
Secretary of State

State of Oregon

DEPARTMENT OF TRANSPORTATION
Oregon Transportation Infrastructure Fund
For the Years Ended June 30, 2001 and 2000



Audits Division

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State of Oregon

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Oregon Transportation Infrastructure Fund
For the Years Ended June 30, 2001 and 2000



Audits Division



Auditing for a Better Oregon

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

Bruce Warner, Director
Department of Transportation
355 Capitol Street NE
Salem, Oregon 97310

This report presents the results of our annual audit of the Oregon Transportation Infrastructure Fund (OTIF), a program within the Oregon Department of Transportation.

As required by *Government 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 as of and for the years ended June 30, 2001 and 2000, are included in the Financial Section of this report. We concluded the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Government Auditing Standards also require us to review OTIF'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 under *Government Auditing Standards*; however, we did identify reportable conditions in internal control over financial reporting. Although reportable, we did not consider these issues to represent a risk that the financial statements could be materially misstated without detection.

We appreciate the cooperation and assistance of the management and staff of the Oregon Department of Transportation during the course of this audit.

OREGON AUDITS DIVISION

Cathy Pollino
Director

January 24, 2002

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SUMMARY

BACKGROUND

The Oregon Transportation Infrastructure Fund (OTIF) is a program within the Oregon Department of Transportation (department), created as part of a federal pilot project. Monies in this fund are available to provide loans and other financial assistance to state agencies and local governments for eligible transportation projects. As of June 30, 2001, OTIF had been capitalized with a total of \$15.5 million federal and state monies, and had made nine loans.

AUDIT PURPOSE

This audit was performed for the purpose of reporting on the Oregon Transportation Infrastructure Fund's financial statements as of and for the years ended June 30, 2001 and June 30, 2000, and on internal control and compliance with laws and regulations.

AUDIT RESULTS

This audit concludes that OTIF's financial statements for the years ended June 30, 2001 and 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 non-compliance required to be reported under *Government Auditing Standards*. However, we noted two reportable conditions involving internal control over financial reporting that we do not consider to be material weaknesses.

AGENCY RESPONSE

The Oregon Department of Transportation generally agrees with our recommendations for the two reportable conditions.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon Transportation Infrastructure Fund (OTIF) is a program within the Oregon Department of Transportation (department). Established as part of a federal pilot project, the OTIF provides financial assistance to local governments and state agencies for federal-aid eligible transportation projects. Funding is available for highway projects, public transit capital projects, and bike or pedestrian access along highways. Funding may take the form of loans or credit enhancements such as security for bond financing. The Oregon Transportation Commission approved participation in the program in May 1996. The OTIF operates under a cooperative agreement with the U.S. Department of Transportation.

The 1997 Oregon Legislature passed House Bill 2097, which created the OTIF and allows the issuance of up to \$200 million in revenue bonds. This legislation also expands the uses of the fund to allow loans to private entities.

FINANCIAL ACTIVITIES

To date, the OTIF has been capitalized with \$15.5 million, 87.69 percent federal monies with the balance provided from state funds. Using capitalization funding and interest payments received on loans, OTIF has awarded nine loans totaling \$16.2 million. This amount includes a \$5.5 million loan to the department that is reported as an Advance to State Highway Fund. Two OTIF loans have been fully repaid by the borrower. No bonds have been issued under OTIF.

OTIF management negotiates loans with local jurisdictions to finance transportation projects. Repayment conditions, including the source of funds used for repayment of the loan, are specified in the agreement. OTIF establishes each borrower's account in the full amount of the loan. Even though the loan proceeds are credited to the borrower, OTIF maintains control of the funds at all times. Interest earned while the funds are on deposit with the State Treasury is available to be used for project costs or to repay the outstanding loan.

To repay the loan, OTIF invoices the borrower for the entire loan amount. If the loan agreement cites federal funds as a source of funds for repayment, OTIF invoices the federal government and applies payments to the borrower's loan. OTIF then invoices the borrower for the outstanding loan balance. Payments are deposited to the OTIF account. As loans are repaid, funds become available for new projects. The OTIF is intended to become a self-sustaining transportation improvement fund.

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 Transportation Infrastructure Fund (OTIF), an enterprise fund of the State of Oregon, Department of Transportation, as of and for the year ended June 30, 2001, and have issued our report thereon dated January 24, 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 OTIF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 OTIF'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the OTIF's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying summary of findings and recommendations.

