
Secretary of State

State of Oregon

**OREGON ECONOMIC AND COMMUNITY
DEVELOPMENT DEPARTMENT**

Water Fund

July 1, 1999, to June 30, 2000



Audits Division

Secretary of State

State of Oregon

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DEVELOPMENT DEPARTMENT**

Water Fund

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Audits Division



Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

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, 2000, 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. Similarly, we did not note any material weaknesses in internal control over financial reporting.

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 20, 2001

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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 systems in order to provide safe drinking water and appropriate disposal of wastewater for Oregon residents. The Water Fund is financed through Oregon State Lottery proceeds, the sale of revenue bonds, loan repayments, and interest earnings on fund balances. The Oregon Economic and Community Development Department administers the Water Fund.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the Water Fund financial statements for the year ended June 30, 2000, 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, 2000, 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 considered to be material weaknesses.

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 285.560 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, 2000, the Water Fund received lottery proceeds of \$10 million, issued revenue bonds totaling \$9.96 million, and had operating revenue of \$3.1 million. The department used these resources to award new Water Fund loans and grants to municipalities for water and wastewater projects and pay administrative expenses.

Since its inception in 1993, the Water Fund program has received \$38.2 million in lottery moneys and has issued \$48.9 million in revenue bonds, of which \$5.4 million has been advance refunded. As of June 30, 2000, total bonds outstanding were \$40.1 million. *Oregon Revised*

Statute 285B.578 allows the department to have up to \$200 million in revenue bonds outstanding for the Water Fund bond program.

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.

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 enterprise fund financial statements of the Oregon Economic and Community Development Department's (department) Water Fund (WF), as of and for the year ended June 30, 2000, and have issued our report thereon dated April 20, 2001. 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 WF's 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 an 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.

This report is intended solely for the information and use of the Oregon Economic and Community Development Department'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 20, 2001

COMMENDATION

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

AUDIT TEAM

Mary E. Wenger, CPA, Audit Administrator
Kelly L. Olson, CPA
Michelle O'Brien
Geoff Hill

FINANCIAL SECTION



Auditing for a Better Oregon

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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) Water Fund as of and for the year ended June 30, 2000. 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 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 as of June 30, 2000, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2001, 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, grants, and trust indentures. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report is separately presented in the AUDIT RESULTS section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

April 20, 2001

STATE OF OREGON
OREGON ECONOMIC & COMMUNITY DEVELOPMENT DEPARTMENT
WATER FUND
 ENTERPRISE FUND
BALANCE SHEET
 JUNE 30, 2000

ASSETS	
Cash	\$ 34,116,160
Investments	1,348,921
Interest Receivable	1,317,430
Due from Other Funds	300,000
Loans Receivable	36,976,379
Deferred Charges	<u>361,481</u>
TOTAL ASSETS	<u><u>\$74,420,371</u></u>
LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	\$ 24,552
Accrued Interest on Bonds Sold	29,644
Interest Payable – Bonds	738,707
Due to Other Governments	128,325
Trust Funds Payable - Short Term	492,584
Vacation Payable - Short Term	2,740
Bonds Payable - Short Term	<u>1,555,000</u>
TOTAL CURRENT LIABILITIES	2,971,552
LONG-TERM LIABILITIES:	
Trust Funds Payable	384,758
Bonds Payable	38,468,769
Vacation Payable	<u>8,221</u>
TOTAL LONG-TERM LIABILITIES	38,861,748
TOTAL LIABILITIES	41,833,300
FUND EQUITY:	
Retained Earnings	<u>32,587,071</u>
TOTAL FUND EQUITY	32,587,071
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$74,420,371</u></u>

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

STATE OF OREGON
OREGON ECONOMIC & COMMUNITY DEVELOPMENT DEPARTMENT
WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR END JUNE 30, 2000

