
Secretary of State

An Enterprise Fund of the
State of Oregon

**OREGON ECONOMIC AND COMMUNITY
DEVELOPMENT DEPARTMENT**

Special Public Works Fund

For the Fiscal Year Ended June 30, 2002



Audits Division

Secretary of State

An Enterprise Fund of the
State of Oregon

**OREGON ECONOMIC AND COMMUNITY
DEVELOPMENT DEPARTMENT**

Special Public Works Fund

For the Fiscal Year Ended June 30, 2002



Audits Division



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Marty Brantley, Director
Oregon Economic and Community
Development Department
775 Summer Street NE
Salem, Oregon 97301

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

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the fiscal year ended June 30, 2002, 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 Other Reports 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. However, 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 13, 2003

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SUMMARY

AUDIT PURPOSE

The audit was conducted for the purpose of expressing an opinion on the Special Public Works Fund's (SPWF) financial statements for the fiscal year ended June 30, 2002, and reporting on compliance and on internal control over financial reporting.

AUDIT RESULTS

Our audit concluded that the SPWF's financial statements for the year ended June 30, 2002, which are included in this report, are fairly presented. Our review disclosed no instances of noncompliance required to be reported 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.

ORGANIZATION AND FUNCTIONS

The SPWF was created by the Legislature in 1985 with proceeds from the state lottery. The SPWF program is administered by the Oregon Economic and Community Development Department (department) and operates under the provisions of Sections 285B.410 to 285B.482 of the *Oregon Revised Statutes*. The SPWF program was created to assist municipalities in meeting their infrastructure and economic development needs through loans and grants to cities, counties, port districts, and special districts for public infrastructure. SPWF loans and grants can be used for the construction, improvement or expansion of publicly owned infrastructure projects such as public transportation, which includes public parking, docks and wharves, railroads and airport facilities, public roads, public sewage treatment works, and public water supply works. The SPWF was expanded in 2001 to provide help to municipalities experiencing financial loss associated with natural disasters.

The department's director, William C. Scott, resigned in July 2002. Kathryn Coba served as interim director. Marty Brantley was appointed by the governor as the new director of the department in January 2003. The Oregon Economic and Community Development Commission, responsible for overseeing the department, consists of five members who are appointed by the governor. Responsibilities of the commission include approving

bond financing of department projects and reporting biennially to the governor and Legislative Assembly on the success of economic development efforts.

FINANCIAL ACTIVITIES

Financing for the SPWF program includes lottery bond proceeds, revenue bonds, loan repayments, and interest earnings. During the year ended June 30, 2002, the SPWF received lottery bond proceeds of \$16.8 million, issued revenue bonds totaling \$6.3 million and had operating revenues of \$8.8 million. The department used these resources to award new SPWF loans and grants to eligible applicants.

Since its inception in 1985, the SPWF program has been allocated \$71.1 million in lottery proceeds, \$44.3 million in lottery bond proceeds and has issued \$145.6 million in revenue bonds, of which \$42.2 million has been retired or refunded. The department uses the revenue bond proceeds to award loans to municipalities for infrastructure projects. The remaining financing sources are used to finance loans and grants to municipalities and to pay administrative expenses.

Each SPWF loan must be fully secured by the borrowing municipality; typically, repayment is made from revenue bonds, water and sewer charges, and urban renewal district revenues. The maximum term of a loan is 25 years or the economic life of the project, whichever is less.

The SPWF program activities are accounted for in an enterprise fund, a proprietary fund type. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises.

FINANCIAL SECTION



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Marty Brantley, Director
Oregon Economic and Community
Development Department
775 Summer Street NE
Salem, Oregon 97301

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Special Public Works Fund, an enterprise fund of the State of Oregon, Economic and Community Development Department (department), as of and for the year ended June 30, 2002, 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 Special Public Works Fund and do not purport to, and do not, present fairly the financial position of the Oregon Economic and Community Development Department or the State of Oregon, as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended 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 Special Public Works Fund as of June 30, 2002, and the changes in its financial position and its 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 have also issued our report dated March 13, 2003, on our consideration of the Special Public Works 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 Other Reports section of this report.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

March 13, 2003

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
ENTERPRISE FUND
BALANCE SHEET
JUNE 30, 2002

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 23,846,614
Interest Receivable	4,283,250
<i>Total Current Assets</i>	28,129,864

Noncurrent Assets:

Cash and Cash Equivalents – Restricted	34,975,234
Investments – Restricted	4,206,536
Deferred Expenditures	1,148,949
Loans Receivable	135,271,849
<i>Total Noncurrent Assets</i>	175,602,568
Total Assets	\$ 203,732,432

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 68,030
Interest Payable – Bonds	2,722,082
Due to Other Governments	860,983
Bonds Payable – Short Term	4,410,000
Trust Funds Payable – Short Term	926,741
Compensated Absences Payable	31,417
<i>Total Current Liabilities</i>	9,019,253

Noncurrent Liabilities:

Bonds Payable	98,807,304
Trust Funds Payable	394,798
<i>Total Noncurrent Liabilities</i>	99,202,102
Total Liabilities	108,221,355

Net Assets:

Restricted for Debt Service	7,016,611
Restricted for Infrastructure projects	32,165,159
Unrestricted	56,329,307
<i>Total Net Assets</i>	95,511,077
Total Liabilities and Net Assets	\$ 203,732,432

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Operating Revenues:	
Loan Interest Income	\$ 7,936,026
Interest Income on Cash and Cash Equivalents	654,062
Investment Income	217,741
Other Income	36,374
Total Operating Revenues	8,844,203
Operating Expenses:	
Salaries and Wages	801,661
Services and Supplies	367,901
Special Payments – Grants	5,113,226
Debt Service	5,491,901
Total Operating Expenses	11,774,689
Operating Income (Loss)	(2,930,486)
Income (Loss) Before Transfers	(2,930,486)
Transfers from Other Funds, Lottery Bond Proceeds	16,798,069
Transfers to Other Funds, Marine Navigation Improvement Fund	(66,065)
Change in Net Assets	13,801,518
Net Assets—Beginning	81,709,559
Net Assets – Ending	\$ 95,511,077

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 7,531,049
Loan Interest Received	7,873,640
Payments to Employees for Services	(781,701)
Payments to Suppliers	(336,033)
Grants Made	(4,721,205)
Loans Made	(25,312,550)
Other Receipts (Payments)	(2,113,098)
Net Cash Provided (Used) in Operating Activities	<u>(17,859,898)</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from Bond Sales	6,300,000
Principal Payments on Bonds	(5,340,000)
Interest Payments on Bonds	(5,657,953)
Bond Issuance Costs	(224,913)
Transfers from Other Funds	16,798,065
Transfers to Other Funds	(66,065)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>11,809,138</u>
Cash Flows From Investing Activities:	
Purchases of Investments	(4,262,140)
Proceeds from Sales and Maturities of Investments	5,354,910
Interest on Investments and Cash Balances	959,949
Net Cash Provided (Used) in Investing Activities	<u>2,052,719</u>
Net Increase (decrease) in Cash and Cash Equivalents	(3,998,041)
Cash and Cash Equivalents – Beginning	<u>62,819,885</u>
Cash and Cash Equivalents – Ending	<u><u>\$ 58,821,844</u></u>

Reconciliation of operating income to net cash provided (used) by operating Activities:

Operating Income (Loss)	\$ (2,930,486)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities :	
Amortization of Bond Premium and Discount	30,740
Amortization of Bond Issuance Costs	81,858
Interest Income Reported as Operating Revenue	(872,139)
Interest Payments Reported as Operating Expense	5,379,303
Bond Issue Costs Reported as Operating Expense	9,923
Net Changes in Assets and Liabilities:	
Accounts and Interest Receivable	(62,050)
Loans Receivable	(17,781,502)
Accounts Payable	21,945
Due to Other Governments	392,021
Trust Funds Payable	(2,149,471)
Compensated Absences Payable	19,960
Total Adjustments	<u>(14,929,412)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (17,859,898)</u></u>
Noncash Investing and Capital and Related Financing Activities:	
Net change in Fair Value of Investments	<u>\$ (87,811)</u>
Total Noncash Investing and Capital and Related Financing Activities	<u><u>\$ (87,811)</u></u>

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

The accompanying financial statements of the Oregon Economic and Community Development Department's Special Public Works Fund have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). The Special Public Works Fund does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

1. Summary of Significant Accounting Policies

a. Reporting Entity

The Special Public Works Fund (SPWF) was created on July 1, 1985 as a program of the Intergovernmental Relations Division of the Executive Department. The program was subsequently transferred to the Oregon Economic and Community Development Department (department) on July 1, 1987. The department is a part of the State of Oregon reporting entity. The SPWF program operates under the provisions of sections 285B.410 through 285B.482 of the *Oregon Revised Statutes* (ORS). The SPWF program makes loans and grants to cities, counties, port districts, and special districts for public infrastructure needed to support industrial and commercial development.

b. Basis of Presentation

The SPWF program is accounted for as 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.

