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Secretary of State

State of Oregon

**OREGON ECONOMIC AND COMMUNITY  
DEVELOPMENT DEPARTMENT**

**Water Fund**

July 1, 2000, to June 30, 2001



**Audits Division**

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*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, 2001, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

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 did note other matters, which we reported to the department in a separate letter.

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

OREGON AUDITS DIVISION

Cathy Pollino  
Director

March 12, 2002



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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's financial statements for the year ended June 30, 2001, 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, 2001, 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. However, we did note other matters, which we reported to the department in a separate letter.



## 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.560 to 285B.599 of the *Oregon Revised Statutes*.

William C. Scott, 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, 2001, the Water Fund received lottery proceeds of \$5.76 million, issued revenue bonds totaling \$16.78 million, and had operating revenue of \$4.5 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 \$44 million in lottery moneys and has issued \$65.6 million in revenue bonds, of which \$5.4 million has

been advance refunded. As of June 30, 2001, total bonds outstanding were \$55.3 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 and water and sewer charges. 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 financial statements of the Water Fund, an enterprise fund of the State of Oregon, Economic and Community Development Department (department) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Water Fund financial statements are free of material misstatement, we performed tests of the Water Fund'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*. However, we noted certain immaterial instances of noncompliance, which we reported to management of the department in a separate letter.

### 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, the Oregon Legislative Assembly, and the Department of Administrative Services Statewide Audit Committee and is not intended to be and should not be used by anyone other than those specified parties.

OREGON AUDITS DIVISION

Bill Bradbury  
Secretary of State

March 12, 2002

## **COMMENDATION**

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

## **AUDIT TEAM**

Nancy L. Young, CPA, CISA, Audit Administrator  
Michelle L. Rock, CPA  
Amy I. Palacios  
Alan J. Bell



## **FINANCIAL SECTION**





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## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Water Fund, an enterprise fund of the State of Oregon, Economic and Community Development Department (department) as of and for the year ended June 30, 2001, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America 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 or the State of Oregon, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued a report dated March 12, 2002, on our consideration of the 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

Bill Bradbury  
Secretary of State

March 12, 2002

STATE OF OREGON  
**OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT**  
**WATER FUND**  
**BALANCE SHEET**  
 JUNE 30, 2001

**ASSETS**

Cash and Cash Equivalents	\$47,398,338
Investments	1,350,611
Interest Receivable	2,072,520
Due from Other Funds	100,000
Deferred Charges	697,154
Loans Receivable	<u>45,615,365</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$97,233,988</u></u></b>

**LIABILITIES AND FUND EQUITY**

CURRENT LIABILITIES:

Accounts Payable	\$ 16,597
Accrued Interest on Bonds Sold	63,749
Interest Payable – Bonds	1,671,247
Due to Other Governments	519,611
Vacation Payable – Short Term	2,489
Bonds Payable – Short Term	2,055,000
Trust Funds Payable – Short Term	<u>1,681,646</u>

TOTAL CURRENT LIABILITIES 6,010,339

LONG-TERM LIABILITIES:

Trust Funds Payable	384,758
Bonds Payable	53,210,647
Vacation Payable	<u>7,466</u>

TOTAL LONG-TERM LIABILITIES 53,602,871

**TOTAL LIABILITIES 59,613,210**

FUND EQUITY:

Retained Earnings	<u>37,620,778</u>
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**TOTAL FUND EQUITY 37,620,778**

