
Secretary of State

An Enterprise Fund of the
State of Oregon

**OREGON ECONOMIC AND COMMUNITY
DEVELOPMENT DEPARTMENT**

Water 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**

Water 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) 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 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

April 1, 2003

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SUMMARY

AUDIT PURPOSE

The audit was conducted for the purpose of expressing an opinion on the Water Fund's 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 Water Fund'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 Water Fund program was created in 1993 by the Oregon Legislature 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. Project 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 and 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*.

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 Water Fund program includes lottery proceeds, revenue bonds, loan repayments, and interest earnings. During the year ended June 30, 2002, the Water Fund received lottery bond proceeds of \$8.5 million, issued revenue bonds totaling \$1.6 million, and had operating revenue of \$3.9 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 \$28.3 million in lottery proceeds, \$24.3 million in lottery bond proceeds and has issued \$67.2 million in revenue bonds, of which \$5.4 million has been advance refunded. As of June 30, 2002, total bonds outstanding were \$54.8 million.

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.

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 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, 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 Water 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 Water 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 April 1, 2003, 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, 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 Other Reports section of this report.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

April 1, 2003

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

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 11,657,847
Interest Receivable	1,771,329
Accrued Interest Purchased	4,221
Due from Other Funds	100,000

<i>Total Current Assets</i>	13,533,397
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	35,893,869
Restricted Investments	1,074,507
Deferred Charges	630,432
Loans Receivable	52,086,672

<i>Total Noncurrent Assets</i>	89,685,480
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Total Assets	\$ 103,218,877
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 25,998
Interest Payable – Bonds	1,397,635
Due to Other Governments	453,791
Bonds Payable	2,180,000
Trust Funds Payable	1,712,957
Compensated Absences Payable	17,918

<i>Total Current Liabilities</i>	5,788,299
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Noncurrent Liabilities:

Bonds Payable	52,569,366
Trust Funds Payable	384,758

<i>Total Noncurrent Liabilities</i>	52,954,124
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Total Liabilities	58,742,423
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Net Assets:

Restricted for Infrastructure Projects	35,893,869
Restricted for Debt Service	1,074,507
Unrestricted	7,508,078

<i>Total Net Assets</i>	44,476,454
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Total Liabilities and Net Assets	\$ 103,218,877
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The accompanying notes are an integral part of the financial statements.

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

Operating Revenues:	
Interest Income on Loans	\$ 3,592,771
Interest Income on Cash and Cash Equivalents	241,384
Investment Income	46,470
Total Operating Revenues	3,880,625
 Operating Expenses:	
Salaries and Wages	391,603
Services and Supplies	169,514
Special Payments – Grants	2,174,652
Bond Interest	2,740,938
Amortization Expense	101,390
Total Operating Expenses	5,578,097
Operating Income (Loss)	(1,697,472)
Income (Loss) Before Transfers	(1,697,472)
Operating Transfers-in, Lottery Bond Proceeds	8,553,148
Change in Net Assets	6,855,676
Net Assets - Beginning	37,620,778
 Net Assets - Ending	 \$ 44,476,454

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

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

Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 2,716,437
Loan Interest Received	3,889,741
Payments to Employees for Services	(395,496)
Payments to Suppliers	(196,419)
Loans Made	(9,187,743)
Grants Made	(2,240,472)
Other Receipts (Payments)	79,471
Net Cash Provided (Used) in Operating Activities	<u>(5,334,481)</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds From Oregon Bond Bank Sales	1,550,000
Principal Payments on Oregon Bond Bank Bonds	(2,060,000)
Interest Payments on Oregon Bond Bank Bonds	(3,078,300)
Oregon Bond Bank Issuance Costs	(40,949)
Transfers from Other Funds	15,076,783
Transfers to Other Funds	(6,523,634)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>4,923,900</u>
Cash Flows From Investing Activities:	
Sales of Investments	1,342,509
Purchases of Investments	(1,088,710)
Interest on Investments and Cash Balances	310,160
Net Cash Provided (Used) in Investing Activities	<u>563,959</u>
Net Increase (Decrease) in Cash and Cash Equivalents	153,378
Cash and Cash Equivalents – Beginning	47,398,338
Cash and Cash Equivalents – Ending	<u><u>\$ 47,551,716</u></u>
<hr/>	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (1,697,472)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used)	
By Operating Activities:	
Amortization Expense	101,390
Interest Income on Cash and Cash Equivalents	(241,384)
Investment Income	(46,470)
Interest Payments Reported as Operating Expenses	2,740,938
Net Change in Assets/Liabilities	
Decrease in Interest Receivable	301,190
Increase in Accrued Interest Purchased	(4,221)
Increase in Loans Receivable	(6,471,307)
Increase in Accounts Payable	9,401
Decrease in Due to Other Governments	(65,820)
Increase in Compensated Absences Payable	7,963
Increase in Trust Funds Payable	31,311
Total Adjustments	<u>(6,191,483)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (5,334,481)</u></u>
Noncash Investing and Capital and Related Financing Activities:	
Net change in Fair Value of Investments	\$ (22,305)
Total Noncash Investing and Capital and Related Financing Activities	<u><u>\$ (22,305)</u></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, 2002

