Secretary of State

State of Oregon

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

Special Public Works Fund

July 1, 1997, to June 30, 1998

Audits Division

-

Secretary of State

State of Oregon

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

Special Public Works Fund

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Audits Division

No. 1999-23

June 25, 1999

OFFICE OF THE
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Secretary of State
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Deputy Secretary of State

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Director

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Auditing for a Better Oregon

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

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

This report presents the results of our annual audit of the Oregon Economic Development Department's (department) Special Public Works Fund (SPWF).

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the year ended June 30, 1998, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with Generally Accepted Accounting Principles.

Auditing standards also require us to review the department's internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Audit Results section of this report. We noted no instances of noncompliance that are required to be reported under Government Auditing Standards, nor did we note matters involving internal control over financial reporting and its operations that we considered to be material weaknesses.

We appreciated the cooperation and assistance of the department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
April 9,1999

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SUMMARY

BACKGROUND

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.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the SPWF's financial statements for the year ended June 30, 1998, and on internal control and compliance with applicable laws and regulations.

AUDIT RESULTS

This audit concludes that the Oregon Economic Development Department's Special Public Works Fund financial statements for the year ended June 30, 1998, 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.

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 285B.410 to 285B.482 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

During the year ended June 30, 1998, the SPWF had operating revenues of $5.8 million, received lottery proceeds of $2 million, and issued revenue bonds totaling $7.6 million. The Oregon Economic Development Department used these resources to award new SPWF loans and grants.

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 $72 million in lottery moneys and has issued $80.4 million in revenue bonds, of which $21.8 million has been advance refunded. ORS 285B.479

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

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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) Special Public Works Fund (SPWF), as of and for the year ended June 30, 1998, and have issued our report thereon dated April 9, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the department's SPWF financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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*.

Internal Control

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

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that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Oregon Economic Development's management, the governor of the state of Oregon and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than those specified parties.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

April 9, 1999

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

Andy Bromeland, CPA, Audit Administrator
Sarah Edwards
Lorna Christopherson
Leslie Finley

FINANCIAL SECTION

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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, 1998. 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 Special Public Works 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.

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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, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information on page 28 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the department's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the department does business are or will become Year 2000 compliant.

A report in accordance with *Government Auditing Standards* on the Oregon Economic Development Department Special Public Works 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

April 9, 1999

Exhibit A

STATE OF OREGON
OREGON ECONOMIC DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
BALANCE SHEET
JUNE 30, 1998

ASSETS	
Cash	$ 26,060,006
Investments	4,646,914
Interest Receivable	2,401,389
Loans Receivable	74,056,886
Due From Other Agencies	2,000,000
Deferred Expenditures	438,434
TOTAL ASSETS	**$ 109,603,629**
LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	$ 11,563
Bond Interest Payable	1,333,044
Due to Other Governments	364,863
Deferred Revenue	2,941
Trust Funds Payable - Short Term	537,287
Vacation Payable - Short Term	8,814
Bonds Payable - Short Term	2,245,000
TOTAL CURRENT LIABILITIES	4,503,512
LONG-TERM LIABILITIES:	
Trust Funds Payable	394,798
Bonds Payable	49,190,393
Vacation Payable	26,441
TOTAL LONG-TERM LIABILITIES	49,611,632
TOTAL LIABILITIES	54,115,144
FUND EQUITY:	
Retained Earnings	55,488,485
TOTAL FUND EQUITY	55,488,485
TOTAL LIABILITIES AND FUND EQUITY	**$ 109,603,629**

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, 1998

OPERATING REVENUES:	
Interest Income on Loans	$ 4,358,373
Interest Income on Cash Balances	1,084,493
Investment Income	314,062
Gain on Sale of Investments	4,901
Other Income	29,939
TOTAL OPERATING REVENUES	5,791,768
OPERATING EXPENSES:	
Debt Service	2,644,752
Personal Services	448,813
Services and Supplies	169,153
Special Payments	3,549,569
Depreciation	2,325
TOTAL OPERATING EXPENSES	6,814,612
OPERATING INCOME (LOSS)	**(1,022,844)**
OPERATING TRANSFERS IN (OUT):	
Operating Transfers-in, Lottery Proceeds	2,000,000
Operating Transfers-in, Intrafund	139,182
TOTAL OPERATING TRANSFERS	2,139,182
NONOPERATING REVENUES:	
Net Change in the Fair Value of Investments	2,754
NET INCOME	1,119,092
FUND EQUITY - BEGINNING	54,369,393
FUND EQUITY - ENDING	**$ 55,488,485**

