
Secretary of State

State of Oregon

**OREGON ECONOMIC AND COMMUNITY
DEVELOPMENT DEPARTMENT**

Special Public Works Fund

July 1, 1998, to June 30, 1999



Audits Division

Secretary of State

State of Oregon

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Audits Division

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State
Suzanne Townsend
Deputy Secretary of State



AUDITS DIVISION
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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 and Community
Development Department
775 Summer Street NE
Salem, Oregon 97301

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

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, 1999, 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 did not note any instances of noncompliance that are required to be reported nor any material weaknesses in internal control over financial reporting. We did note other matters which we reported to the department in a separate letter.

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

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
April 26, 2000

-iii-

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------------|
| SUMMARY | vii |
| INTRODUCTION..... | 1 |
| ORGANIZATION AND FUNCTIONS | 1 |
| FINANCIAL ACTIVITIES | 1 |
| AUDIT RESULTS | |
| REPORT ON COMPLIANCE AND INTERNAL CONTROL..... | 5 |
| COMMENDATION | 7 |
| FINANCIAL SECTION | |
| INDEPENDENT AUDITOR’S REPORT | 11 |
| FINANCIAL STATEMENTS | |
| Balance Sheet – June 30, 1999.....Exhibit A..... | 13 |
| Statement of Revenues, Expenses and Changes in Fund Equity – For the Year Ended June 30, 1999 | Exhibit B..... 15 |
| Statement of Cash Flows – For the Year Ended June 30, 1999 | Exhibit C..... 17 |
| Notes to Financial Statements | 19 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| YEAR 2000 READINESS DISCLOSURE | 26 |

SUMMARY

BACKGROUND

The Oregon Economic and Community 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, the sale of revenue bonds, loan repayments, and interest earnings.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the SPWF's financial statements for the year ended June 30, 1999, and on internal control and compliance with applicable laws and regulations.

AUDIT RESULTS

Our audit concluded that the SPWF's financial statements for the year ended June 30, 1999, which are included in this report, are fairly presented. Our report on compliance with applicable laws and regulations and internal control over financial reporting is included herein. Our review disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards*, nor did we note matters involving internal control over financial reporting that we consider to be material weaknesses. However, we did note other matters involving compliance and internal control over financial reporting, which we reported to the department in a separate letter dated July 11, 2000.

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 and Community Development Department (department) and operates under the provisions of Sections 285B.410 to 285B.482 of the Oregon Revised Statutes. The SPWF program was created to assist municipalities 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 construction, improvement or expansion of publicly owned infrastructure projects such as public transportation, which includes public parking, docks and wharves, railroads and airport facilities, public roads, public sewage treatment works, and public water supply works.

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

FINANCIAL ACTIVITIES

Financing for the SPWF program includes lottery proceeds, revenue bonds, loan repayments, and interest earnings. During the year ended June 30, 1999, the SPWF had operating revenues of \$6.3 million and issued revenue bonds totaling \$4.4 million. The department used these resources to award new SPWF loans and grants to eligible applicants.

Since its inception in 1985, the SPWF program has been allocated \$72 million in lottery moneys and has issued

\$84.8 million in revenue bonds, of which \$22 million has been advance refunded. Oregon Revised Statute 285B.479 allows the department to have up to \$200 million in revenue bonds outstanding for the SPWF bond program. As of June 30, 1999, total bonds outstanding were \$53.6 million. The department uses the revenue bond proceeds to award loans to municipalities for infrastructure projects. The remaining financing sources are used to finance loans and grants to municipalities and to pay administrative expenses.

Each SPWF loan must be fully secured by the borrowing municipality; 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 economic life of the project, whichever is less.

The SPWF program activities are accounted for in an Enterprise Fund, a proprietary fund type. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, 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 COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Oregon Economic and Community Development Department's (department) Special Public Works Fund (SPWF), as of and for the year ended June 30, 1999, and have issued our report thereon dated April 26, 2000. 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, contracts, grants, and trust indentures, 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, and 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 Over Financial Reporting

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 the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we reported to the department in a separate letter dated July 11, 2000.

