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Secretary of State

State of Oregon

**OREGON ECONOMIC AND COMMUNITY  
DEVELOPMENT DEPARTMENT**

**Water Fund**

July 1, 1998, to June 30, 1999



**Audits Division**

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



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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) Water 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

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## SUMMARY

### BACKGROUND

The 1993 Oregon Legislature created the Water Fund to finance construction and improvement of public water and wastewater collection. The Water Fund is financed through Oregon State Lottery proceeds, the sale of revenue bonds, loan repayments, and interest earnings on fund balances.

### AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the Water Fund'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 Water Fund'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 Water Fund program was created to provide financial assistance to municipalities in the form of loans and grants to improve compliance with federal and State of Oregon 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. The Water Fund is administered by the Oregon Economic and Community Development Department (department) and operates under the provisions of Sections 285B.530 through 285B.548 and 285B.560 to 285B.599 of the Oregon Revised Statutes.

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 Water Fund program includes lottery proceeds, revenue bonds, loan repayments, and interest earnings. During the year ended June 30, 1999, the Water Fund had operating revenues of \$2.5 million, received lottery proceeds of \$4.5 million, and issued revenue bonds totaling \$14.8 million, including \$6.1 million to advance refund \$5.4 million in bonds. The department uses the revenue bond proceeds to award loans to municipalities for water and wastewater projects. The remaining financing sources are used to fund loans and grants to municipalities and pay administrative expenses.

Since its inception in 1993, the Water Fund program has received \$28.2 million in lottery moneys and \$6.5 million

in Lottery Revenue bond proceeds and has issued \$38.9 million in revenue bonds, of which \$5.4 million was advance refunded during fiscal year 1999. Oregon Revised Statute 285B.578 allows the department to have up to \$200 million in revenue bonds outstanding for the Water Fund bond program. As of June 30, 1999, total bonds outstanding were \$37.6 million.

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 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) Water Fund, 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 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 Water Fund 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  
Salem, Oregon 97301

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Oregon Economic and Community Development Department's (department) Water 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 Water 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 Water 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, Water 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**  
**WATER FUND**  
**BALANCE SHEET**  
 JUNE 30, 1999

**ASSETS**

Cash	\$ 26,465,521
Investments	1,986,021
Accounts Receivable	35,790
Interest Receivable	933,651
Due From Other Agencies	1,058,850
Loans Receivable	32,657,640
Deferred Expenditures	396,315
	<hr/>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 63,533,788</u></u></b>

**LIABILITIES AND FUND EQUITY**

CURRENT LIABILITIES:

Accounts Payable	\$ 17,398
Accrued Interest on Bonds Sold	13,244
Interest Payable – Bonds	603,755
Due to Other Governments	330,504
Arbitrage Payable	77,119
Trust Funds Payable - Short Term	179,568
Vacation Payable - Short Term	4,913
Bonds Payable - Short Term	1,455,000
	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,681,501</b>

LONG-TERM LIABILITIES:

Trust Funds Payable	384,758
Bonds Payable	36,082,038
Vacation Payable	14,740
	<hr/>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>36,481,536</b>
<b>TOTAL LIABILITIES</b>	<b>39,163,037</b>

FUND EQUITY:

Retained Earnings	24,370,751
	<hr/>
<b>TOTAL FUND EQUITY</b>	<b>24,370,751</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u><u>\$ 63,533,788</u></u></b>

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



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

OPERATING REVENUES:	
Interest Income on Loans	\$ 1,666,023
Interest Income on Cash Balances	751,723
Investment Income	74,208
Gain (Loss) on Sale of Investments	(6,319)
	<hr/>
TOTAL OPERATING REVENUES	2,485,635
OPERATING EXPENSES:	
Debt Service	1,461,946
Personal Services	292,548
Services and Supplies	101,777
Special Payments	1,075,338
	<hr/>
TOTAL OPERATING EXPENSES	2,931,609
	<hr/>
<b>OPERATING INCOME (LOSS)</b>	<b>(445,974)</b>
OPERATING TRANSFERS IN (OUT):	
Operating Transfers-in, Lottery Proceeds	4,500,000
Operating Transfers-in, Health Division	130,249
	<hr/>
TOTAL OPERATING TRANSFERS IN (OUT)	4,630,249
NON OPERATING REVENUES (EXPENSES):	
Net Change in the Fair Value of Investments	(20,306)
	<hr/>
<b>NET INCOME</b>	<b>4,163,969</b>
FUND EQUITY - BEGINNING	<hr/> 20,206,782
<b>FUND EQUITY - ENDING</b>	<b><hr/><hr/>\$ 24,370,751</b>

