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Secretary of State

State of Oregon

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

**Water Fund**

July 1, 1997, to June 30, 1998



Audits Division

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**Audits Division**

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*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 report presents the results of our annual audit of the Oregon Economic Development Department's (department) Water Fund (WF).

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 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, 1998, 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, 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 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**

During the year ended June 30, 1998, the Water Fund had operating revenues of \$2.4 million and received lottery proceeds of \$1.5 million. The Oregon Economic Development Department used these resources to award new Water Fund loans and grants. The department issued Water Fund revenue bonds in the amount of \$2.9 million and received the proceeds from the 1998 Series B Lottery Revenue Bonds in the amount of \$6.5 million during the year ended June 30, 1998. The proceeds from the 1998 Series B Lottery Revenue Bonds will be used to fund the state's portion of the required match for federal funds under the Safe Drinking Water Act.

Financing sources for the Water Fund program include lottery proceeds, revenue bond proceeds, loan repayments, and interest earnings. For fiscal year 1998, the Water Fund received \$1.5 million in lottery funds. Since its inception in 1993, the Water Fund program has issued four series of Oregon Bond Bank revenue bonds totaling \$24.1 million and received the proceeds from one series of

Lottery Revenue bonds totaling \$6.5 million. Total bonds outstanding in the Water Fund as of June 30, 1998, is \$29.25 million. ORS 285B.578 allows the department to have up to \$200 million in Oregon Bond Bank revenue bonds outstanding for the Water Fund bond program. The Oregon Bond Bank revenue bond proceeds are used to award loans to local governments for water and wastewater projects. The Lottery Revenue bonds are used to fund the State's required match for federal monies received under the Safe Drinking Water Act. 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. 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**





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*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 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 (WF), 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 WF 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 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 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**

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



**FINANCIAL SECTION**





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*Auditing for a Better Oregon*

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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, 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 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, 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 29 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 Water Fund is or will become Year 2000 compliant, 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 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

April 9, 1999

STATE OF OREGON  
**OREGON ECONOMIC DEVELOPMENT DEPARTMENT**  
**WATER FUND**  
**BALANCE SHEET**  
 JUNE 30, 1998

| <b>ASSETS</b>                            |                             |
|--|-----------------------------|
| Cash                                     | \$ 16,942,046               |
| Investments                              | 2,714,219                   |
| Interest Receivable                      | 993,789                     |
| Due From Health Division                 | 98,150                      |
| Loans Receivable                         | 30,554,031                  |
| Deferred Expenditures                    | <u>309,282</u>              |
| <b>TOTAL ASSETS</b>                      | <b><u>\$ 51,611,517</u></b> |
| <b>LIABILITIES AND FUND EQUITY</b>       |                             |
| <b>CURRENT LIABILITIES:</b>              |                             |
| Accounts Payable                         | \$ 21,969                   |
| Accrued Interest on Bonds Sold           | 15,095                      |
| Interest Payable – Bonds                 | 695,763                     |
| Due to Other Governments                 | 186,102                     |
| Due to Other Funds                       | 477                         |
| Trust Funds Payable - Short Term         | 747,413                     |
| Vacation Payable - Short Term            | 3,491                       |
| Bonds Payable - Short Term               | <u>890,000</u>              |
| <b>TOTAL CURRENT LIABILITIES</b>         | <b>2,560,310</b>            |
| <b>LONG-TERM LIABILITIES:</b>            |                             |
| Trust Funds Payable                      | 501,188                     |
| Bonds Payable                            | 28,332,765                  |
| Vacation Payable                         | <u>10,472</u>               |
| <b>TOTAL LONG-TERM LIABILITIES</b>       | <b>28,844,425</b>           |
| <b>TOTAL LIABILITIES</b>                 | <b>31,404,735</b>           |
| <b>FUND EQUITY:</b>                      |                             |
| Retained Earnings                        | <u>20,206,782</u>           |
| <b>TOTAL FUND EQUITY</b>                 | <b><u>20,206,782</u></b>    |
| <b>TOTAL LIABILITIES AND FUND EQUITY</b> | <b><u>\$ 51,611,517</u></b> |