**TOTAL LIABILITIES AND FUND EQUITY \$97,233,988**

*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, 2001

OPERATING REVENUES:	
Interest Income on Loans	\$ 3,391,263
Interest Income on Cash and Cash Equivalents	1,079,513
Investment Income	<u>121,294</u>
 TOTAL OPERATING REVENUES	 \$ 4,592,070
OPERATING EXPENSES:	
Bond Interest	2,782,863
Personal Services	262,791
Services and Supplies	83,762
Special Payments	2,047,591
Amortization Expense	<u>81,606</u>
 TOTAL OPERATING EXPENSES	 <u>5,258,613</u>
 <b>OPERATING INCOME (LOSS)</b>	 <b>(666,543)</b>
OPERATING TRANSFERS IN (OUT):	
Operating Transfers-in, Lottery Proceeds	5,766,804
Operating Transfer-in	7,542,947
Operating Transfers-out	<u>(7,542,947)</u>
 TOTAL OPERATING TRANSFERS IN (OUT)	 5,766,804
NON OPERATING REVENUES:	
Net Change in the Fair Value of Investments	<u>3,387</u>
 <b>NET INCOME</b>	 <b>5,103,648</b>
 FUND EQUITY – BEGINNING	 32,587,071
 Prior Period Adjustments	 <u>(69,941)</u>
 <b>FUND EQUITY – ENDING</b>	 <b><u><u>\$37,620,778</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 CASH FLOWS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Cash Flows From Operating Activities:</u>	
OPERATING INCOME (LOSS)	\$ (666,543)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Interest Received on Investments	(121,294)
Interest Received on Cash Balances	(1,079,513)
Interest Expense on Bonds	2,782,863
Amortization of Deferred Bond Issue Costs	81,606
Changes in Assets and Liabilities:	
Increase in Interest Receivable	(755,093)
Decrease in Due From Other Funds	200,000
Increase in Loans Receivable	(8,638,985)
Increase in Deferred Expenditures	(335,673)
Decrease in Accounts Payable	(7,955)
Increase in Accrued Interest on Bonds Sold	34,105
Increase in Bond Interest Payable	932,540
Increase in Due to Other Governments	391,286
Decrease in Vacation Payable	(1,006)
Increase in Trust Funds Payable	<u>1,189,062</u>
TOTAL ADJUSTMENTS	<u>(5,328,057)</u>
<i>Net Cash Provided (Used) in Operating Activities</i>	(5,994,600)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Operating Transfers—in—Lottery Proceeds	5,766,804
Bond Issue Costs	(275,705)
Operating Transfers—in	7,542,947
Operating Transfers—out	(7,542,947)
Proceeds From Bond Sales	16,785,000
Principal Payment on Bonds	(1,555,000)
Bond Discount/Bond Premium	12,059
Interest Payment on Bonds	<u>(2,782,863)</u>
<i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	17,950,295
<u>Cash Flows From Investing Activities:</u>	
Proceeds From Sales and Maturities of Investments	2,234,707
Purchases of Investments	(2,233,010)
Interest on Investments	121,294
Interest on Cash Balances	<u>1,079,513</u>
<i>Net Cash Provided (Used) in Investing Activities</i>	<u>1,202,504</u>
Net Increase in Cash and Cash Equivalents	13,158,199
Net Effect of Prior Period Adjustments Restating Operating Income	123,979
Cash and Cash Equivalents – Beginning Balance	34,116,160
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<u><u>\$47,398,338</u></u>
<u>Noncash Investing Activities</u>	
Net Change in Fair Value of Investments	3,387
Total Noncash Investing Activities	<u>\$ 3,387</u>

*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, 2001

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 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 Water Fund 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 a result, moneys in the Water Fund 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 Water Fund 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. 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.

**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 Water Fund 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 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. As of June 30, 2001, bond discounts and bond premiums are \$42,585 and \$8,413, respectively.

**f. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents include cash on hand, equity in pooled cash and short-term investments 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 classified as cash equivalents are valued at amortized cost. Investments other than cash equivalents 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:	Through June 30		
	2001	2000	1999
Number of Loans Outstanding	57	45	37
Total Amount Outstanding	<u>\$45,615,365</u>	<u>\$36,976,379</u>	<u>\$32,038,796</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 and cash equivalents reported on the Balance Sheet include \$45,902,685 representing Water Fund's equity in the State Treasurer's Oregon Short-Term Fund (OSTF). OSTF operates as an internal investment pool for state agencies who participate on an involuntary basis and as an external investment pool for local governments who participate on a voluntary basis. OSTF assets include both cash on deposit with financial institutions and short-term investments. OSTF investments are governed by *Oregon Revised Statutes* and the Oregon Investment Council. OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. Reported cash balances in OSTF include \$1,681,646, which represents interest earnings on Oregon Bond Bank bond proceeds and collateral loans held by the department on behalf of Water Fund borrowers.

Cash and cash equivalents reported on the Balance Sheet include \$1,495,654 representing deposits with the Bank of New York, the department's bond trustee. These deposits were entirely covered by federal depository insurance at fiscal year end.