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



STATE OF OREGON  
**OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT**  
**WATER FUND**

**STATEMENT OF CASH FLOWS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

<u>Cash Flows From Operating Activities:</u>	
OPERATING INCOME (LOSS)	\$ (445,974)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Interest Received on Investments	\$ (74,208)
Interest Received on Cash Balances	(751,723)
Interest Expense on Bonds	1,390,179
Amortization of Deferred Bond Issue Costs	68,282
Amortization of Original Issue Discount	3,485
Loss on Sale of Investments	6,319
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(35,790)
Decrease in Interest Receivable	60,137
Increase in Loans Receivable	(2,103,609)
Increase in Due From Other Agencies	(960,700)
Decrease in Accounts Payable	(4,571)
Decrease in Accrued Interest on Bonds Sold	(1,851)
Decrease in Bond Interest Payable	(92,008)
Decrease in Due to Other Funds	(477)
Increase in Due to Other Governments	144,402
Increase in Arbitrage Payable	77,119
Decrease in Trust Funds Payable - Short Term	(567,845)
Decrease in Trust Funds Payable - Long Term	(116,431)
Increase in Vacation Payable	5,690
	(2,953,600)
 TOTAL ADJUSTMENTS	 (2,953,600)
 <i>Net Cash Provided (Used) in Operating Activities</i>	 (3,399,574)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Operating Transfers-in	4,630,249
Proceeds From Bond Sales	14,755,788
Principal Payment on Bonds	(6,445,000)
Interest Payment on Bonds	(1,390,179)
Bond Issue Costs	(155,315)
	11,395,543
 <i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	 11,395,543
<u>Cash Flows From Investing Activities:</u>	
Proceeds From Sales and Maturities of Investments	2,946,860
Purchases of Investments	(2,245,285)
Interest on Investments	74,208
Interest on Cash Balances	751,723
	1,527,506
 <i>Net Cash Provided (Used) in Investing Activities</i>	 1,527,506
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 9,523,475
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 16,942,046
 <b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	 <b>\$ 26,465,521</b>

*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 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 and Community Development Department (department), which 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 legislation was primarily intended to provide funding to municipalities to assist in the compliance of the Safe Drinking Water Act and the Clean Water Act. As result, moneys in the WF are to be used to finance loans and grants to municipalities for the construction and improvement of water and waste water collection systems in order to provide safe drinking water and appropriate disposal of wastewater for Oregon residents.

**b. Basis of Presentation**

The WF 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 of Accounting**

All proprietary funds are accounted for on a 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 related liabilities are incurred. All assets and liabilities associated with the operation 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.

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

**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 WF to receive \$2 million in Lottery monies in the first year of the 1997-99 biennium and an additional \$4.5 million in the second year of the biennium. The program's actual expenditures are monitored against approved budgets, quarterly allotments, and cash advances. 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 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 are presented 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.

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

Loans Receivable:

	<u>Through June 30</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Number of Loans Outstanding	41	33	25
Total Amount Outstanding	<u>\$32,657,640</u>	<u>\$30,554,031</u>	<u>\$23,885,992</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 at termination. Accumulated vacation leave of the Water Fund is recorded as an expense and a liability as the benefits accrue to the employee. Accumulated vacation leave that is expected to be liquidated using available resources, generally within 90 days, is reported as a current liability. Accumulated vacation leave not expected to be liquidated using current resources is recorded as a long term liability. No liability is recorded for non-vesting 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 \$25,750,405; the bank balance was \$25,788,922. Of the total cash on deposit in the State Treasury, \$179,568 represents interest earnings on the bond proceeds and collateral loan monies 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, 1999, was \$715,116 and represents cash being held by the department's Bond Trustee. The cash held by the Trustee is covered by Federal Depository Insurance.

