at historical cost or estimated historical cost if the original cost is not determinable. Donated fixed assets are reported at their estimated market value at the time received. Fixed assets costing less than $5,000 are expended. There were no fixed assets in the SPWF as of June 30, 1996.

j. Deferred Expenditures

Deferred expenditures represent expenses which have been incurred and paid but need to be amortized over the life or term of the related liability. The deferred expenditures shown on the balance sheet are the Cost of Issuance expenses from the various SPWF bond sales that took place after June 30, 1994. The expenses are being amortized over the term of the bonds using the Bonds Outstanding Method of amortization.

2. Cash, Cash Equivalents, and Investments

Cash reported on the Balance Sheet consists of cash deposited in the State Treasury and cash in bank. Cash on deposit in the State Treasury includes cash on deposit with financial institutions and cash that is invested by the State Treasurer on a short-term basis. State moneys may be deposited in any bank or trust company, mutual savings banks, or savings and loans association, or branch office in that capacity doing business in this state. The state is authorized to use demand deposits and certificates of deposit. The cash on deposit with financial institutions is insured either through federal depository insurance or the statewide collateral pool under provisions of ORS 295. Of the collateral pool deposits, 25 percent are secured and 75 percent are unsecured.

The book balance of cash on deposit with the State Treasury at June 30, 1996, was $25,382,433; the bank balance was $25,530,132. Of the total cash on deposit in the State Treasury, $225,721 represents interest earnings on the bond proceeds and collateral loan monies held by the Department on behalf of SPWF borrowers and is classified as short-term trust funds payable on the balance sheet.

Cash on deposit in the bank as of June 30, 1996, was $54,996 and represents cash being held by the Department's Bond Trustee. The cash held by the Trustee is covered by Federal Depository Insurance.

The SPWF investments are categorized below to give an indication of the level of risk assumed by the Department at year-end. ***Category 1*** includes investments that are insured or registered, with securities held by the Department or its agent in the Department's name. ***Category 2*** includes uninsured and unregistered investments, with securities held by the counter party's trust department or agent in the Department's name. ***Category 3*** includes uninsured and unregistered investments, with securities held by the counter party or by its trust department or agent but not in the Department's name.

At June 30, 1996, the SPWF investment balances were as follows:

	Risk Category				
	1	2	3	Carrying Amt	Market Value
US Gov't Securities	$ 5,166,097	-	-	$ 5,166,097	$ 5,142,528
Totals	$ 5,166,097	-	-	$ 5,166,097	$ 5,142,528

Of the total cash on deposit and investments, an estimated $22,648,818 has been committed and an estimated $7,954,708 is available as of June 30, 1996. Included in the committed cash and investment balance is $3,971,111 which is recorded in the Department's Debt Service Reserve Accounts. The use of these accounts is generally restricted as to purpose and use by the Bond Declarations and Indentures of Trust. These reserve accounts have been established to meet certain requirements and the balances of these accounts as of June 30, 1996, were sufficient to meet these legal requirements.

As part of the 1993 Series C bond sale, the City of McMinnville contributed $243,731 of their bond proceeds to the Department’s debt service reserve fund. The Department will refund this money to the City on the final maturity date of the 1993 Series C bond issue provided that the money has not been needed by the Department to meet debt service obligations. Therefore, $243,731 of cash and investments represents this contribution and is classified as a long-term trust funds payable on the balance sheet.

3. Bonds Issued and Outstanding

Since inception and commencing in February 1991, the Oregon Bond Bank has issued $66,865,000 in revenue bonds, of which $21,775,000 was refunded and $41,265,000 was outstanding at June 30, 1996. The Bonds Payable on the balance sheet is recorded net of any original issue discounts (OID). The 1995 Series A bond sale is the only SPWF bond sale issued to date that has involved an OID. The unamortized balance of the OID for 1995 Series A is $48,575.

The following table summarizes the total bonds issued by series with bonds outstanding as of June 30, 1996.

Series Issued	Interest Range	Amount of Bonds Issued	Bonds Outstanding
1991 Series A	5.00 - 6.70%	$ 4,165,000	$ -
1991 Series B	4.90 - 6.80%	$ 5,395,000	$ -
1992 Series A	3.25 - 6.40%	$ 5,995,000	$ -
1992 Series B	3.50 - 6.35%	$ 5,595,000	$ -
1992 Series C	3.60 - 6.45%	$ 890,000	$ -
1993 Series A	2.80 - 5.50%	$ 21,610,000	$ 18,965,000
1993 Series B	5.75 - 7.75%	$ 955,000	$ 880,000
1993 Series C	3.20 - 5.38%	$ 11,815,000	$ 11,120,000
1994 Series A	5.00 - 6.00%	$ 5,690,000	$ 5,545,000
1995 Series A	3.90 - 5.75%	$ 4,755,000	$ 4,755,000
		$ 66,865,000	$ 41,265,000

4. Debt Defeased in Substance

Due to the advanced refunding in July 1993, five bond issues have been considered to be defeased in substance. The following table summarizes the amount of debt outstanding at June 30, 1996.