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 related liabilities are incurred. All assets and liabilities associated with the operations of this fund are included on the balance sheet. Equity in the Fund is reported as Net Assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in Net Assets.

Notes to the Financial Statements (continued)
June 30, 2002

The SPWF distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Fund's primary mission as defined in ORS 285B.410 through 285B.482. Program revenues include interest earned on loans for infrastructure projects, interest earned on cash and cash equivalents in cash accounts, and interest earned on investments. Principal operating expenses include interest paid on Oregon Bond Bank bonds outstanding, salaries and wages, services and supplies, and special payments (infrastructure construction grants). All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. SPWF nets all internal activity between program funds used to document legal and fiduciary accountability.

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. The Commission reviews and approves a biennial Allocation Plan, which establishes biennial targets for allocation within the Fund. The program's actual expenditures are monitored against approved budgets, quarterly allotments, and cash balances. Limitations lapse at the end of the biennium. The Emergency Board of the Legislature approves any necessary increases in budgets during the interim. The SPWF has continuous spending authority in ORS285B.455.

e. 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 are reported on the financial statements at fair value. Investments classified as cash equivalents are valued at amortized cost. Changes in the fair value of investments are recognized as investment income (loss) for the year (see Note 2). 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.

f. Receivables

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 loans in default. If a borrower does default, the charge will be taken in the year of default.

Notes to the Financial Statements (continued)
June 30, 2002

Loans Receivable:

Through June 30

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Number of Loans Outstanding	242	226	211
Total Amount Outstanding	<u>\$135,271,849</u>	<u>\$117,490,347</u>	<u>\$87,647,822</u>

g. Restricted Assets

Restricted assets consist of:

- Cash and investments held by trustees, either as security for or payment of revenue bonds of the fund;
- Cash held by the fund, which consists of proceeds from bond sales on behalf of governmental units within the State of Oregon. Since these proceeds, and interest earned thereon, will ultimately be disbursed to the governmental units either as reimbursement for project expenditures or for debt service on the bonds, they are classified as restricted assets; and
- Undisbursed proceeds of Lottery Bond sales, which are restricted for infrastructure projects by bond covenants.

In the event both restricted and unrestricted assets were available for an expenditure, restricted assets would be used first.

h. Compensated Absences

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of the SPWF as the benefits accrue to the employees. No liability is recorded for nonvesting, accumulated sick pay benefits.

i. 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 of \$129,895 are presented as a reduction of the face amount of bonds payable, premiums of \$7,472 are presented as an addition to the face amount of bonds payable, and issuance costs of \$1,184,222 are presented as deferred charges. The fund currently does not have any liability for arbitrage. Governmental units that the fund provides financing for are responsible for any arbitrage liability incurred on the loans provided.

Notes to the Financial Statements (continued)
June 30, 2002

2. Cash, Cash Equivalents, and Investments

Cash and cash equivalents and cash and cash equivalents – restricted reported on the Balance Sheet include \$56,011,773 representing the SPWF’s equity in the State Treasurer’s Oregon Short-Term Fund (OSTF). The book value of deposits does not differ materially from the bank balance of deposits. OSTF operates as an internal investment pool for state agencies that 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.

Oregon Revised Statutes and the Oregon Investment Council govern OSTF investments. OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company.

Reported balances in OSTF include \$31,238,418 which represents bond proceeds and collateral loan monies held by the department on behalf of SPWF borrowers and Lottery Bond funds which are restricted for infrastructure projects and is classified as restricted cash on the balance sheet, and \$926,741 which represents interest earnings on the bond proceeds and collateral loan monies held by the department on behalf of SPWF borrowers and is classified as short-term trust funds payable on the balance sheet.

Cash and cash equivalents – restricted reported on the Balance Sheet also include \$2,810,075 representing deposits in financial institutions by the department’s bond trustee. The first \$100,000 of the combined deposits of the SPWF and Water Fund were covered by federal depository insurance at fiscal year end; the balance of the funds held by the Bank of New York are backed by the faith and credit of the Bank of New York, and are neither insured nor collateralized.

