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Secretary of State

State of Oregon

Department of Transportation

**OREGON TRANSPORTATION  
INFRASTRUCTURE BANK**

July 1, 1996, to June 30, 1997



Audits Division

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*Auditing for a Better Oregon*

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

Grace Crunican, Director  
Department of Transportation  
355 Capitol Street NE  
Salem, Oregon 97310

This audit was conducted for the purpose of reporting on the Oregon Transportation Infrastructure Bank's (OTIB) financial statements as of and for the year ended June 30, 1997, and on the internal controls and compliance with applicable laws and regulations. We conducted our audit in accordance with generally accepted government auditing standards.

The Oregon Transportation Infrastructure Bank is a new program within the Department of Transportation, created as part of a federal pilot project. The Bank is available to provide loans and other financial assistance for transportation projects to state agencies and local governments. As of June 30, 1997, the Bank had been capitalized with a total of \$10 million federal and state moneys, and had made no loans.

This audit concludes that OTIB's financial statements for the year ended June 30, 1997, which are included in this report, are fairly presented. Our audit noted no material weaknesses in internal control, nor any reportable instances of noncompliance with applicable laws and regulations.

## OREGON AUDITS DIVISION

John N. Lattimer  
Director

Fieldwork Completion Date:  
March 3, 1998



# TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
ORGANIZATION AND FUNCTIONS.....	1
FINANCIAL ACTIVITIES.....	1
AUDIT RESULTS	
REPORT ON INTERNAL CONTROL AND COMPLIANCE .....	5
REPORT DISTRIBUTION .....	7
COMMENDATION .....	7
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT .....	11
FINANCIAL STATEMENTS	
Balance Sheet – June 30, 1997 .....	Exhibit A..... 13
Statement of Revenues, Expenses and Changes in Retained Earnings – For the Year Ended June 30, 1997 .....	EXHIBIT B ..... 15
Statement of Cash Flows – For the Year Ended June 30, 1997 .....	EXHIBIT C ..... 17
Notes to Financial Statements .....	19



## **INTRODUCTION**

### **ORGANIZATION AND FUNCTIONS**

The Oregon Transportation Infrastructure Bank (OTIB) is a new program situated in the Department of Transportation. Established as part of a federal pilot project, the OTIB is available to provide financial assistance to local governments and state agencies for federal-aid eligible transportation projects. Funding is available for highway projects, public transit capital projects, and bike or pedestrian access on highways. It may take the form of loans or credit enhancements such as security for bond financing. The Oregon Transportation Commission approved participation in the program in May 1996. The OTIB operates under cooperative agreement with the US Department of Transportation.

Subsequent to our audit period, the 1997 Oregon Legislature passed House Bill 2097, which created the Oregon Transportation Infrastructure Fund (OTIF) and allows the issuance of up to \$200 million in revenue bonds. This fund encompasses the OTIB, and expands the uses of the bank to allow loans to private entities.

### **FINANCIAL ACTIVITIES**

Thus far, the OTIB has been funded with \$10 million, of which 89.73 percent is federal money and the balance is state matching funds. Although some \$7 million in loans have been approved by the Transportation Commission to date, no loans have actually been made. No bonds have been issued for the OTIF.



## **AUDIT RESULTS**





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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 Transportation Infrastructure Bank (OTIB) as of and for the year ended June 30, 1997, and have issued our report thereon dated March 3, 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 OTIB 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 OTIB 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 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 and regulations applicable to OTIB is the responsibility of OTIB's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of OTIB's compliance with certain provisions of laws and regulations. However, the objective of our audit of the 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 3, 1998

## **REPORT DISTRIBUTION**

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

## **COMMENDATION**

The courtesies and cooperation extended by management and staff of the Oregon Department of Transportation during the course of our audit were very commendable and sincerely appreciated.

## **AUDIT TEAM**

Joel Leming, CPA, Audit Administrator  
Sheila Orton, CPA  
Janice Richards  
Stanley Mar



**FINANCIAL SECTION**





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355 Capitol Street NE  
Salem, OR 97310

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Department of Transportation, Oregon Transportation Infrastructure Bank, as of and for the year ended June 30, 1997. These financial statements are the responsibility of the management of the Department of Transportation. 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. These 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 Oregon Transportation Infrastructure Bank, and are not intended to present fairly the financial position of the Oregon Department of Transportation, and the results of its operations and cash flows of its governmental fund types, fiduciary fund types, and account groups 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 of Transportation, Oregon Transportation Infrastructure Bank, as of 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 Transportation Infrastructure Bank internal controls and compliance with laws and regulations is presented in the Audit Results section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE  
Deputy Director