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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Oregon Transportation Commission, management of Oregon Department of Transportation, the Oregon Transportation Infrastructure Fund, the governor of the state of Oregon, the Oregon Legislative Assembly, Department of Administrative Services Statewide Audit Committee, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

January 24, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

IMPROVE TIMELINESS OF CASH RECONCILIATIONS

OTIF cash reconciliations were not prepared and reviewed in a timely manner. During fiscal year 2001, eight of the 12 monthly reconciliations for the OTIF cash account were prepared and reviewed more than 30 days after the Statewide Financial Management Application's (SFMA) month-end closing date.

Reconciling cash is a basic internal control and is recommended by the *Oregon Accounting Manual* (OAM). Oregon Department of Transportation (department) policy states that reconciliations must be completed within 30 days after the close of the accounting month in SFMA. Department employees working on OTIF follow the department's accounting policies. Reconciliations of cash accounts to the related accounting records provide assurance that cash transactions have been recorded accurately. When cash reconciliations are not prepared and reviewed in a timely manner, an increased risk exists that misappropriations of cash or errors in accounting records could go undetected.

We recommend that OTIF perform monthly reconciliations for its cash accounts. These reconciliations should be performed within 30 days of the monthly closing dates in SFMA and should be reviewed timely by appropriate staff. Department staff should coordinate with State Treasury staff to obtain any reports that might be needed to aid in the reconciliations.

AGENCY'S RESPONSE

The Oregon Department of Transportation, Financial Services, agrees with the audit finding and has strengthened supervision and controls over cash reconciliation. All cash reconciliations for fiscal year 2002 have been completed within 35 days of the close of the month in SFMA. ODOT's procedure was revised to extend the time period to 35 days to allow for a 30-day period of reconciliation after receipt of the SFMA reports. It usually takes about 5 days to receive these hard copy reports.

IMPROVE RELIABILITY OF FINANCIAL REPORTING

According to OTIF staff, the subsidiary system used by the department to account for OTIF loans receivable and undistributed loan proceeds cannot be relied upon to perform essential accounting functions. These functions

include recording amounts in the correct accounting period, calculating loan interest correctly, and producing financial management reports.

To maintain accountability for assets, liabilities and equity, an accounting system should consist of methods and records that identify and record all valid transactions in a timely manner, ensure that transactions are recorded in the proper time period, and measure and record the proper monetary value of transactions.

During our review of the OTIF subsidiary accounting system, we noted three transactions that were not recorded in the correct accounting period. OTIF staff was unable to determine the effective date of these transactions using reports from the subsidiary accounting system. Staff reviews each loan's transactions to ensure that amounts are correctly reported on the financial statements. During this review process, OTIF staff correctly identified errors and made proper corrections to two of the three transactions. The process used, however, was not efficient or reliable. As a result, OTIF staff did not identify and correct the third transaction.

We also noted that the subsidiary system is not used to calculate interest and principal payments on loans. According to OTIF staff, the subsidiary accounting system does not correctly calculate loan interest due for the irregular payments on loans that are part of the OTIF loan agreements. OTIF staff compensates for this deficiency by manually calculating interest and entering those amounts into the system. However, OTIF staff does not have a procedure in place to review these calculations for accuracy.

In addition, no year-end reports were produced from the subsidiary system to aid in the preparation of the OTIF financial statements. Loan receivable transactions are recorded in the subsidiary system monthly, but are not recorded in the State Financial Management Application (SFMA) until year-end. The year-end amounts are determined by OTIF staff through review of each individual loan and entering amounts into a spreadsheet. Final year-end amounts are then entered into SFMA. This compensating recording process is inefficient and poses a higher risk for inaccuracy. The amounts in SFMA are used

to determine reporting for the state *Comprehensive Annual Financial Report*; therefore, it is important that they are entered timely and accurately.

We recommend that OTIF staff:

- Determine if the subsidiary system can perform the accounting functions needed to accurately account for OTIF transactions and calculations. If the system is not capable, OTIF staff should track loan transactions and perform calculations using spreadsheets. If the system is capable of performing needed functions, we recommend that OTIF staff be adequately trained in use of the system.
- Develop procedures for the periodic review of principal and interest calculations, and review for accuracy the amounts entered into SFMA.
- Enter OTIF transactions directly into SFMA on a monthly basis.

AGENCY'S RESPONSE

We agree that the loan subsidiary system is not capable of performing all of the transactions necessary to track OTIF loans in accordance with the terms of the Promissory Note signed with the borrower. New loans are being added to the subsidiary with a different set-up code to mitigate some of the inability of the system to perform calculations adequately. Accounting Services staff is well trained on the capabilities of the system, however the system cannot perform some of the transactions for older loans as required. Our primary concern is the calculation of interest and our OTIF staff verifies all calculations and makes adjustments as necessary.