The SPWF investments reported as Investments-Restricted 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 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, 2002, the SPWF investment balances were as follows:

	1	<u>Category</u> 2	3	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
U.S. Government Securities	<u>\$4,206,536</u>	–	–	<u>\$4,206,536</u>	<u>\$4,206,536</u>
Totals	<u><u>\$4,206,536</u></u>			<u><u>\$4,206,536</u></u>	<u><u>\$4,206,536</u></u>

Notes to the Financial Statements (continued)
June 30, 2002

The restricted cash and investment balance includes \$4,211,041, 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 were established to meet certain requirements, and the balances of these accounts as of June 30, 2002 were materially sufficient to meet these legal requirements.

As part of the 1993 Series C and 1996 Series A bond sales, the Cities of McMinnville and Corvallis contributed \$243,731 and \$151,067, respectively, of their bond proceeds to the department's debt service reserve fund. The department will refund this money to the Cities on the final maturity dates of the bond issues provided that the money has not been needed by the department to meet debt service obligations. Therefore, \$394,798 of cash and investments represents this contribution and is classified as long-term trust funds payable on the balance sheet.

3. Bonds Issued and Outstanding

Since inception and commencing in February 1991, the Oregon Bond Bank has issued \$145,630,000 in revenue bonds on behalf of the SPWF Program, of which \$42,255,000 was retired or refunded and \$103,375,000 was outstanding as of June 30, 2002. Bonds are issued for infrastructure projects. The Bonds Payable on the balance sheet is recorded net of any original issue discounts or premiums.

The following table summarizes the total bonds issued by series with bonds outstanding as of June 30, 2002.

<u>Series Issued</u>		<u>Original Issue</u>		<u>Beginning Balance</u>	<u>Bonds Outstanding</u>			<u>Due Within One Year</u>
		<u>Interest Range</u>	<u>Amount</u>		<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	
1991 Series A	1992 – 2011	5.00 – 6.70%	\$ 4,165,000	\$ –	\$ –	\$ –	\$ –	\$ –
1991 Series B	1993 – 2011	4.90 – 6.80%	\$ 5,395,000	\$ –	\$ –	\$ –	\$ –	\$ –
1992 Series A	1993 – 2012	3.25 – 6.40%	\$ 5,995,000	\$ –	\$ –	\$ –	\$ –	\$ –
1992 Series B	1994 – 2013	3.50 – 6.35%	\$ 5,595,000	\$ –	\$ –	\$ –	\$ –	\$ –
1992 Series C	1994 – 2013	3.60 – 6.45%	\$ 890,000	\$ –	\$ –	\$ –	\$ –	\$ –
1993 Series A	1994 – 2013	2.80 – 5.50%	\$ 21,610,000	\$ 13,805,000	\$ –	\$ 1,945,000	\$ 11,860,000	\$ 1,190,000
1993 Series B	1994 – 2013	5.75 – 7.75%	\$ 955,000	\$ 715,000	\$ –	\$ 40,000	\$ 675,000	\$ 40,000
1993 Series C	1995 – 2014	3.20 – 5.38%	\$ 11,815,000	\$ 8,975,000	\$ –	\$ 1,110,000	\$ 7,865,000	\$ 490,000
1994 Series A	1996 – 2015	5.00 – 6.00%	\$ 5,690,000	\$ 4,570,000	\$ –	\$ 225,000	\$ 4,345,000	\$ 235,000
1995 Series A	1997 – 2016	3.90 – 5.75%	\$ 4,755,000	\$ 4,060,000	\$ –	\$ 205,000	\$ 3,855,000	\$ 210,000
1996 Series A	1998 – 2017	4.10 – 5.50%	\$ 6,000,000	\$ 5,380,000	\$ –	\$ 230,000	\$ 5,150,000	\$ 235,000
1997 Series A	1999 – 2018	3.95 – 5.20%	\$ 7,580,000	\$ 6,955,000	\$ –	\$ 230,000	\$ 6,725,000	\$ 240,000
1998 Series A	1999 – 2015	4.25 – 5.00%	\$ 3,790,000	\$ 3,560,000	\$ –	\$ 115,000	\$ 3,445,000	\$ 125,000
1999 Series A	2000 – 2024	4.25 – 5.25%	\$ 580,000	\$ 510,000	\$ –	\$ 40,000	\$ 470,000	\$ 40,000
2000 Series A	2001 – 2025	5.25 – 5.625%	\$ 37,280,000	\$ 36,650,000	\$ –	\$ 705,000	\$ 35,945,000	\$ 805,000
2000 Series B	2002 – 2026	4.45 – 5.50%	\$ 17,235,000	\$ 17,235,000	\$ –	\$ 495,000	\$ 16,740,000	\$ 520,000
2002 Series A	2003 – 2028	3.00 – 5.15%	\$ 6,300,000	\$ –	\$ 6,300,000	\$ –	\$ 6,300,000	\$ 280,000
			<u>\$ 145,630,000</u>	<u>\$ 102,415,000</u>	<u>\$ 6,300,000</u>	<u>\$ 5,340,000</u>	<u>\$ 103,375,000</u>	<u>\$ 4,410,000</u>