OPERATING REVENUES:	
Interest Income on Loans	\$ 2,221,717
Interest Income on Cash Balances	807,925
Investment Income	68,156
Other Income	<u>23,905</u>
TOTAL OPERATING REVENUES	3,121,703
OPERATING EXPENSES:	
Bond Interest	1,529,115
Amortization Expense	30,274
Personal Services	255,819
Services and Supplies	72,300
Special Payments	<u>2,478,986</u>
TOTAL OPERATING EXPENSES	<u>4,366,494</u>
OPERATING INCOME (LOSS)	(1,244,791)
OPERATING TRANSFERS IN (OUT):	
Operating Transfers-in, Lottery Bond Proceeds	<u>10,000,000</u>
TOTAL OPERATING TRANSFERS IN (OUT)	10,000,000
NON OPERATING REVENUES:	
Net Change in the Fair Value of Investments	<u>4,340</u>
NET INCOME	8,759,549
FUND EQUITY - BEGINNING	24,370,751
Prior Period Adjustments	<u>(543,229)</u>
Fund Equity - Beginning - Restated	<u>23,827,522</u>
FUND EQUITY - ENDING	<u><u>\$ 32,587,071</u></u>

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

STATE OF OREGON
OREGON ECONOMIC & COMMUNITY DEVELOPMENT DEPARTMENT
WATER FUND
STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2000

<u>Cash Flows From Operating Activities:</u>	
OPERATING INCOME (LOSS)	\$ (1,244,791)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Interest Received on Cash Balances	\$ (807,925)
Interest Received on Investments	(68,156)
Interest Expense on Bonds	1,529,115
Amortization of Bond Issue Costs	30,274
Changes in Assets and Liabilities:	
Increase in Interest Receivable	(383,779)
Decrease in Accounts Receivable	35,790
Decrease in Due from Other Funds	1,003,850
Increase in Loans Receivable	(4,937,583)
Increase in Accounts Payable	11,867
Increase in Accrued Interest on Bonds Sold	16,400
Increase in Bond Interest Payable	134,952
Decrease in Due to Other Governments	(202,179)
Increase in Trust Funds Payable	313,016
Increase in Vacation Payable	516
TOTAL ADJUSTMENTS	(3,323,842)
<i>Net Cash Provided (Used) in Operating Activities</i>	(4,568,633)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Operating Transfers-in – Lottery Bond Proceeds	10,000,000
Proceeds From Bond Sales	9,960,000
Principal Payment on Bonds	(1,110,000)
Bond Issue Costs	(132,934)
Interest Payment on Bonds	(1,529,115)
	17,187,951
<i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	17,187,951
<u>Cash Flows From Investing Activities:</u>	
Proceeds From Sales and Maturities of Investments	1,935,167
Purchases of Investments	(2,024,328)
Interest on Investments	68,156
Interest on Cash Balances	807,925
	786,920
<i>Net Cash Provided (Used) in Investing Activities</i>	786,920
Net Increase in Cash and Cash Equivalents	13,406,238
Cash and Cash Equivalents at Beginning of Year	26,465,521
Prior Period Adjustment to Restate Beginning Cash Balance	(5,755,599)
	\$ 34,116,160
<u>Noncash from Investing Activities:</u>	
Net Change in Fair Value of Investments	4,340
<i>Total Noncash Investing Activities</i>	\$ 4,340

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

STATE OF OREGON
OREGON ECONOMIC & COMMUNITY DEVELOPMENT DEPARTMENT
WATER FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

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.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.

Since its inception in fiscal year 1998, the Safe Drinking Water program has been reported as part of the Water Fund. Starting in fiscal year 2000, Safe Drinking Water is being reported as a separate entity with its own financial statements. Water Fund's financial statements have been adjusted to remove the effect of the Safe Drinking Water program.

b. Basis of Presentation

The WF 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. 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. Fund equity (i.e. net total assets) is reported as retained earnings. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

Notes to the Financial Statements (continued)
June 30, 2000

d. Budgetary Accounting

The State of Oregon's budgets are approved on a biennial basis. For each biennium, the Legislature allocates Lottery funds and Lottery bond proceeds 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 rather than through the direction of the Legislature. 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 Discounts, Premium 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 of the face amount of bonds payable, premiums are presented as an addition to the face amount of 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. 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>2000</u>	<u>1999</u>	<u>1998</u>
Number of Loans Outstanding	45	37	33
Total Amount Outstanding	<u>\$36,976,379</u>	<u>\$32,038,796</u>	<u>\$30,554,031</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.

Notes to the Financial Statements (continued)
June 30, 2000

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, 2000, was \$33,149,456; the bank balance was \$33,150,419. Of the total cash on deposit in the State Treasury, \$492,584 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, 2000, was \$966,704 and represents cash held by the Department's Bond Trustee. The cash held by the Trustee is covered by Federal Depository Insurance.