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, 1998

|   |  |
|---|--|
| OPERATING REVENUES:                         |  |
| Interest Income on Loans                    | \$ 1,660,558                           |
| Interest Income on Cash Balances            | 636,109                                |
| Investment Income                           | <u>106,523</u>                         |
| <br>TOTAL OPERATING REVENUES                | <br>2,403,190                          |
| <br>OPERATING EXPENSES:                     |  |
| Debt Service                                | 1,303,036                              |
| Personal Services                           | 252,115                                |
| Services and Supplies                       | 104,601                                |
| Special Payments                            | 2,802,110                              |
| Depreciation                                | <u>1,550</u>                           |
| <br>TOTAL OPERATING EXPENSES                | <br><u>4,463,412</u>                   |
| <br><b>OPERATING INCOME (LOSS)</b>          | <br><b>(2,060,222)</b>                 |
| <br>OPERATING TRANSFERS IN (OUT):           |  |
| Operating Transfers-in, Lottery Proceeds    | 1,500,000                              |
| Operating Transfers-in, Health Division     | 98,150                                 |
| Operating Transfers-in, Intrafund           | <u>194,103</u>                         |
| <br>TOTAL OPERATING TRANSFERS IN (OUT)      | <br>1,792,253                          |
| <br>NON OPERATING REVENUES:                 |  |
| Net Change in the Fair Value of Investments | <u>1,131</u>                           |
| <br><b>NET INCOME</b>                       | <br><b>(266,838)</b>                   |
| <br>FUND EQUITY - BEGINNING                 | <br><u>20,473,620</u>                  |
| <br><b>FUND EQUITY - ENDING</b>             | <br><b><u><u>\$ 20,206,782</u></u></b> |

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, 1998

|   |                          |
|---|--------------------------|
| <u>Cash Flows From Operating Activities:</u>  |                          |
| OPERATING INCOME (LOSS)   | \$ (2,060,222)           |
| <br>  |                          |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO<br>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: |                          |
| Interest Received on Investments  | \$ (106,523)             |
| Interest Received on Cash Balances  | (636,109)                |
| Interest Expense on Bonds   | 1,281,769                |
| Bond Issue Costs  | (204,653)                |
| Amortization of Deferred Bond Issue Costs   | 19,375                   |
| Amortization of Original Issue Discount   | 1,353                    |
| Depreciation of Equipment and Machinery   | 1,550                    |
| Changes in Assets and Liabilities:  |                          |
| Increase in Interest Receivable   | (243,669)                |
| Increase in Loans Receivable  | (6,668,039)              |
| Decrease in Due From Other Agencies   | 401,850                  |
| Increase in Deferred Expenditures   | (202,064)                |
| Decrease in Accounts Payable  | (18,997)                 |
| Increase in Accreted Interest on Bonds Sold   | 15,095                   |
| Increase in Bond Interest Payable   | 139,329                  |
| Increase in Due to Other Funds  | 477                      |
| Decrease in Due to Other Governments  | (61,777)                 |
| Increase in Trust Funds Payable - Short Term  | 46,272                   |
| Increase in Vacation Payable - Short Term   | 294                      |
| Increase in Vacation Payable - Long Term  | 880                      |
|   | (6,233,587)              |
| <br>TOTAL ADJUSTMENTS   | <br>(6,233,587)          |
| <br><i>Net Cash Provided (Used) in Operating Activities</i>                                       | <br>(8,293,809)          |
| <br>  |                          |
| <u>Cash Flows From Noncapital Financing Activities:</u>   |                          |
| Operating Transfers-in  | 1,792,253                |
| Proceeds From Bond Sales  | 9,456,412                |
| Principal Payment on Bonds  | (600,000)                |
| Interest Payment on Bonds   | (1,281,769)              |
| Bond Issue Costs  | 185,278                  |
|   | 9,552,174                |
| <br><i>Net Cash Provided (Used) in Noncapital Financing Activities</i>                            | <br>9,552,174            |
| <br>  |                          |
| <u>Cash Flows From Investing Activities:</u>  |                          |
| Proceeds From Sales and Maturities of Investments   | 3,227,174                |
| Purchases of Investments  | (3,460,726)              |
| Interest on Investments   | 106,523                  |
| Interest on Cash Balances   | 636,109                  |
|   | 509,080                  |
| <br><i>Net Cash Provided (Used) in Investing Activities</i>                                       | <br>509,080              |
| <br>NET INCREASE IN CASH AND CASH EQUIVALENTS   | <br>1,767,445            |
| <br>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  | <br>15,174,601           |
| <br><b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>   | <br><b>\$ 16,942,046</b> |

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



**STATE OF OREGON**  
**OREGON ECONOMIC DEVELOPMENT DEPARTMENT**  
**WATER FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**

The accompanying financial statements of the Oregon Economic Development Department's Water 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 Water 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 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 285B.530 through 285B.548 and 285B.560 through 285B.599 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.

**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.

**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.

**Notes to the Financial Statements (continued)**  
**June 30, 1998**

**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 WF to receive \$2 million in lottery monies in the first year of the 97-99 biennium and an additional \$3.5 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 WF has continuous spending authority in ORS 285B.563.

