
Secretary of State

State of Oregon

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

Water Fund

July 1, 1996, to June 30, 1997



Audits Division

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OREGON ECONOMIC DEVELOPMENT DEPARTMENT

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July 1, 1996, to June 30, 1997



Audits Division



Auditing for a Better Oregon

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 Water Fund as of and for the year ended June 30, 1997. 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 report on the results of those reviews is presented in the Audit Results section of this report.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
March 19, 1998

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SUMMARY

BACKGROUND

The 1993 Oregon Legislature created the Water Fund to finance construction and improvement of public drinking water systems and public wastewater collection systems. The Water Fund is financed through Oregon State Lottery proceeds and the sale of revenue bonds.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the Oregon Economic Development Department's Water Fund financial statements for the year ended June 30, 1997, and on internal control and compliance with applicable laws and regulations.

AUDIT RESULTS

This audit concludes that the Oregon Economic Development Department's Water Fund financial statements for the year ended June 30, 1997, which are included in this report, are fairly presented. The audit also evaluated the related internal control and compliance with applicable laws and regulations, and did not disclose any reportable conditions.

During the year ended June 30, 1997, the Water Fund had operating revenues of \$2.1 million and received lottery proceeds of \$3.5 million. The Oregon Economic Development Department used these resources to award new Water Fund loans and grants. The department did not issue Water Fund revenue bonds during the year ended June 30, 1997.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Water Fund program was created to provide financial assistance to municipalities in the form of grants, direct loans, and bond loans to improve compliance with state or federal water quality standards. Program eligibility is limited to water projects necessary to ensure that municipal drinking water and wastewater systems comply with the requirements of the Safe Drinking Water Act, the Clean Water Act or other current quality standards.

William C. Scott, the director of the department, was appointed by the governor in April 1993. The Oregon Economic Development Commission, responsible for overseeing the department, consists of five members who also are 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 sources for the Water Fund program include lottery proceeds, revenue bond proceeds, loan repayments, and interest earnings. For the 1995-97 biennium, the Water Fund received \$8.9 million in lottery funds. Since its inception in 1993, the Water Fund program has issued three series of revenue bonds totaling \$21.2 million. ORS 285.954¹ allows the department to have up to \$200 million in revenue bonds outstanding for the Water Fund bond program. The revenue bond proceeds are used to award loans to local governments for water and wastewater projects. The remaining financing sources are used to fund loans and grants to municipalities and pay administrative expenses.

Each Water Fund loan must be fully secured by the borrowing municipality; typically, repayment is made from revenue bonds, water and sewer charges, or other moneys.

¹ Renumbered to ORS 285B.578 during the 1997 legislative session.

The maximum term of a loan is 25 years or the usable life of the project, whichever is less.

The Water Fund 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



Auditing for a Better Oregon

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND
COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Oregon Economic Development Department's (department) Water Fund, as of and for the year ended June 30, 1997, and have issued our report thereon dated March 19, 1998.

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.

Internal Control

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 controls. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of the department's Water Fund, for the year ended June 30, 1997, we obtained an understanding of internal control. With respect to the internal control system, we obtained an understanding of the design of relevant

policies and procedures 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 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 internal control or its operations that we consider to be material weaknesses as defined above.

Compliance

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, and contracts. However, the objective of our audit of the Water Fund'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*.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

March 19, 1998

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 Kelm, CPA, CISA, Audit Administrator
Mary E. Wenger, CPA
Sarah Edwards
Diane Farris

FINANCIAL SECTION



Auditing for a Better Oregon

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) Water Fund as of and for the year ended June 30, 1997. 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 present only the department's Water Fund and are not intended to present fairly the financial position of the State of Oregon, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the department's Water Fund at June 30, 1997, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

A report in accordance with *Government Auditing Standards* on the Oregon Economic Development Department Water Fund's internal control and its compliance with laws and regulations is separately presented in the AUDIT RESULTS section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