Your audit finding also recommended that we develop procedures for the periodic review of principal and interest calculations, and review for accuracy the amounts entered into SFMA. We agree with the recommendation and ODOT is currently reviewing principal and interest calculations on a monthly basis to insure accuracy in transactions recorded on the subsidiary ledger, TEAMS and SFMA. Written procedures will be in place in the near future to provide for this review to be conducted regularly on a quarterly basis.

Your audit finding also recommends that we enter OTIF transactions directly in SFMA on a monthly basis. We agree with the recommendation and OTIF transactions will include a companion entry to SFMA when necessary on a monthly basis to ensure SFMA general ledger accounts remain current.

COMMENDATION

The courtesies and cooperation extended by management and staff of the Oregon Department of Transportation during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Craig Stroud, CPA, Audit Administrator
Diane Farris, CPA
Diana Barkelew, CPA

FINANCIAL SECTION



Auditing for a Better Oregon

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of the Oregon Transportation Infrastructure Fund, an enterprise fund of the State of Oregon, Department of Transportation, as of and for the years ended June 30, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Oregon Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the transactions and balances attributable to the Oregon Transportation Infrastructure Fund and are not intended to present fairly the financial position of the Oregon Department of Transportation, 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 Oregon Transportation Infrastructure Fund, as of June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2002, on our consideration of the Oregon Transportation Infrastructure Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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

January 24, 2002

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
BALANCE SHEET
JUNE 30, 2001 AND JUNE 30, 2000

ASSETS		
	<u>2001</u>	<u>2000</u>
Cash and Cash Equivalents	\$ 6,071,442	\$ 9,248,889
Cash and Cash Equivalents – Restricted	5,482,031	6,839,627
Accounts Receivable – Other	202,868	–
Interest Receivable – State Treasury	20,225	50,403
Interest Receivable – Borrower's Accounts	20,184	33,258
Due from Other Funds	4,346	477,319
Interest Receivable – Loans	253,416	93,635
Loans Receivable	6,777,531	7,972,453
Advance to State Highway Fund	5,500,000	–
Allowance for Doubtful Accounts	(85,402)	(85,402)
	<hr/>	<hr/>
TOTAL ASSETS	\$ 24,246,641	\$ 24,630,182
	<hr/>	<hr/>
LIABILITIES AND FUND EQUITY		
Due to Other Governments	\$ 6,900	\$ 147,992
Due to Other Funds	96,469	51,252
Accounts Payable	–	14,570
Undistributed Loan Proceeds	5,502,215	6,872,885
	<hr/>	<hr/>
TOTAL LIABILITIES	5,605,584	7,086,699
	<hr/>	<hr/>
FUND EQUITY:		
Contributed Capital	15,510,760	15,158,143
Retained Earnings	3,130,297	2,385,340
	<hr/>	<hr/>
TOTAL FUND EQUITY	18,641,057	17,543,483
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 24,246,641	\$ 24,630,182
	<hr/>	<hr/>

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

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES		
Interest Income on Loans	\$ 304,353	\$ 200,231
Application and Closing Fees	3,020	52,650
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	307,373	252,881
OPERATING EXPENSES:		
Administrative Expenses	96,469	65,832
Bad Debt Expense	-	26,242
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	96,469	92,074
OPERATING INCOME (LOSS)	210,904	160,807
NON-OPERATING REVENUES:		
Net Investment Income	534,053	610,433
	<hr/>	<hr/>
NET INCOME	744,957	771,240
RETAINED EARNINGS – BEGINNING BALANCE	2,385,340	1,614,100
	<hr/>	<hr/>
RETAINED EARNINGS – ENDING BALANCE	\$ 3,130,297	\$ 2,385,340
	<hr/> <hr/>	<hr/> <hr/>