**Notes to the Financial Statements (continued)**  
**June 30, 2001**

The Water Fund investments reported on the Balance Sheet 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 counter party'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, 2001, the Water Fund investment balances were as follows:

	Risk Category			Reported Amount	Fair Value
	1	2	3		
U.S. Government Securities	<u>\$1,350,611</u>	-	-	<u>\$1,350,611</u>	<u>\$1,350,611</u>
Totals	<u>\$1,350,611</u>	-	-	<u>\$1,350,611</u>	<u>\$1,350,611</u>

Of the total cash, cash equivalents on deposit and investments, an estimated \$43.8 million has been committed and an estimated \$5 million is available as of June 30, 2001. Included in the committed cash and investment balance is \$2,846,264, 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, 2001, were sufficient to meet these legal requirements.

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 Water Fund 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 \$65,645,000 in revenue bonds, of which \$5,415,000 was refunded, and \$55,300,000 is outstanding as of June 30, 2001. The Bonds Payable on the balance sheet is recorded net of any original issue discounts/premiums. The following table summarizes the total bonds outstanding as of June 30, 2001.

**Notes to the Financial Statements (continued)**  
**June 30, 2001**

<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	\$ 1,135,000
1996 Series One	3.50 – 5.50%	\$ 10,665,000	\$ 8,835,000
1996 Series Two	3.50 – 5.50%	\$ 2,400,000	\$ 2,205,000
1997 Series A	3.95 – 5.10%	\$ 2,940,000	\$ 2,660,000
1998 Series A	4.25 – 5.00%	\$ 2,210,000	\$ 2,060,000
1998 Series B	4.10 – 4.75%	\$ 6,105,000	\$ 5,880,000
1999 Series A	4.25 – 5.25%	\$ 6,470,000	\$ 6,175,000
2000 Series A	5.25 – 5.625%	\$ 9,960,000	\$ 9,565,000
2000 Series B	4.45 – 5.50%	\$ <u>16,785,000</u>	\$ <u>16,785,000</u>
		\$ <u>65,645,000</u>	\$ <u>55,300,000</u>

**4. Debt Defeased in Substance**

Due to an advanced refunding in fiscal year 1999, the 1994 Series One issue was partially refunded. This bond issue is considered to be defeased in substance. The amount of defeased debt outstanding as of June 30, 2001 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, 2001, for each year during the next five-year period ending June 30, 2006, and in total for the succeeding period of July 1, 2006, to June 30, 2026.

<u>Year Ending June 30</u>	<u>Revenue Bonds</u>
2002	\$ 5,142,595
2003	4,864,982
2004	4,889,910
2005	4,888,155
2006	4,885,531
2007 – 2026	64,567,819
Totals	<u>\$89,238,992</u>
Principal	\$55,300,000
Interest	33,938,992
Totals	<u>\$89,238,992</u>

**Notes to the Financial Statements (continued)**  
**June 30, 2001**

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**

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 68<sup>th</sup> 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, 2001, 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 Water Fund for the years ended June 30, 2001, 2000, and 1999, were approximately \$19,269, \$19,024, and \$18,434, respectively, and were equal to the required contributions for each year.

**7. Unemployment Benefits**

State Departments are subject to the Employment Department Law. State employees who qualify are entitled to benefit payments during periods of unemployment. Each State Department is required to reimburse the Employment Department for benefit payments made to their former employees.

There is 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 years ended June 30, 2001 and 2000, totaled \$650 and \$342.

**8. Prior Period Adjustments**

Prior period adjustments reflect capitalization of Oregon Bond Bank Series 1999-A Cost of Issuance costs not previously capitalized and a change in the method of calculating interest receivable on loans receivable.

**9. Commitments**

Of the cash and investment balances as of June 30, 2001, the department has awarded but not distributed \$39.2 million to various water and wastewater infrastructure projects within the state of Oregon.

**10. Subsequent Events**

In January 2002, the department issued \$7,850,000 in Oregon Bond Bank revenue bonds (2002 Series A). Bonds totaling \$1,550,000 were allocated to the Water Fund program. The remaining bonds were allocated to the Special Public Works Fund program.

**11. Pending Accounting Changes**

The Governmental Accounting Standards Board has issued a new accounting and reporting standard that the Fund will implement for the fiscal year ending June 30, 2002. The new standard is Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Although the department is actively preparing for implementation of this pronouncement, we do not have sufficient information available at this time to disclose the effect that these changes will have on the Water Fund's financial position and results of operations.



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

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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>	Cathy Pollino, CGFM, MBA
<i>Deputy Director</i>	Charles A. Hibner, CPA
<i>Deputy Director</i>	Mary E. Wenger, CPA

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

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