This report is intended solely for the information and use of the management of the Oregon Economic and Community Development Department, 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

Fieldwork Completion Date:
April 26, 2000

COMMENDATION

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

AUDIT TEAM

Mary E. Wenger, CPA, Audit Administrator
Kelly L. Olson, CPA
Leslie Finley
Dan Smith

FINANCIAL SECTION

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775 Summer Street NE
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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon Economic and Community Development Department's (department) Special Public Works Fund as of and for the year ended June 30, 1999. 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 the standards applicable to financial audits contained in *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 transactions and balances attributable to the activities of the Special Public Works Fund, and are not intended to present fairly the financial position of the Oregon Economic and Community Development Department, and the results of its operations and the 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 Special Public Works Fund at June 30, 1999, 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, which follows the notes, is not a required part of the financial statements, but is supplementary information required by the Government 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 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 26, 2000, on our consideration of the Oregon Economic and Community Development Department, Special Public Works Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and trust indentures. That report is separately presented in the AUDIT RESULTS section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

April 26, 2000

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
BALANCE SHEET
 JUNE 30, 1999

| ASSETS | |
|--|------------------------------------|
| Cash | \$ 26,216,428 |
| Investments | 4,530,277 |
| Interest Receivable | 2,742,776 |
| Loans Receivable | 78,418,331 |
| Deferred Expenditures | 478,878 |
| TOTAL ASSETS | <u><u>\$112,386,690</u></u> |
| LIABILITIES AND FUND EQUITY | |
| CURRENT LIABILITIES: | |
| Interest Payable – Bonds | 1,371,691 |
| Due to Other Governments | 186,864 |
| Trust Funds Payable – Short Term | 460,930 |
| Vacation Payable – Short Term | 12,992 |
| Bonds Payable – Short Term | 2,495,000 |
| TOTAL CURRENT LIABILITIES | 4,527,477 |
| LONG-TERM LIABILITIES: | |
| Trust Funds Payable | 394,798 |
| Bonds Payable | 51,013,166 |
| Vacation Payable | 38,976 |
| TOTAL LONG-TERM LIABILITIES | 51,446,940 |
| TOTAL LIABILITIES | 55,974,417 |
| FUND EQUITY: | |
| Retained Earnings | 56,412,273 |
| TOTAL FUND EQUITY | <u>56,412,273</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u><u>\$112,386,690</u></u> |

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

| | |
|--|---------------------------------|
| OPERATING REVENUES: | |
| Interest Income on Loans | \$ 4,956,726 |
| Interest Income on Cash Balances | 990,869 |
| Investment Income | 358,525 |
| Other Income | 25,454 |
| Gain (Loss) on Sale of Investments | <u>(16,042)</u> |
| TOTAL OPERATING REVENUES | 6,315,532 |
| OPERATING EXPENSES: | |
| Debt Service | 2,841,106 |
| Personal Services | 656,331 |
| Services and Supplies | 209,988 |
| Special Payments | <u>1,605,360</u> |
| TOTAL OPERATING EXPENSES | <u>5,312,785</u> |
| OPERATING INCOME (LOSS) | 1,002,747 |
| OPERATING TRANSFERS IN (OUT): | |
| Operating Transfers-out, Intrafund | (12,867,695) |
| Operating Transfers-in, Intrafund | <u>12,867,695</u> |
| TOTAL OPERATING TRANSFERS | 0 |
| NONOPERATING REVENUES (EXPENSES): | |
| Net Change in the Fair Value of Investments | <u>(78,959)</u> |
| NET INCOME | 923,788 |
| FUND EQUITY – BEGINNING | <u>55,488,485</u> |
| FUND EQUITY – ENDING | <u><u>\$ 56,412,273</u></u> |