1. Summary of Significant Accounting Policies

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). 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.

a. Reporting Entity

The Water Fund (WF) was created in 1993 as a fund within the Oregon Economic and Community Development Department (Department), which is a part of the State of Oregon reporting entity. The WF operates under the provisions of sections 285B.560 through 285B.599 of the *Oregon Revised Statutes* (ORS). The legislation was primarily intended to provide funding to municipalities to assist in the compliance of the Safe Drinking Water Act and the Clean Water Act. As a result, moneys in the WF are to be used to finance loans and grants to municipalities for the construction and improvement of water and waste water collection systems in order to provide safe drinking water and appropriate disposal of waste water for Oregon residents.

b. Basis of Presentation

The WF 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 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 Net Assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets.

Water Fund 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 Water

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

Fund's primary mission as defined in ORS 285B.560 to 285B.599. Water Fund's program revenues include interest earned on Water Fund loans for infrastructure projects, interest earned on cash and cash equivalents in Water Fund's cash accounts, and interest earned on Water Fund's 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. Water Fund 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. These monies are to be distributed to the Regional Development, Industry Development, Ports, Community Development, and Strategic Reserve Fund programs based on the needs of each program as determined by the Oregon Economic and Community Development Commission rather than through the direction of the Legislature. The program's actual expenditures are monitored against approved budgets, quarterly allotments, and cash balances. Limitations lapse at the end of the biennium. Any necessary increases in budgets are approved by the Emergency Board of the Legislature during the interim. The WF has continuous spending authority in ORS 285B.563.

e. Bond Discounts, 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, 2002, Bond Discount and Bond Premium are \$48,059 and \$7,425, 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 are reported on the financial statements at fair value. Changes in the fair value of investments are recognized as investment income (loss). 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

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

Loans Receivable:

	<u>Through June 30</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Number of Loans Outstanding	65	57	45
Total Amount Outstanding	<u>\$52,086,672</u>	<u>\$45,615,365</u>	<u>\$36,976,379</u>

h. Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the Water Fund does not pay any amounts when employees separate from service. Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation upon termination. Accumulated vacation leave for Water Fund employees is recorded as an expense and a liability as the benefits accrue to the employee.

i. Restricted Assets and Investments

Water Fund issues Oregon Bond Bank Revenue Bonds to finance infrastructure construction projects. Cash is deposited with the Bond Bank trustee, Bank of New York, to pay debts service on the bond bank obligations. Bank of New York invests some of the cash in U S Treasury notes and the remaining cash in money market accounts. This cash and investments are restricted for payment of Oregon Bond Bank debt service obligations. Proceeds from the sale of Oregon Bond Bank Revenue Bonds, plus Water Fund collateral loan cash are deposited to cash accounts setup in the name of the loan recipient at the Oregon State Treasury. These funds are restricted to the payment of construction expenses incurred by the loan recipient.

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

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

2. Cash, Cash Equivalents, and Investments

Cash and cash equivalents reported on the Balance Sheet of \$11,657,847 represents Water Fund'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 as an investment company govern OSTF investments. OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company.

Restricted Cash and Cash Equivalents and Restricted Investments reported on the Balance Sheet include \$1,459,675, in cash and cash equivalents, and \$1,074,507, in US Government securities, representing deposits with the Bank of New York, the department's bond trustee. These assets are restricted to payment of debt service on Oregon Bond Bank Bonds. These deposits are entirely covered by federal depository insurance during fiscal year ended June 30, 2002.

Restricted cash and cash equivalents balance includes \$34,434,193 of cash held at OSTF on behalf of Water Fund customers who have Oregon Bond Bank loans. Of this balance \$1,712,957, represents interest earnings on Oregon Bond Bank bond proceeds and collateral loans held by the department on behalf of WF borrowers.

The WF investments are categorized below to give an indication of the level of risk assumed by the Department at year-end. **Category 1** includes investments that are insured or registered, or securities held by the Department or its agent in the Department's name. **Category 2** includes uninsured and unregistered investments, with securities held by the counter party's trust department or agent in the Department's name. **Category 3** includes uninsured and unregistered investments, with securities held by the counter party or by its trust department or agent but not in the Department's name.