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

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

	<u>2001</u>	<u>2000</u>
<u>Cash Flows From Operating Activities:</u>		
OPERATING INCOME (LOSS)	\$ 210,904	\$ 160,807
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable – Other	(202,868)	–
(Increase)/Decrease in Interest Receivable – Loans	(159,781)	(93,304)
(Increase)/Decrease in Loans Receivable	1,194,922	(3,067,735)
(Increase)/Decrease in Advances to State Highway Fund	(5,500,000)	–
(Increase)/Decrease in Loan Fees Receivable	–	44,000
Increase/(Decrease) in Allowance for Doubtful Accounts	–	26,242
(Increase)/Decrease in Due from Other Funds	472,972	(472,972)
(Increase)/Decrease in Borrower's Interest Receivable	13,074	(33,258)
Increase/(Decrease) in Due to Other Governments	(141,092)	147,992
Increase/(Decrease) in Due to Other Funds	45,217	21,302
Increase/(Decrease) in Accounts Payable	(14,570)	14,570
Increase/(Decrease) in Undisbursed Loan Proceeds	(1,370,670)	2,456,449
<i>Net Cash Provided (Used) in Operating Activities</i>	(5,451,892)	(795,907)
<u>Cash Flows From Noncapital Financing Activities:</u>		
Transfer In – Federal Highway Administration	–	881,600
Transfer In – State Highway Fund	302,000	–
Transfer In – Department of Administrative Services	50,619	96,558
<i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	352,619	978,158
<u>Cash Flows From Investing Activities:</u>		
Net Interest on Investments and Cash Balances	534,053	610,433
Decrease in Interest Receivable – State Treasury	30,177	66,052
<i>Net Cash Provided (Used) in Investing Activities</i>	564,230	676,485
Net Increase/(Decrease) in Cash and Cash Equivalents	(4,535,043)	858,736
Cash and Cash Equivalents at Beginning of Year	16,088,516	15,229,780
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	\$ 11,553,473	\$ 16,088,516
<u>Noncash from Investing, Capital and Financing Activities:</u>		
Due From Other Funds	\$ –	\$ 4,347

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

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

1. Summary of Significant Accounting Policies

a. Reporting Entity

The Oregon Transportation Infrastructure Fund (OTIF) is a program administered by the Oregon Department of Transportation (department). The department is an agency within the executive branch of the state of Oregon. The OTIF operates under the authority of Oregon Revised Statutes (ORS) 367.010 to 367.060, and other related provisions. The OTIF is also governed by a State Infrastructure Bank Cooperative Agreement dated August 20, 1996 between the department, Federal Highway Administration and Federal Transit Administration. The cooperative agreement authorizes the department to operate a state infrastructure bank pursuant to Section 350 of the National Highway System Designation Act of 1995.

The administrative responsibility for the OTIF is divided between the Oregon Transportation Commission (OTC) and the department. The OTC has adopted administrative rules and other policies to govern project selection and approval. The OTC has approval authority for all projects funded through the OTIF. Responsibility for the day-to-day management of the OTIF has been delegated to the department's Chief Financial Officer.

Capitalization for the OTIF is made available through federal funds, state funds and, if necessary, the sale of revenue bonds. In general, these funds are restricted in use for specific types of transportation projects.

The OTIF uses its resources to make loans and other forms of financial assistance available to cities, counties, ports, transit providers, special districts, tribal governments and state agencies for eligible transportation projects. OTIF loans involving the use of federal funds are restricted to use for highway and transit capital projects eligible under Titles 23 and 49 of the *Code of Federal Regulations*.

As of January 1, 2000 the OTIF cash balances were transferred from the State Highway Fund to a cash account established for the OTIF in the State Treasury. The State Highway Fund was created by ORS 366.505 to clarify the intent of Article IX of the Oregon Constitution. The Department of Administrative Services includes the financial activity of the State Highway Fund on the State Financial Report in an administratively created fund called the Public Transportation Fund. No reporting information is provided in this report for the department's State Highway Fund or the department as a whole.

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

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) 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 OTIF does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

The OTIF is accounted for as a proprietary fund type. The proprietary fund type used is an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods and services to the general public be financed or recovered primarily through user charges.

c. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary fund types are accounted for on a flow of economic resources focus. With this measurement focus, all assets and all liabilities associated with the operation of these fund types are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Proprietary fund types utilize the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

d. Budgetary Accounting

Agency budgets are approved by the Legislature biennially. The Emergency Board of the Legislature approves any increases in the budgets that may be necessary during the interim. Legislatively approved limitations are financed from general governmental revenues or revenues of self-supporting activities of the state of Oregon. Limitations, except for capital construction, lapse at the end of each biennium. Appropriated budgets include expenditure authority created by appropriation bills and related estimated revenues. All funds are subject to legislative approval. Non-appropriated budgets and some non-limited financial activities also are subject to allotment control by the Department of Administrative Services. Beginning July 1, 1999 the OTIF lending activities were included in the non-limited portion of the department's budget.

e. Receivables

Receivables represent revenues earned or accrued in the current period. Investment income is presented as interest receivable from the State Treasury on the balance sheet, and is allocated between the borrower and the OTIF. Due to/from other funds represent interfund receivables and payables from

other funds within the department. All of the due to/from amounts represent accruals to or from the State Highway Fund.

f. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand and cash and investments held by the State Treasury in the Oregon Short-Term Fund.