March 19, 1998

STATE OF OREGON
OREGON ECONOMIC DEVELOPMENT DEPARTMENT
WATER FUND
BALANCE SHEET
 JUNE 30, 1997

ASSETS	
Cash	\$ 15,174,601
Investments	2,479,536
Interest Receivable	750,120
Loans Receivable	23,885,992
Due From Other Agencies	500,000
Equipment and Machinery	1,550
Deferred Expenditures	<u>107,218</u>
TOTAL ASSETS	<u><u>\$ 42,899,017</u></u>
LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	\$ 40,966
Bond Interest Payable	556,434
Due to Other Governments	247,879
Trust Funds Payable - Short Term	701,141
Vacation Payable - Short Term	3,197
Bonds Payable - Short Term	<u>600,000</u>
TOTAL CURRENT LIABILITIES	2,149,617
LONG-TERM LIABILITIES:	
Trust Funds Payable	501,188
Bonds Payable	19,765,000
Vacation Payable	<u>9,592</u>
TOTAL LONG-TERM LIABILITIES	20,275,780
TOTAL LIABILITIES	22,425,397
FUND EQUITY:	
Retained Earnings	<u>20,473,620</u>
TOTAL FUND EQUITY	20,473,620
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 42,899,017</u></u>

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

STATE OF OREGON
OREGON ECONOMIC DEVELOPMENT DEPARTMENT
WATER FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 1997

OPERATING REVENUES:	
Interest Income on Loans	\$ 1,441,979
Interest Income on Cash Balances	565,529
Investment Income	<u>138,464</u>
 TOTAL OPERATING REVENUES	 2,145,972
 OPERATING EXPENSES:	
Debt Service	1,144,686
Personal Services	257,784
Services and Supplies	97,106
Special Payments	<u>2,040,024</u>
 TOTAL OPERATING EXPENSES	 <u>3,539,600</u>
 OPERATING INCOME (LOSS)	 (1,393,628)
 OPERATING TRANSFERS IN (OUT):	
Operating Transfers-in, Lottery Proceeds	<u>3,514,748</u>
 TOTAL OPERATING TRANSFERS IN (OUT)	 3,514,748
 NET INCOME	 2,121,120
 FUND EQUITY - BEGINNING	 <u>18,352,500</u>
 FUND EQUITY - ENDING	 <u><u>\$ 20,473,620</u></u>

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

STATE OF OREGON
OREGON ECONOMIC DEVELOPMENT DEPARTMENT
WATER FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

<u>Cash Flows From Operating Activities:</u>	
OPERATING INCOME (LOSS)	\$ (1,393,628)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Interest Received on Investments	\$ (138,464)
Interest Received on Cash Balances	(565,529)
Interest Expense on Bonds	1,125,402
Amortization of Deferred Bond Issue Costs	10,086
Changes in Assets and Liabilities:	
Decrease in Interest Receivable	12,303
Increase in Loans Receivable	(9,558,815)
Decrease in Accrued Interest Purchased	13,088
Decrease in Due from Other Agencies	685,942
Decrease in Deferred Expenditures	10,086
Increase in Equipment and Machinery	(1,550)
Increase in Accounts Payable	21,793
Increase in Bond Interest Payable	96,575
Decrease in Due to Other Funds	(160)
Increase in Due to Other Governments	2,660
Decrease in Trust Funds Payable - Short Term	(224,732)
Increase in Vacation Payable - Short Term	1,764
Increase in Vacation Payable - Long Term	5,292
	<hr/>
TOTAL ADJUSTMENTS	(8,504,259)
	<hr/>
<i>Net Cash Provided (Used) in Operating Activities</i>	(9,897,887)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Operating Transfers-in, Lottery Proceeds	3,514,748
Principal Payment on Bonds	(580,000)
Interest Payment on Bonds	(1,125,402)
Bond Issue Costs	(10,086)
	<hr/>
<i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	1,799,260
<u>Cash Flows From Investing Activities:</u>	
Proceeds From Sales and Maturities of Investments	6,201,238
Purchases of Investments	(6,304,142)
Interest on Investments	138,464
Interest on Cash Balances	565,529
	<hr/>
<i>Net Cash Provided (Used) in Investing Activities</i>	601,089
NET INCREASE IN CASH AND CASH EQUIVALENTS	(7,497,538)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22,672,139
	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	\$ 15,174,601
	<hr/> <hr/>

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

STATE OF OREGON
OREGON ECONOMIC DEVELOPMENT DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1997

1. Summary of Significant Accounting Policies

a. Reporting Entity

The Water Fund (WF) was created in 1993 as a fund within the Oregon Economic Development Department (Department). The Department is a part of the State of Oregon Reporting entity. The WF operates under the provisions of sections 285.755 through 285.763² and 285.950 through 285.968² of the Oregon Revised Statutes (ORS).