March 3, 1998

**STATE OF OREGON  
DEPARTMENT OF TRANSPORTATION  
OREGON TRANSPORTATION INFRASTRUCTURE BANK**

**BALANCE SHEET**

June 30, 1997

<b>ASSETS</b>	
Cash on Deposit – State Treasury	\$10,321,562
Interest Receivable – Loans	0
Interest Receivable – Investments	<u>48,594</u>
<b><i>TOTAL ASSETS</i></b>	<b><u>\$10,370,156</u></b>
<b>LIABILITIES AND FUND EQUITY</b>	
<b>CURRENT LIABILITIES</b>	<b>\$ 0</b>
<b>LONG-TERM LIABILITIES</b>	<b><u>0</u></b>
<b><i>TOTAL LIABILITIES</i></b>	<b>0</b>
<b>FUND EQUITY</b>	
Contributed Capital	10,000,000
Retained Earnings	<u>370,156</u>
<b><i>TOTAL FUND EQUITY</i></b>	<b><u>10,370,156</u></b>
<b><i>TOTAL LIABILITIES AND FUND EQUITY</i></b>	<b><u>\$10,370,156</u></b>

*The notes to the financial statements are an integral part of this report.*



**STATE OF OREGON  
DEPARTMENT OF TRANSPORTATION  
OREGON TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS**

For the Fiscal Year Ended June 30, 1997

OPERATING REVENUES:	
Interest Income on Loans	\$ 0
Application and Closing Fees	0
Other Revenue	<u>0</u>
<i>TOTAL OPERATING REVENUES</i>	0
OPERATING EXPENSES:	
Interest Expense	0
Provision for Loan Losses	<u>0</u>
<i>TOTAL OPERATING EXPENSES</i>	<u>0</u>
<i>OPERATING INCOME (LOSS)</i>	0
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	<u>370,156</u>
<i>NET INCOME (LOSS)</i>	\$ 370,156
<i>RETAINED EARNINGS - Beginning</i>	<u>0</u>
<i>RETAINED EARNINGS - Ending</i>	<u>\$ 370,156</u>

*The notes to the financial statements are an integral part of this report.*



**STATE OF OREGON  
DEPARTMENT OF TRANSPORTATION  
OREGON TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 1997**

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
OPERATING INCOME (LOSS)	\$ 0
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
<i>TOTAL ADJUSTMENTS</i>	<u>0</u>
<i>Net Cash Provided/(Used) from Operating Activities</i>	0
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Transfer In – Federal Highway Administration	8,973,000
Transfer In – State Highway Fund	<u>1,027,000</u>
<i>Net Cash Provided/(Used) from Noncapital Financing Activities</i>	10,000,000
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest on Investments and Cash Balances	370,156
(Increase)/Decrease in Interest Receivable – Investments	<u>(48,594)</u>
<i>Net Cash Provided/(Used) from Investing Activities</i>	<u>321,562</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,321,562
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>0</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$10,321,562</b></u>

*The notes to the financial statements are an integral part of this report.*



STATE OF OREGON  
**OREGON TRANSPORTATION INFRASTRUCTURE BANK**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1997

**1. Summary of Significant Accounting Policies**

**a. Reporting Entity**

The Oregon Transportation Infrastructure Bank (OTIB) was established in 1996 and operates under the authority of Oregon Revised Statutes (ORS) 184.617, 184.636, 366.710, 366.735, and related provisions. The OTIB also operates under a Cooperative Agreement dated August 20, 1996 between the Oregon Department of Transportation (“Department”), Federal Highway Administration and Federal Transit Administration. This Cooperative Agreement authorizes the Department to operate a State Infrastructure Bank pursuant to Section 350 of the National Highway System Designation Act of 1995.

Capitalization for the OTIB is made available through federal and state funds, and the sale of revenue bonds. In general, the federal and state funding involves the use of funds that are restricted in use for specific types of transportation projects.

The OTIB uses its resources to make loans and other forms of financial assistance available to cities, counties, ports, transit providers, special districts, tribal governments and state agencies for eligible transportation projects. OTIB loans involving the use of federal funds are restricted to highway and transit capital projects eligible under Titles 23 and 49 of the Code of Federal Regulations.

As of the June 30, 1997, date of this report, the OTIB cash balances were held in the OTIB Highway Account of the State Highway Fund. No reporting information is provided in this report for the Department’s Highway Fund or the Department as a whole.