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, 1998

Cash Flows From Operating Activities:		
OPERATING INCOME (LOSS)		$ (1,022,844)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Interest Received on Investments	$ (314,062)	
Interest Received on Cash Balances	(1,084,493)	
Interest Expense on Bonds	2,598,109	
Bond Issue Costs	(126,035)	
Amortization of Deferred Bond Issue Costs	38,100	
Amortization of Original Issue Discount	10,276	
Depreciation of Equipment and Machinery	2,325	
Gain on Sale of Investments	(4,901)	
Changes in Assets and Liabilities:		
Increase in Interest Receivable	(330,220)	
Increase in Loans Receivable	(5,349,039)	
Increase in Due From Other Agencies	(2,000,000)	
Increase in Deferred Expenditures	(131,100)	
Increase in Accounts Payable	7,222	
Increase in Accrued Interest on Bonds Sold	144,427	
Decrease in Due to Other Governments	(181,143)	
Increase in Deferred Revenue	2,941	
Increase in Trust Funds Payable - Short Term	281,592	
Decrease in Vacation Payable - Short Term	(725)	
Increase in Vacation Payable - Long Term	(2,176)	
TOTAL ADJUSTMENTS		(6,438,902)
Net Cash Provided (Used) in Operating Activities		(7,461,746)
Cash Flows From Noncapital Financing Activities:		
Operating Transfers-in		2,139,182
Proceeds From Bond Sales		7,547,419
Principal Payment on Bonds		(1,715,000)
Interest Payment on Bonds		(2,598,108)
Bond Issue Costs		87,935
Net Cash Provided (Used) in Noncapital Financing Activities		5,461,428
Cash Flows From Investing Activities:		
Proceeds From Sales and Maturities of Investments		
Purchases of Investments		7,949,121
Interest on Investments		(6,835,513)
Interest on Cash Balances		314,062
Gain on Sale of Investments		4,901
Net Cash Provided (Used) in Investing Activities		2,517,064
NET INCREASE IN CASH AND CASH EQUIVALENTS		516,746
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		25,543,260
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**$ 26,060,006**

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

The accompanying financial statements of the Oregon Economic Development Department's Special Public Works Fund have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). In accordance with GASB Statement No. 20, the Special Public Works Fund does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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 285B.410 through 285B.482 of the Oregon Revised Statutes (ORS). 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.

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.

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. 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

The state of Oregon's budgets are approved on a biennial basis. For the 1997-99 biennium, the Legislature allocated $27,617,519 in Lottery funds to the Oregon Community Development Fund. These monies are to be distributed to the Regional Development, Industry Development, Ports, Community Development, and Strategic Reserve Fund programs based on the needs of each program as determined by the Oregon Economic Development Commission (Commission) rather than through the direction of the Legislature. The Commission targeted the SPWF to receive $2 million in lottery monies in the first year of the 97-99 biennium and an additional $1.7 million for the second year of the biennium. The program's actual expenditures are monitored against approved budgets, quarterly allotments, and cash balances. Limitations lapse at the end of the biennium. Any necessary increases in budgets are approved by the Emergency Board of the Legislature during the interim. The SPWF has continuous spending authority in ORS 285B.455.

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, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, cash held by the Oregon State Treasury, and cash and short term investments held by a fiscal agent. Investments are reported on the financial statements at fair market value. Changes in the fair market value of investments are recognized as revenue and reported as a component of investment income. (See Note 2).

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		
	1998	1997	1996
Number of Loans Outstanding	163	150	142
Total Amount Outstanding	$74,056,886	$68,707,847	$64,166,399

h. 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. During fiscal year 1997, SPWF contributed $2,425 towards the purchase of office equipment with a total purchase price of over $5,000. The equipment was capitalized on the books for fiscal year 1997. It was subsequently fully depreciated in fiscal year 1998 due to the fact that it was not cost-effective to calculate and record the depreciation over the useful life of the asset and because there was no adverse effect on the expenses of the net income reported for the year as a result of fully depreciating the asset.

i. 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.

j. Compensated Absences

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of the SPWF as the benefits accrue to the employees. No liability is recorded for nonvesting, accumulated sick pay benefits.

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 bank, 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, 1998, was $24,438,127; the bank balance was $24,390,743. Of the total cash on deposit in the State Treasury, $525,871 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, 1998, was $1,621,879 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, or 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 counterparty's trust department or agent in the department's name. ***Category 3*** 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, 1998, the SPWF investment balances were as follows:

	Category			Reported	Fair
	1	2	3	Amount	Value
U.S. Government Securities	$ 4,646,914	-	-	$ 4,646,914	$ 4,646,914
Totals	$ 4,646,914	-	-	$ 4,646,914	$ 4,646,914

Of the total cash on deposit and investments, an estimated $22.7 million has been committed and an estimated $8.0 million is available as of June 30, 1998. Included in the committed cash and investment balance is $4,550,225 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, 1998, were sufficient to meet these legal requirements.