As of June 30, 2002, the WF investment balances were as follows:

	Risk Category			<u>Reported Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government Securities	<u>\$1,074,507</u>	—	—	<u>\$1,074,507</u>	<u>\$1,074,507</u>
Totals	<u>\$1,074,507</u>	—	—	<u>\$1,074,507</u>	<u>\$1,074,507</u>

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

The Department's Oregon Bond Bank debt service reserve accounts are included in the restricted cash and cash equivalent and restricted investment account balances. These accounts are restricted as to purpose and use by the Bond Declarations and Indentures of Trust. These reserve accounts were established to meet certain legal requirements. The balance of these accounts, \$2,534,182, as of June 30, 2002, is sufficient to meet 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 WF infrastructure projects. The liability to these cities is classified as Noncurrent Trust Funds Payable on the balance sheet.

3. Bonds Issued and Outstanding

Since the inception and commencing in November 1994, the Oregon Bond Bank has issued \$67,195,000 in revenue bonds, of which \$5,415,000 was refunded, and \$54,790,000 is outstanding as of June 30, 2002. Bonds are issued for infrastructure projects. Bonds Payable on the balance sheet is recorded net of any original issue discounts/premiums. The following table summarizes bonds outstanding as of June 30, 2002.

OREGON BOND BANK REVENUE BONDS WATER FUND									
Amount of Bonds Issued					Bonds Outstanding				
Series Issued	Due Dates	Interest Range		Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1994 Series One	1999–2015	4.60%	6.70%	\$8,110,000	\$1,135,000		\$310,000	\$ 825,000	\$ 325,000
1996 Series One	1997–2016	3.50%	5.50%	10,665,000	8,835,000		420,000	8,415,000	430,000
1996 Series Two	1997–2016	4.20%	5.50%	2,400,000	2,205,000		105,000	2,100,000	110,000
1997 Series A	1998–2018	3.95%	5.10%	2,940,000	2,660,000		100,000	2,560,000	100,000
1998 Series A	1999–2023	4.25%	5.00%	2,210,000	2,060,000		65,000	1,995,000	65,000
1998 Series B	1999–2015	4.10%	4.75%	6,105,000	5,880,000		60,000	5,820,000	60,000
1999 Series A	2000–2024	4.25%	5.25%	6,470,000	6,175,000		155,000	6,020,000	160,000
2000 Series A	2001–2025	5.25%	5.625%	9,960,000	9,565,000		410,000	9,155,000	440,000
2000 Series B	2001–2026	4.45%	5.50%	16,785,000	16,785,000		435,000	16,350,000	450,000
2002 Series A	2002–2027	3.00%	5.00%	1,550,000		1,550,000		1,550,000	40,000
Total				\$67,195,000	\$55,300,000	\$1,550,000	\$2,060,000	\$54,790,000	\$2,180,000

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

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 of June 30, 2002 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, 2002, for each year during the next five-year period ending June 30, 2007, and in five year increments for the succeeding periods from July 1, 2007, to June 30, 2027.

Oregon Bond Bank Bonds

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2003	\$2,180,000	\$2,790,975
2004	2,310,000	2,688,998
2005	2,415,000	2,581,043
2006	2,525,000	2,467,219
2007	2,650,000	2,347,036
2008 – 2012	14,390,000	9,693,425
2013 – 2017	14,175,000	5,913,428
2018 – 2022	8,870,000	2,811,949
2023 – 2027	5,275,000	663,456
Total	<u>\$54,790,000</u>	<u>\$31,957,529</u>

The interest stated above includes coupon interest the Department expects to pay over the life of the bonds outstanding. Coupon interest is paid semi-annually on January 1 and July 1.

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, post employment health care benefits, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. For units of state government, community colleges, and school districts, participation in the PERS cost-sharing multiple-employer plan is mandatory.

The PERS defined benefit retirement plan is reported in a pension trust fund of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

The PERS funding policy provides for plan contributions to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute, and State employer contributions are established by the Board, based on the required actuarially determined rate. As of June 30, 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 by the WF for the years ended June 30, 2002, 2001, and 2000, were approximately \$28,127, \$19,269, and \$19,024, respectively, and were equal to the required contributions for each year.

7. Commitments

The Department has awarded, but not distributed, \$46.9 million to various water and wastewater infrastructure projects within the state of Oregon.

8. Subsequent Events

In November 2002, the Department issued \$28,825,000 in Oregon Bond Bank revenue bonds (2002 Series B). Bonds totaling \$3,625,000 were allocated to the Water Fund program. The remaining bonds were allocated to the Special Public Works Fund program.

9. Changes in Accounting Principles

During the fiscal year ended June 30, 2002, the Water Fund implemented several new accounting standards issued by the Governmental Accounting and Standards Board. Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by Statement 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
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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 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, 2002, and have issued our report thereon dated April 1, 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 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, 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*. 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 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 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 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

April 1, 2003

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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.

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