Notes to the Financial Statements (continued)
June 30, 2002

4. Debt Defeased in Substance

Due to the advanced refunding in July 1993, five bond issues have been considered to be defeased in substance. Two of these, 1991 Series A and 1991 Series B, were called in January 1999. 1992 Series A was called in January 2000, and 1992 Series B was called in January 2001. The following table summarizes the amount of debt outstanding as of June 30, 2002.

Series Issued	<u>Bonds Issued</u>	<u>Defeased Bonds Outstanding</u>
1992 Series C	<u>\$890,000</u>	<u>\$605,000</u>
Totals	<u>\$890,000</u>	<u>\$605,000</u>

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, 2002, for each year during the next five-year period ending June 30, 2007, and in five year increments thereafter.

	<u>Year Ending June 30</u>		<u>Revenue Bonds</u>	
	Principal	Interest	Total	
2003	\$ 4,410,000	\$ 5,427,707	\$ 9,837,707	
2004	4,730,000	5,231,534	9,961,534	
2005	5,020,000	5,000,106	10,020,106	
2006	5,285,000	4,751,989	10,036,989	
2007	5,525,000	4,486,829	10,011,829	
2008 – 2012	28,495,000	18,143,149	46,638,149	
2013 – 2017	24,315,000	10,745,654	35,060,654	
2018 – 2022	16,955,000	4,972,603	21,927,603	
2023 – 2027	<u>8,640,000</u>	<u>1,063,063</u>	<u>9,703,063</u>	
Total	<u>\$103,375,000</u>	<u>\$59,822,634</u>	<u>\$163,197,634</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

Department employees participate in the Oregon Public Employee's Retirement System (PERS), a statewide-defined benefit retirement plan for units of state government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the Public Employees Retirement Board (Board) under the guidelines of Chapter 238 of the *Oregon Revised Statutes*, and it provides retirement and disability

Notes to the Financial Statements (continued)
June 30, 2002

benefits, post-employment health care 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 the Board, based on the required actuarially determined rate, establishes State employer contributions.

As of June 30, 2002, employees of state agencies are required to contribute 6 percent of their salary to the plan and their State employers are required to contribute 9.49 percent. Current law permits employers to pay employee contributions to the retirement fund.

The employer contributions paid to PERS for SPWF for the years ended June 30, 2002, 2001 and 2000 were approximately \$57,000, \$53,000 and \$59,000, respectively, and were equal to the required contributions for each year.

7. Commitments

Projects awarded funds but not disbursed by June 30, 2002:

<u>Number of Projects</u>	<u>Funds Committed</u>
69	\$51,086,464

8. Subsequent Events

In November 2002 the Department issued an additional \$28,825,000 in revenue bonds (2002 Series B), with \$25,200,000 allocated to the SPWF bond program and the remaining \$3,625,000 to the Water Fund bond program.

9. Adoption of New Accounting Standards

During the fiscal year ended June 30, 2002, the State implemented several new accounting standards issued by the Governmental Accounting Standards Board. Statement No. 34, *Basic Financial Statements – and Management’s Discussion and*

Notes to the Financial Statements (continued)
June 30, 2002

Analysis – for State and Local Governments, as amended by Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government: Omnibus*, establishes new financial reporting standards for state and local governments. This statement’s requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types and account groups.

OTHER REPORTS



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Marty Brantley, Director
Oregon Economic and Community
Development Department
775 Summer Street NE
Salem, Oregon 97301

**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 Special Public Works Fund (SPWF), an enterprise fund of the State of Oregon, Economic and Community Development Department (department), as of and for the year ended June 30, 2002, and have issued our report thereon dated March 13, 2003. 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 SPWF financial statements are free of material misstatement, we performed tests of the SPWF'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 have 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 our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 internal control over financial reporting and its operation 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 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 13, 2003

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Deputy Director Charles A. Hibner, CPA
Deputy Director Mary E. Wenger, CPA

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Michelle L. Rock, CPA
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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.

Auditing to Protect the Public Interest and Improve Oregon Government