**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, 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. All investments are reported 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:

|                             | <u>Through June 30</u> |                     |                     |
|-----------------------------|------------------------|---------------------|---------------------|
|                             | <u>1998</u>            | <u>1997</u>         | <u>1996</u>         |
| Number of Loans Outstanding | 33                     | 25                  | 13                  |
| Total Amount Outstanding    | <u>\$30,554,031</u>    | <u>\$23,885,992</u> | <u>\$14,327,177</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. During FY97, the WF contributed \$1,550 towards the purchase of office equipment with a total purchase price of over \$5000. This equipment was capitalized on the books for FY97. It was subsequently fully depreciated in FY98 as it was not cost effective to amortize the asset over the expected useful life and by fully amortizing the asset, neither the net income nor the operations of the WF would be materially affected.

**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. 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 WF 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 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.

**Notes to the Financial Statements (continued)**  
**June 30, 1998**

The book balance of cash on deposit with the State Treasury at June 30, 1998, was \$16,325,704; the bank balance was \$16,328,536. Of the total cash on deposit in the State Treasury, \$733,022 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, 1998, was \$616,342 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* 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 WF investment balances were as follows:

|                            | <u>Category</u>     |          |          | <u>Reported<br/>Amount</u> | <u>Fair<br/>Value</u> |
|----------------------------|---------------------|----------|----------|----------------------------|-----------------------|
|                            | 1                   | 2        | 3        |                            |                       |
| U.S. Government Securities | \$ 2,714,219        | -        | -        | \$ 2,714,219               | \$ 2,714,219          |
| Totals                     | <u>\$ 2,714,219</u> | <u>-</u> | <u>-</u> | <u>\$ 2,714,219</u>        | <u>\$ 2,714,219</u>   |

Of the total cash on deposit and investments, an estimated \$9.8 million has been committed and an estimated \$9.9 million is available as of June 30, 1998. Included in the committed cash and investment balance is \$2,494,790, 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 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, \$14,391 represents the interest earnings on the participant's contributions to debt service reserve funds and is included in

**Notes to the Financial Statements (continued)**  
**June 30, 1998**

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 \$24,115,000 in revenue bonds, of which \$22,705,000 is outstanding as of June 30, 1998. The WF also received proceeds in the amount of \$6,545,000 from the 1998 Series B Lottery Revenue Bonds issued during FY98 in accordance with ORS 285B.533. These proceeds will be used to fund the State's matching obligation for federal monies to be received by the State under the Safe Water Drinking Act. Total bonds outstanding in the WF as of June 30, 1998 equal \$29,250,000.

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                  | \$ 7,390,000             |
| 1996 Series One      | 3.50 – 5.45%          | \$ 10,665,000                 | \$ 9,975,000             |
| 1996 Series Two      | 4.20 – 5.45%          | \$ 2,400,000                  | \$ 2,400,000             |
| 1997 Series A        | 3.95 – 5.10%          | <u>\$ 2,940,000</u>           | <u>\$ 2,940,000</u>      |
|                      |                       | \$ 24,115,000                 | \$ 22,705,000            |
| 1998 Series B*       | 4.00 – 4.75%          | <u>\$ 6,545,000</u>           | <u>\$ 6,545,000</u>      |
|                      |                       | <u>\$ 30,660,000</u>          | <u>\$ 29,250,000</u>     |

\* State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds

**Notes to the Financial Statements (continued)**  
**June 30, 1998**

**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, 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, 2017.

| <u>Year Ending June 30</u> | <u>Revenue Bonds</u> |
|----------------------------|----------------------|
| 1999                       | \$ 2,424,528         |
| 2000                       | 2,669,075            |
| 2001                       | 2,671,170            |
| 2002                       | 2,669,765            |
| 2003                       | 2,654,945            |
| 2004 – 2017                | <u>32,592,225</u>    |
| Total                      | <u>\$ 45,681,708</u> |
| Principal                  | \$ 29,250,000        |
| Interest                   | <u>16,431,708</u>    |
| Total                      | <u>\$ 45,681,708</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 with the exception of the 1998 Series B Lottery Revenue Bonds. Interest on the 1998 Series B Lottery Revenue Bonds is paid on April 1 and October 1.

**5. Employee Retirement Plan**

Department employees participate in the Public Employees 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

**Notes to the Financial Statements (continued)**  
**June 30, 1998**

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, 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 8.20 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, 1998, 1997, and 1996 were approximately \$15,771, \$16,237, and \$10,343, 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.

**6. 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 WF during the period.

**7. Commitments**

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

| <u>Number of Projects</u> | <u>Funds Committed</u> |
|---------------------------|------------------------|
| 26                        | \$ 5,186,315           |

**Notes to the Financial Statements (continued)**  
**June 30, 1998**

**8. Subsequent Events**

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

In October 1998, the department issued an additional \$6,105,000 in revenue bonds (1998 Series B). This sale was an advanced refunding for a portion of the 1994 Series One bonds.

**REQUIRED SUPPLEMENTARY INFORMATION**



## **Required Supplementary Information For the Fiscal Year Ended June 30, 1998**

**(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 Verification/Validation 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.



## 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, 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***