As part of the 1993 Series C and 1996 Series A bond sales, the Cities of McMinnville and Corvallis contributed $243,731 and $151,067, respectively, of their bond proceeds to the department's debt service reserve fund. The department will refund this money to the Cities on the final maturity dates of the bond issues provided that the money has not been needed by the department to meet debt service obligations. Therefore, $394,798 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 $80,445,000 in revenue bonds, of which $21,775,000 was refunded and $51,560,000 was outstanding at June 30, 1998. The Bonds Payable on the balance sheet is recorded net of any original issue discounts (OID).

The following table summarizes the total bonds issued by series with bonds outstanding as of June 30, 1998.

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	$ 17,035,000
1993 Series B	5.75 – 7.75%	$ 955,000	$ 820,000
1993 Series C	3.20 – 5.38%	$ 11,815,000	$ 10,340,000
1994 Series A	5.00 – 6.00%	$ 5,690,000	$ 5,185,000
1995 Series A	3.90 – 5.75%	$ 4,755,000	$ 4,635,000
1996 Series A	4.10 – 5.50%	$ 6,000,000	$ 5,965,000
1997 Series A	3.95 – 5.15%	$ 7,580,000	$ 7,580,000
		$ 80,445,000	$ 51,560,000

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, 1998.

Series Issued	Bonds Issued	Defeased Bonds Outstanding
1991 Series A	$ 4,165,000	$ 3,365,000
1991 Series B	$ 5,395,000	$ 4,360,000
1992 Series A	$ 5,995,000	$ 4,880,000
1992 Series B	$ 5,595,000	$ 4,700,000
1992 Series C	$ 890,000	$ 750,000
	$ 22,040,000	$ 18,055,000

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, 1998, for each year during the next five-year period ending June 30, 2003, and in total for the succeeding period of July 1, 2003, to June 30, 2018.

Year Ending June 30	Revenue Bonds
1999	$ 4,911,089
2000	4,937,461
2001	4,944,414
2002	4,963,064
2003	4,947,334
2004 – 2018	53,467,102
Total	$ 78,170,464
Principal	$ 51,560,000
Interest	26,610,464
Total	$ 78,170,464

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. 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 from the Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

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, 1998, employees of state agencies are required to contribute 6 percent of their salary to the plan and their State employers are required to contribute 8.20 percent. Current law permits employers to pay employee contributions to the retirement fund.

The employer contributions to PERS for SPWF for the years ended June 30, 1998, 1997, and 1996 were approximately $30,000, $30,000, and $40,000, respectively, and were equal to the required contributions for each year. No pension liability existed at June 30, 1998, determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board.

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, 1998. Consequently, this potential obligation is not included in the accompanying financial statements. There were no reimbursements made by the SPWF during the period.

8. Commitments

Projects awarded funds but not disbursed by June 30, 1998:

Number of Projects	Funds Committed
55	$15,088,627

9. Subsequent Events

In July 1998, the department issued an additional $6,000,000 in revenue bonds (1998 Series A), with $3,790,000 allocated to the SPWF bond program and the remaining $2,210,000 to the WWF bond program.

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

Year 2000 Readiness Disclosure

The following disclosure is required by the Governmental Accounting Standards Board and is subject to the provisions of the Year 2000 Information and Readiness Disclosure Act, Public Law 105-271.

The Year 2000 issue refers to the fact that many computer programs use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as “00.” Business functions that rely upon electronic organization and communication of information may be adversely affected by such systems. Also, the year 2000 problem could affect electronic equipment – such as environmental systems, elevators, and vehicles – containing embedded computer chips that have date recognition features.

The Department has designated a team to address the Department’s Year 2000 concerns. There are several stages involved in making information systems ready for the year 2000. The Awareness Stage relates to the establishment of a project plan and budget for dealing with the year 2000 issue. The Assessment Stage occurs when the organization identifies the information systems and their components and checks them for readiness. The Remediation Stage is when the organization actually makes changes to systems and equipment to achieve year 2000 readiness. The Validation/Testing stage is defined as the stage in which the organization validates and tests the changes made during the conversion process.

For the internal applications, the Department is nearing the completion of the Remediation Stage and has moved into the Validation/Testing Stage on many of its applications. The Department has some external applications/interfaces which are critical to its operations. These include the accounting system, purchasing system, and the Treasury banking system. The responsibility for ensuring that these systems are Year 2000 compliant reside with the Department of Administrative Services for the accounting and purchasing systems and with the Oregon State Treasury for the banking system.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related correction efforts will not be fully determinable until the Year 2000 and thereafter. The Department cannot assure that it is or will be Year 2000 ready, that its remediation efforts will be successful in whole or in part, or that parties with whom the Department does business will be Year 2000 ready.

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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	John N. Lattimer
Deputy Director	Cathy Pollino, CGFM
Deputy Director	Sharron E. Walker, CPA, CFE

This report, which is a public record, 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