The WF provides moneys to the Water/Wastewater Financing Program (W/W), which makes loans and grants to local governments for construction and improvement of public drinking water systems and public wastewater collection systems. The legislation was primarily intended to assist local governments in meeting the requirements of the Safe Drinking Act and the Clean Water Act. In that respect, the W/W may assist both municipal drinking water projects and municipal wastewater collection and treatment projects.

Financing is made available through lottery proceeds and the sale of bonds. In accordance with ORS 285.950 through 285.968, the Department may issue revenue bonds to help municipalities finance eligible W/W projects. The Department has issued \$21,175,000 in revenue bonds to finance the municipalities' W/W projects. As of June 30, 1997, legislative provisions authorized the department not to exceed \$200 million in total bond principal outstanding in the WF.

W/W loans must be fully secured by the municipality. Sources of repayments can include revenue bonds, water and sewer charges, 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 W/W 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.

² Renumbered during the 1997 legislative session.

Notes to the Financial Statements (continued)
June 30, 1997

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 operation of these funds are included on the balance sheet. 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 WF budget as approved by the 1995 Legislature in House Bills 5001 and 5035 included \$14.1 million in lottery proceeds to be used for grants, loans, bond bank capitalization, and administration. Of this \$14.1 million, \$9.5 million was from current biennium lottery revenues and \$4.6 million represents lottery funds from the prior biennium that have been committed but not drawn down. Due to a lottery revenue shortfall, the \$9.5 million was reduced to \$8.9 million during the year ended June 30, 1997. The amount of the \$14.1 million that was earmarked for paying the administrative expenditures of the program was \$450,422. The WF has continuous spending authority in ORS 285.757.

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 WF by \$7,319 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

Notes to the Financial Statements (continued)
June 30, 1997

are also subject to allotment control by the Department of Administrative Services.

e. Bond Issuance Costs

Bond Issuance Costs including underwriters' discounts are reflected as deferred charges and are 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:

	<u>Through June 30</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
Number of Loans Outstanding	25	13	4
Total Amount Outstanding	<u>\$23,885,992</u>	<u>\$14,327,177</u>	<u>\$1,855,786</u>

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 expensed. As of June 30, 1997, the fixed assets in the WF totaled \$1,550. This figure represents the

Notes to the Financial Statements (continued)
June 30, 1997

WF portion contributed towards the purchase of office equipment that had a total purchase price of over \$5,000 and, therefore, was required to be capitalized on the accounting records.

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 relating to the WF bond sales. The expenses are being amortized over the term of the bonds using the Bonds Outstanding Method of amortization.

k. Year 2000

The Department processes transactions using the Department of Administrative Services (DAS) Statewide Financial Management System (SFMS). DAS is responsible for ensuring that SFMS is modified so that it can correctly process year 2000 transactions. As of June 30, 1997, SFMS is not year 2000 compliant.

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, 1997, was \$15,171,853; the bank balance was \$15,116,527. Of the total cash on deposit in the State Treasury, \$685,870 represents interest earnings on the bond proceeds and collateral loan moneys held by the Department on behalf of WF borrowers and is classified as short-term trust funds payable on the balance sheet.

Cash on deposit in the bank as of June 30, 1997, was \$2,748 and represents cash being held by the Department's Bond Trustee. The cash held by the Trustee is covered by Federal Depository Insurance.

The WF investments are categorized as follows 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, or securities held by the Department or by its agent in the Department's name. *Category 2* includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the Department's name. *Category 3*

Notes to the Financial Statements (continued)
June 30, 1997

includes uninsured and unregistered investments, with securities held by the counterparty or by its trust department or agent but not in the Department's name.

At June 30, 1997, the WF investment balances were as follows:

	<u>Risk Category</u>			<u>Carrying Amt</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
US Gov't Securities	\$ 2,479,536	-	-	\$ 2,479,536	\$ 2,480,501
Totals	<u>\$ 2,479,536</u>	<u>-</u>	<u>-</u>	<u>\$ 2,479,536</u>	<u>\$ 2,480,501</u>

Of the total cash on deposit and investments, an estimated \$14.4 million has been committed and an estimated \$3.2 million is available as of June 30, 1997. Included in the committed cash and investment balance is \$1,877,385, 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, 1997, were sufficient to meet these legal requirements.