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 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.

As of June 30, 2000, the WF investment balances were as follows:

	Category			Reported Amount	Fair Value
	1	2	3		
U.S. Government Securities	\$1,348,921	—	—	\$1,348,921	\$1,348,921
Totals	<u>\$1,348,921</u>	—	—	<u>\$1,348,921</u>	<u>\$1,348,921</u>

Of the total cash on deposit and investments, an estimated \$25.5 million has been committed and an estimated \$9.9 million is available as of June 30, 2000. Included in the committed cash and investment balance is \$1,121,227, 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, 2000, were sufficient to meet these legal requirements.

Notes to the Financial Statements (continued)
June 30, 2000

As part of the 1996 Series One 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 bond issue maturity dates, providing that the money has not been needed by the department to meet the Cities' debt service obligations. Therefore, \$384,758 of cash and investments represents this contribution and is not available to finance WF infrastructure projects. The liability to these cities is classified as Long-Term Trust Funds Payable on the balance sheet.

3. Bonds Issued and Outstanding

Since inception and commencing in November 1994, the Oregon Bond Bank has issued \$48,860,000 in revenue bonds, of which \$5,415,000 was refunded, and \$40,070,000 is outstanding as of June 30, 2000. 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, 2000.

<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	\$ 1,430,000
1996 Series One	3.50 – 5.50%	\$ 10,665,000	\$ 9,230,000
1996 Series Two	3.50 – 5.50%	\$ 2,400,000	\$ 2,305,000
1997 Series A	3.95 – 5.10%	\$ 2,940,000	\$ 2,760,000
1998 Series A	4.25 – 5.00%	\$ 2,210,000	\$ 2,125,000
1998 Series B	4.10 – 4.75%	\$ 6,105,000	\$ 5,935,000
1999 Series A	4.25 – 5.25%	\$ 6,470,000	\$ 6,325,000
2000 Series A	5.25 – 5.625%	\$ <u>9,960,000</u>	\$ <u>9,960,000</u>
		\$ <u>48,860,000</u>	\$ <u>40,070,000</u>

4. Debt Defeased in Substance

Due to an advance refunding in fiscal year 1999, the 1994 Series One bond issue was partially refunded. This bond issue is considered to be defeased in substance. The amount of defeased debt outstanding as of June 30, 2000 is \$5,415,000.

5. Debt Service Requirements to Maturity

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2000, for each year during the next five-year period ending June 30, 2005, and in total for the succeeding period of July 1, 2005, to June 30, 2025.

Notes to the Financial Statements (continued)
June 30, 2000

<u>Year Ending June 30</u>	<u>Revenue Bonds</u>
2001	\$ 3,434,967
2002	3,565,016
2003	3,551,661
2004	3,574,089
2005	3,571,084
2006 – 2025	<u>45,107,177</u>
Totals	<u>\$62,803,994</u>
Principal	\$40,070,000
Interest	<u>22,733,994</u>
Totals	<u>\$62,803,994</u>

The interest stated above includes coupon interest that 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

The Public Employees Retirement System (PERS) is 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 68th Parkway, Tigard, Oregon 97223.

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, 2000, employees of state agencies are required to contribute 6 percent of their salary to the plan and their State employers are required to contribute 9.73 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, 2000, 1999, and 1998 were approximately \$19,024, \$18,434, and \$15,771, respectively, and were equal to the required contributions for each year.

Notes to the Financial Statements (continued)
June 30, 2000

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 former employees.

There appears to be no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not included in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2000, totaled \$342.

8. Prior Period Adjustments

The prior period adjustment reflects the removal of the Safe Drinking Water program from the Water Fund financial statements. See Note 1(a) for more detail.

9. Commitments

Of the cash and investment balances at June 30, 2000, the Department has awarded, but not distributed, \$22.4 million to various water and wastewater infrastructure projects within the state of Oregon.

10. Subsequent Events

In October 2000, the Department issued an additional \$34,020,000 in revenue bonds (2000 Series B), with \$16,785,000 allocated to the WF bond program and the remaining \$17,235,000 to the Special Public Works Fund bond program.

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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

<i>Director</i>	John N. Lattimer
<i>Deputy Director</i>	Catherine E. Pollino, CGFM
<i>Deputy Director</i>	Sharron E. Walker, CPA, CFE

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit report and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation helps us save on printing costs.

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