Series Issued	Bonds Issued	Defeased Bonds Outstanding
1991 Series A	$ 4,165,000	$ 3,685,000
1991 Series B	$ 5,395,000	$ 4,775,000
1992 Series A	$ 5,995,000	$ 5,310,000
1992 Series B	$ 5,595,000	$ 5,080,000
1992 Series C	$ 890,000	$ 810,000
	$ 22,040,000	$ 19,660,000

5. Debt Service Requirements to Maturity

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 1996, for each year during the next five-year period ending June 30, 2001, and in total for the succeeding period of July 1, 2001, to June 30, 2016.

Year Ending June 30	Revenue Bonds
1997	$ 3,794,259
1998	3,744,675
1999	3,847,848
2000	3,885,180
2001	3,878,898
2002 - 2016	44,710,604
Totals	$ 63,861,464
Principal	$ 41,265,000
Interest	22,596,464
Totals	$ 63,861,464

The interest stated above includes coupon interest the Department expects to pay over the life of the bonds outstanding. Coupon interest is paid semi-annually on January 1 and July 1.

6. Defined Benefit Retirement Plan

Department employees participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple employer public employee retirement system. The SPWF payroll for employees covered by the PERS for the year ended June 30, 1996, was $347,318; the total payroll was $520,037.

All Department employees are eligible to participate in the system after completing six months of service. The PERS retirement allowance, payable monthly for life, may be selected from twelve retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is a percentage of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under a money match or an annuity-plus-pension computation if the individual was a contributing member before August 21, 1981, if a greater benefit results.

PERS also provides death and disability benefits. Benefits are established by state statutes.

An employee member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she had a contribution in each of five calendar years or has reached at least 50 years of age, before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Members with 30 years of service receive unreduced benefits. General service employee benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Covered employees are required by statutes to contribute six percent of their salary to the plan. Department employees' contributions are either deducted from their salary or are paid by the Department. The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Currently, the rate is 8.46 percent of covered employee's salary. Effective July 1, 1997, the rate will change to 8.20 percent. The amount contributed for the year ended June 30, 1996, was $64,493, which consisted of $38,526 for the employer and $25,967 for the employee. The total amount was paid by the SPWF.

The "pension benefit obligation" is a standardized way to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess a pension system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other systems. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The estimated pension benefit obligation as of December 31, 1995, for state agencies as a whole, determined through an actuarial valuation performed as of December 31, 1995, was $5,287,786,153. The System's net assets (at cost) available for state agency benefits on December 3l, 1995, were $5,217,853,553.

Ten year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is available in the separately issued PERS Comprehensive Annual Financial Report for the year ended June 30, 1996.

7. Compensated Absences

It is the State's policy to record the cost of employee leave at the time the leave is paid. Employee leave includes vacation leave, sick leave, compensatory time, and personal leave.

Only vacation leave and some compensatory time meet the criteria to qualify for compensated absences disclosure:

1. The employee's right to receive compensation is based on services already rendered;
2. Rights are vested and accumulate;
3. Payment of the compensation is probable; and
4. The amount can be reasonably estimated.

The liability for compensated absences is calculated by each agency based on current salary costs. The total liability for the SPWF is $35,696.

8. Unemployment Benefits

State Departments are subject to the Department of Employment Act. State employees who qualify are entitled to benefit payments during periods of unemployment. Each State Department is required to reimburse the Department of Employment for benefit payments made to their former employees.

There appears to be no practical method of estimating the amount of future benefit payments which may be made to former employees for wage credits earned prior to June 30. Consequently, this potential obligation is not included in the accompanying financial statements. There were no reimbursements made by the SPWF during the period.

9. Commitments

Projects awarded funds but not disbursed by June 30, 1996:

Number of Projects	Funds Committed
59	$ 15,886,575

10. Subsequent Events

In September 1996, the Department issued an additional $6,000,000 in revenue bonds (1996 Series A).

AGENCY'S RESPONSE TO THE AUDIT REPORT

Oregon
ECONOMIC
DEVELOPMENT
DEPARTMENT

March 10, 1997

Mr. Don Waggoner, CPA
State Auditor
Secretary of State Audits Division
255 Capitol Street NE., Suite 500
Salem, Oregon 97310

Dear Mr. Waggoner:

I have been notified by your staff that the audits for both the Special Public Works Fund and the Water/Wastewater Fund financial reports for the year ended June 30, 1996, have been completed and that there were no audits comments made. I am satisfied that the audits have been conducted by your staff in accordance with generally accepted auditing standards and I have nothing further to add to the reports. Please distribute copies of the audited financial reports to the appropriate parties.

Let me finish by thanking you and your staff for the review of the financial reports for the two programs. Presenting the fair and accurate financial position for each is important to our agency and we welcome the changes and recommendations from your staff that help us accomplish this task.

Sincerely,

WmCScott

William C. Scott
Director