2. Provision for Loan Losses

As of June 30, 2001, all loans in the OTIF portfolio were current. In order to provide a reserve for potential future loan losses, the department has implemented a policy that requires one percent of each new loan to be expensed to establish the reserve account. The policy also allows the department to adjust that percentage and/or increase or reduce the cumulative loss reserve to reflect changes in portfolio status. For the year ended June 30, 2001, the department's analysis of the portfolio determined that an adequate level of reserves could be obtained without charging any expense for the year.

3. Undistributed Loan Proceeds

OTIF distributes loan proceeds when specific conditions are met by the borrower, as evidenced in the loan agreement and subsequent to the signing of a promissory note for the full amount of the loan. The OTIF acts as the agent for the borrower to distribute the loan proceeds throughout the construction project.

Loan proceeds are held in the OTIF cash account and disbursements are made from the account for project-related costs when borrowers submit approved invoices to the department. The loan agreement authorizes undistributed loan proceeds to earn interest at the same rate as the Local Government Investment Pool (LGIP) administered by the Oregon State Treasury. The investment income is credited to each borrower and is available to be used for additional project-related costs, if necessary. All proceeds, including investment income, not used on project-related costs, are returned to the OTIF when the project is completed and applied to the outstanding loan receivable balance.

Investment income for the OTIF is presented net of the investment income credited to each borrower. The total interest earned by borrowers for the fiscal years ended June 30, 2001 and 2000, respectively, was \$358,781 and \$287,279.

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

4. Contributed Capital

Contributed capital represents proceeds received from the following sources:

	Balance as of June 30, 1999	\$14,175,638
Additional contributions for the fiscal year ended June 30, 2000		
Petroleum Violation Escrow Account		100,905
Federal Highway Administration		881,600
	Balance as of June 30, 2000	<u>15,158,143</u>
Additional contributions for the fiscal year ended June 30, 2001		
State Highway Fund		302,000
Petroleum Violation Escrow Account		50,618
	Balance as of June 30, 2001	<u><u>\$15,510,760</u></u>

On June 19, 1997 the U.S. Department of Transportation awarded the OTIF an additional \$5.51 million of federal funds. These funds are available to be drawn over a nine-year period and may be used for all eligible highway or transit capital projects. As of June 30, 2001, \$4,628,400 of these funds had been drawn by the OTIF.

5. Administrative Expenses

The department's Financial Services Unit provides staff and other operational support (office space, professional services, supplies, equipment, etc.) for the OTIF. The department began charging the OTIF for a portion of the department's costs of providing this support in the fiscal year ended June 30, 2000. Administrative expenses charged to the OTIF for the fiscal years ended June 30, 2001 and 2000 were \$96,469 and \$65,832, respectively.

6. Cash and Cash Equivalents

All funds classified as cash and cash equivalents include cash on deposit with financial institutions and cash invested in the Oregon State Treasury – Oregon Short Term Fund (OSTF). The OSTF is maintained by the State Treasurer and is an internal cash and investment pool for state agency participants and an external cash and investment pool for local government participants. The OSTF is not registered with the United States Securities and Exchange Commission as an investment company. The state's investment policies are governed by *Oregon Revised Statutes* (ORS) and the Oregon Investment Council. The book and bank balances of cash on deposit with the State Treasury for the OTIF as of June 30, 2001 and 2000, were \$6,071,442 and \$9,248,889, respectively. The total amount of undistributed loan proceeds held for borrowers as of June 30, 2001 and 2000 was \$5,482,031 and \$6,839,627, respectively, and is presented as restricted cash.

7. Bonds Issued and Outstanding

As authorized by ORS 367.025 and 367.030, the OTC and the department may elect to issue revenue bonds for the purposes of providing capital for the OTIF. As of the date of this report, no such bonds have been issued or authorized.

8. Related Party Transaction

The OTIF loaned the State Highway Fund \$5.5 million on April 16, 2001 to provide financial assistance in the construction of a highway and bridge project in Malheur County. The terms of the loan require the State Highway Fund to repay the loan over a two-year period at an interest rate of 3.5 percent.

9. Litigation

During the ordinary course of business, the OTIF may become involved in litigation regarding its lending activities. The program is represented in these actions by the Attorney General of the state of Oregon. The OTIF was not a party to any litigation as of June 30, 2001 or June 30, 2000.

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>	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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