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

| | |
|---|----------------------|
| <u>Cash Flows From Operating Activities:</u> | |
| OPERATING INCOME (LOSS) | \$ 1,002,747 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Interest Received on Investments | \$ (358,525) |
| Interest Received on Cash Balances | (990,869) |
| Interest Expense on Bonds | 2,783,772 |
| Amortization of Deferred Bond Issue Costs | 45,464 |
| Amortization of Original Issue Discount | 11,870 |
| Loss on Sale of Investments | 16,042 |
| Changes in Assets and Liabilities: | |
| Increase in Interest Receivable | (341,387) |
| Increase in Loans Receivable | (4,361,445) |
| Decrease in Due From Other Agencies | 2,000,000 |
| Increase in Deferred Expenditures | (85,908) |
| Increase in Bond Interest Payable | 38,647 |
| Decrease in Due to Other Governments | (189,562) |
| Decrease in Deferred Revenue | (2,941) |
| Decrease in Trust Funds Payable – Short Term | (76,357) |
| Increase in Vacation Payable | 16,713 |
| Increase in Discount on Bonds Sold | (19,098) |
| | <hr/> |
| TOTAL ADJUSTMENTS | (1,513,584) |
| | <hr/> |
| <i>Net Cash Provided (Used) in Operating Activities</i> | (510,837) |
| <u>Cash Flows From Noncapital Financing Activities:</u> | |
| Operating Transfers-in | 12,867,695 |
| Operating Transfers-out | (12,867,695) |
| Proceeds From Bond Sales | 4,370,000 |
| Principal Payment on Bonds | (2,290,000) |
| Interest Payment on Bonds | (2,783,772) |
| | <hr/> |
| <i>Net Cash Provided (Used) in Noncapital Financing Activities</i> | (703,772) |
| <u>Cash Flows From Investing Activities:</u> | |
| Proceeds From Sales and Maturities of Investments | 6,627,420 |
| Purchases of Investments | (6,605,783) |
| Interest on Investments | 358,525 |
| Interest on Cash Balances | 990,869 |
| | <hr/> |
| <i>Net Cash Provided (Used) in Investing Activities</i> | 1,371,031 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 156,422 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 26,060,006 |
| | <hr/> |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR | \$ 26,216,428 |

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
WATER FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999

The accompanying financial statements of the Oregon Economic and Community 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 and Community 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, a proprietary fund type. Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises.

c. Measurement Focus and Basis of Accounting

All proprietary fund types are accounted for using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operations of this fund are included on the balance sheet. The Proprietary fund operating statement presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

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 and Community 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 1997-99 biennium, but did not allocate any lottery proceeds to the SPWF in 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 ORS285B.455.

e. Bond Discounts, Premiums and Issuance Costs

Bond discounts, premiums and issuance costs for proprietary fund types are generally deferred and amortized over the term of the bonds using the bonds outstanding method. Bond discounts are presented as a reduction to bonds payable, premiums as an addition to bonds payable, and issuance costs are recorded as deferred charges.

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 considered to be cash equivalents when the maturity date is within 90 days of the date of the financial statements. Investments are reported on the financial statements at fair value. Changes in the fair value of investments are recognized as revenue(expense). The fair value of debt and equity securities is determined by the custodial agent, which determines fair values using pricing services or prices quoted by one or more independent brokers. (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 to local governments and special districts. 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>1999</u> | <u>1998</u> | <u>1997</u> |
| Number of Loans Outstanding | 174 | 163 | 150 |
| Total Amount Outstanding | <u>\$78,418,331</u> | <u>\$74,056,886</u> | <u>\$68,707,847</u> |

h. 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 banks, or savings and loans association, or branch office in that capacity doing business in this state. The state is authorized to use demand deposits and certificates of deposit. The cash on deposit with financial institutions is insured either through federal depository insurance or the statewide collateral pool under provisions of ORS 295. Of the collateral pool deposits, 25 percent are secured and 75 percent are unsecured.

The book balance of cash on deposit with the State Treasury at June 30, 1999, was \$24,645,663; the bank balance was \$24,712,747. Of the total cash on deposit in the State Treasury, \$460,930 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, 1999, was \$1,570,765 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

Notes to the Financial Statements (continued)
June 30, 1999

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, 1999, the SPWF investment balances were as follows:

| | <u>Category</u> | | | <u>Reported</u> <u>Amount</u> | <u>Fair</u> <u>Value</u> |
|--------------------------|---------------------|----------|----------|----------------------------------|-----------------------------|
| | 1 | 2 | 3 | | |
| US Government Securities | \$ 4,530,277 | - | - | \$ 4,530,277 | \$ 4,530,277 |
| Totals | <u>\$ 4,530,277</u> | <u>-</u> | <u>-</u> | <u>\$ 4,530,277</u> | <u>\$ 4,530,277</u> |