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

The WF 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, with securities held by the counter party's trust department or agent in the department's name. *Category 3* includes uninsured and unregistered, 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 WF investment balances were as follows:

	<u>Risk Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
US Government Securities	\$1,986,021	-	-	\$1,986,021	\$1,986,021
Totals	\$1,986,021	-	-	\$1,986,021	\$1,986,021

Of the total cash on deposit and investments, an estimated \$24.2 million has been committed and an estimated \$4.3 million is available as of June 30, 1999. Included in the committed cash and investment balance is \$1,739,013, 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 1996 Series bond sale, the cities of Wilsonville and Myrtle Creek contributed \$166,473 and \$218,285, 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, \$384,758 of cash and investments represents this contribution and is classified as long-term trust funds payable on the balance sheet.

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

**3. Bonds Issued and Outstanding**

Since inception and commencing in November 1994, the Oregon Bond Bank has issued \$38,900,000 in revenue bonds, of which \$5,415,000 was refunded, and \$31,220,000 is outstanding as of June 30, 1999. In FY 1998, in accordance with ORS 285B.533, the department received Lottery Revenue Bond proceeds of \$6,545,000, of which \$6,370,000 is outstanding as of June 30, 1999. The Bonds Payable on the balance sheet is recorded net of any original issue discounts. The following table summarizes the total 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>
1994 Series One	4.60 – 6.70%	\$ 8,110,000	\$ 1,710,000
1996 Series One	3.50 – 5.50%	\$ 10,665,000	\$ 9,610,000
1996 Series Two	4.20 – 5.50%	\$ 2,400,000	\$ 2,400,000
1997 Series A	3.95 – 5.10%	\$ 2,940,000	\$ 2,855,000
1998 Series A	4.25 – 5.00%	\$ 2,210,000	\$ 2,185,000
1998 Series B	4.00 – 4.75%	\$ 6,545,000	\$ 6,370,000
1998 Series B	4.10 – 4.75%	\$ 6,105,000	\$ 5,990,000
1999 Series A	4.25 – 5.25%	<u>\$ 6,470,000</u>	<u>\$ 6,470,000</u>
		<u>\$ 45,445,000</u>	<u>\$ 37,590,000</u>

**4. Debt Refunding:**

On October 27, 1998, the Oregon Economic and Community Development Department issued Revenue Refunding Bonds totaling approximately \$6.1 million with an average interest rate of 4.54 percent. These bonds were issued to advance refund outstanding 1994 Series One Revenue Bonds totaling approximately \$5.4 million with an average interest rate of 6.43 percent. The net proceeds were used to purchase United States Treasury Obligations and are held in a special trust account and irrevocable escrow. The department's advance refunding of these bonds reduces the total debt service payments by approximately \$481,000 to have an economic gain of approximately \$313,000.

Due to the advance refunding in October 1998, part of the 1994 Series One bond issue has been considered to be defeased in substance. As of June 30, 1999, defeased bonds outstanding total \$5,415,000.

**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	\$ 3,114,835
2001	3,262,619
2002	3,259,821
2003	3,238,191
2004	3,262,934
2005 – 2024	<u>41,548,744</u>
Totals	<u>\$57,687,144</u>
Principal	\$37,590,000
Interest	<u>20,097,144</u>
Totals	<u>\$57,687,144</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 Lottery Revenue Bonds is paid on April 1, and October 1.

**6. Employee Retirement Plan**

Department employees participate in the Oregon 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 may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

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

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, 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 by the WF for the years ended June 30, 1999, 1998, and 1997 were approximately \$18,434, \$15,771, and \$16,237, 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. Consequently, this potential obligation is not included in the accompanying financial statements. There were no reimbursements made by the WF during the period.

**8. Commitments**

Of the cash and investment balances as of June 30, 1999, the department has awarded but not yet disbursed \$21.2 million to various projects.

**9. Subsequent Events**

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



STATE OF OREGON  
**OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT**  
**WATER 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.



## **FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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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