Administrative responsibility for the OTIB is divided among the Transportation Commission and the Department. The Commission has adopted Administrative Rules and other policies to govern project selection and approval. The Commission has approval authority for all projects funded through the OTIB. Responsibility for the day-to-day management of the OTIB has been delegated to the Department’s Chief Financial Officer.

**b. Basis of Presentation**

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

**Oregon Transportation Infrastructure Bank**  
**Notes to Financial Statements (continued)**  
**June 30, 1997**

and presented in the Administrative Rules and the Oregon Accounting Manual.

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

**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 focus. With this measurement focus, all assets and all liabilities associated with the operation 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 at the time liabilities are incurred.

**d. Budgetary Accounting**

Agency budgets are approved by the Legislature biennially. Any increases in the budgets that may be necessary are approved by the Emergency Board of the Legislature during the interim. 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 each biennium.

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

**e. 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. An allowance for uncollectible accounts was not established because the program had no loan activity as of June 30, 1997.

**Oregon Transportation Infrastructure Bank**  
**Notes to Financial Statements (continued)**  
**June 30, 1997**

**f. Contributed Capital**

Contributed capital represents assets contributed to the OTIB:

State Sources

State Highway Fund	\$ 1,027,000
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Federal Sources

Federal Highway Administration	<u>8,973,000</u>
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Total Contributed Capital	<u>\$10,000,000</u>
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On June 19, 1997 the U.S. Department of Transportation awarded the OTIB \$5.51 million of federal general funds. These funds are available to be drawn over nine years and may be used for eligible highway or transit capital projects. As of June 30, 1997 the OTIB had not drawn any of these funds.

**g. Administrative Expenses**

The Department's Financial Services Branch provides staff and other operational support (office space, professional services, supplies, equipment, etc.) for the OTIB. During the period of this report, no expenses were charged to the OTIB to offset the Department's costs of providing this support. If these costs had been charged to the OTIB, the effect would have been to reduce net income, retained earnings and fund equity.

The Department has elected to fund the administration of the OTIB as a way of supporting the program during the start-up phase and to maximize the amount of OTIB funds that ultimately will be available to lend. In the future, the Department may elect to charge the OTIB for all or a portion of its costs. The Department does not expect to be reimbursed for any costs incurred to date.

**2. Cash on Deposit—State Treasury**

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. 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 and bank balance of cash on deposit with the State Treasury at June 30, 1997 was \$10,321,562.

**Oregon Transportation Infrastructure Bank**  
**Notes to Financial Statements (continued)**  
**June 30, 1997**

**3. Bonds Issued and Outstanding**

In the future, the Oregon Department of Transportation and Oregon Transportation Commission may elect to issue revenue bonds for the purposes of providing capital for the Oregon Transportation Infrastructure Bank. As of the date of this report, no such bonds have been issued or are outstanding.

**4. Commitments**

Projects approved for financing but not disbursed at fiscal year end June 30, 1997 were:

<u>Borrower</u>	<u>Project</u>	<u>Amount</u>
Economic Partnerships Unit	Tualatin-Sherwood Highway	\$ 300,000
ODOT Public Transit Section	Statewide Rideshare Program	500,000
Lane Transit District	Signal Priority System	781,000
Washington County	Cedar Hills Blvd./Barnes Road	1,011,552
Washington County	Dixie Mountain Road	721,000
Economic Partnerships Unit	Newberg-Dundee Bypass	800,000
Marion County	First Street-Stayton	1,220,000
Marion County	Ehlen Road-Aurora	2,040,000
City of Hood River	Vehicle Maintenance Facility	<u>169,113</u>
<b>Total</b>		<b><u>\$7,542,665</u></b>

Subsequent to June 30, 1997, the Economic Partnerships Unit projects, Marion County projects, and the ODOT Public Transit Section project were withdrawn. Loan amounts for the remaining projects are subject to change.

**5. Subsequent Events**

The 1997 Oregon Legislature passed House Bill 2097 (chapter 679, Oregon Laws 1997) and the bill took effect on October 4, 1997. This bill establishes the Oregon Transportation Infrastructure Fund as a separate and distinct fund in the State Treasury. House Bill 2097 also provides \$200 million of revenue bond issuing authority for the Oregon Transportation Infrastructure Fund and expands the scope of the program.

OTIB cash balances held in the OTIB Highway Account will be transferred to the Oregon Transportation Infrastructure Fund after the effective date of the bill.

## 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

Catherine E. 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.

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