Of the total cash and investments, an estimated \$19.4 million has been committed and an estimated \$11.3 million is available as of June 30, 1999. The committed cash and investment balance includes \$4,463,620, 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, 1999, 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 \$84,815,000 in revenue bonds, of which \$22,040,000 was refunded and \$53,640,000 was outstanding at June 30, 1999. 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, 1999.

| <u>Series Issued</u> | <u>Interest Range</u> | <u>Amount of Bonds Issued</u> | <u>Bonds Outstanding</u> |
|----------------------|-----------------------|-------------------------------|--------------------------|
| 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 | \$16,005,000 |
| 1993 Series B | 5.75 – 7.75% | \$ 955,000 | \$ 785,000 |
| 1993 Series C | 3.20 – 5.38% | \$ 11,815,000 | \$ 9,925,000 |
| 1994 Series A | 5.00 – 6.00% | \$ 5,690,000 | \$ 4,990,000 |
| 1995 Series A | 3.90 – 5.75% | \$ 4,755,000 | \$ 4,455,000 |
| 1996 Series A | 4.10 – 5.50% | \$ 6,000,000 | \$ 5,780,000 |
| 1997 Series A | 3.95 – 5.15% | \$ 7,580,000 | \$ 7,375,000 |
| 1998 Series A | 4.25 – 5.00% | \$ 3,790,000 | \$ 3,745,000 |
| 1999 Series A | 4.25 – 5.25% | \$ 580,000 | \$ 580,000 |
| | | <u>\$ 84,815,000</u> | <u>\$53,640,000</u> |

4. Debt Defeased in Substance

Due to the advanced refunding in July 1993, five bond issues have been considered to be defeased in substance. Two of these, 1991 Series A and 1991 Series B, were called in January, 1999. The following table summarizes the amount of debt outstanding at June 30, 1999.

| <u>Series Issued</u> | <u>Bonds Issued</u> | <u>Defeased Bonds Outstanding</u> |
|----------------------|----------------------|-----------------------------------|
| 1992 Series A | \$ 5,995,000 | \$ 4,645,000 |
| 1992 Series B | \$ 5,595,000 | \$ 4,495,000 |
| 1992 Series C | \$ 890,000 | \$ 715,000 |
| | <u>\$ 12,480,000</u> | <u>\$ 9,855,000</u> |

Notes to the Financial Statements (continued)
June 30, 1999

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, 1999, for each year during the next five-year period ending June 30, 2004, and in total for the succeeding period of July 1, 2004, to June 30, 2024.

| <u>Year Ending June 30</u> | <u>Revenue Bonds</u> |
|----------------------------|----------------------|
| 2000 | \$ 5,252,671 |
| 2001 | 5,271,401 |
| 2002 | 5,309,526 |
| 2003 | 5,297,209 |
| 2004 | 5,371,866 |
| 2005 – 2024 | <u>53,666,007</u> |
| Totals | <u>\$ 80,168,680</u> |
| | |
| Principal | \$ 53,640,000 |
| Interest | <u>26,528,680</u> |
| Totals | <u>\$ 80,168,680</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.

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 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

Notes to the Financial Statements (continued)
June 30, 1999

Board, based on the required actuarially determined rate. As of June 30, 1999, 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 paid to PERS for SPWF for the years ended June 30, 1999, 1998, and 1997 were approximately \$43,000, \$30,000, and \$30,000, respectively, and were equal to the required contributions for each year.

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, 1999. 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, 1999:

| <u>Number of Projects</u> | <u>Funds Committed</u> |
|---------------------------|------------------------|
| 36 | \$ 10,878,859 |

9. Subsequent Events

In April 2000, the Department issued an additional \$47,240,000 in revenue bonds (2000 Series A), with \$37,280,000 allocated to the SPWF bond program and the remaining \$9,960,000 to the Water Fund bond program.

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
June 30, 1999

Supplementary Information

(UNAUDITED)

Year 2000 Readiness Disclosure

The following disclosure is required by the Governmental Accounting Standards Board and is provided under 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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DIRECTORY OF KEY OFFICIALS

Director

Deputy Director

Deputy Director

John N. Lattimer

Sharron E. Walker, CPA, CFE

Catherine E. Pollino, CGFM



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