As part of the WF bond sales, three participants have contributed a portion of their awarded moneys towards the Department's debt service reserve funds. Upon the final maturity date of the particular bond sale, the Department will refund this money to the participants provided that the money has not been needed by the Department to meet debt service obligations. These contributions to the debt service reserve funds are included on the balance sheet in the cash and investments figures and are classified as a trust funds payable under long-term liabilities. The short term interest earnings on these contributions to the debt service reserve funds are classified as a short term trust funds payable on the balance sheet. Of the total cash and investments figures, \$15,271 represents the interest earnings on the participant's contributions to debt service reserve funds and is included in the short term trust funds payable figure. The interest earnings are distributed to the participants annually on December 31.

3. Bonds Issued and Outstanding

Since inception and commencing in November 1994, the Oregon Bond Bank has issued \$21,175,000 in revenue bonds, of which \$20,365,000 is outstanding as of June 30, 1997.

Notes to the Financial Statements (continued)
June 30, 1997

The following table summarizes the bond issue:

<u>Series Issued</u>	<u>Interest Range</u>	<u>Amount of Bonds Issued</u>	<u>Bonds Outstanding</u>
1994 Series One	4.60 – 6.70%	\$ 8,110,000	\$ 7,640,000
1996 Series One	3.50 – 5.45%	\$ 10,665,000	\$ 10,325,000
1996 Series Two	4.20 – 5.45%	<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>
		<u>\$ 21,175,000</u>	<u>\$ 20,365,000</u>

4. 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, 1997, for each year during the next five-year period ending June 30, 2002, and in total for the succeeding period of July 1, 2002, to June 30, 2016.

<u>Year Ending June 30</u>	<u>Revenue Bonds</u>
1998	\$ 1,712,868
1999	1,716,992
2000	1,813,348
2001	1,813,137
2002	1,820,333
2003 – 2016	<u>24,619,565</u>
Totals	<u>\$ 33,496,243</u>
Principal	\$ 20,365,000
Interest	<u>13,131,243</u>
Totals	<u>\$ 33,496,243</u>

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.

5. Employee Retirement Plan

Department employees participate in the Oregon Public Employee's Retirement System (PERS), a statewide defined benefit retirement plan for units of state government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the public Employees Retirement Board (Board) under the guidelines of Chapter 238 of the Oregon Revised Statutes, and it provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. For units of state government, community colleges, and school districts, participation in the PERS cost-sharing multiple-employer plan is mandatory.

The PERS defined benefit retirement plan is reported in a pension trust fund of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

The PERS funding policy provides for plan contributions to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute, and State employer contributions are established by the Board, based on the required actuarially determined rate. As of June 30, 1997, employees of state agencies are required to contribute 6 percent of their salary to the plan and their State employers are required to contribute 8.46 percent. Current law permits employers to pay employee contributions to the retirement fund.

The employer contributions to PERS for WF for the years ended June 30, 1997, 1996, and 1995 were approximately \$27,000, \$17,000, and \$14,500, respectively, and were equal to the required contributions for each year. No pension liability existed at June 30, 1997, determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board.

6. 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 WF is \$12,789.

Notes to the Financial Statements (continued)
June 30, 1997

7. 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 WF during the period.

8. Commitments

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

<u>Number of Projects</u>	<u>Funds Committed</u>
41	\$ 11,282,809

9. Subsequent Events

In October 1997, the Department issued an additional \$2,940,000 in revenue bonds (1997 Series A).

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The mission of the Audits Division is to “Protect the Public Interest and Improve Oregon Government.” The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

DIRECTORY OF KEY OFFICIALS

Director

Deputy Director

Deputy Director

John N. Lattimer

Sharron E. Walker, CPA, CFE

Cathy Pollino, CGFM

This report is intended to promote
the best possible management of public resources.



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If you received a copy of an audit and you no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports, and your cooperation will help us save on printing costs.

We invite comments on our reports through our Hotline or Internet address.

Auditing to Protect the Public Interest and Improve Oregon Government