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Secretary of State

An Enterprise Fund of the  
State of Oregon  
**OREGON ECONOMIC AND COMMUNITY  
DEVELOPMENT DEPARTMENT**  
**Special Public Works Fund and Water Fund**  
For the Fiscal Year Ended June 30, 2003



Audits Division

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State of Oregon

**OREGON ECONOMIC AND COMMUNITY  
DEVELOPMENT DEPARTMENT**

**Special Public Works Fund and Water Fund**

For the Fiscal Year Ended June 30, 2003



**Audits Division**

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*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 and 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, 2003, 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  
State Auditor



# TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report .....	3
Financial Statements	
Balance Sheet – June 30, 2003 .....	5
Statement of Revenues, Expenses and Changes in Fund Net Assets – For the Fiscal Year Ended June 30, 2003 .....	7
Statement of Cash Flows – For the Fiscal Year Ended June 30, 2003 .....	9
Notes to Financial Statements.....	11
OTHER REPORTS	
Independent Auditor's Report on Compliance and Internal Control.....	21



## **FINANCIAL SECTION**





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*Auditing for a Better Oregon*

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775 Summer Street NE  
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### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Special Public Works Fund (SPWF) and Water Fund (WF), enterprise funds of the State of Oregon, Economic and Community Development Department (department), as of and for the year ended June 30, 2003, 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 SPWF and WF 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, 2003, and the changes in financial position and 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 SPWF and WF as of June 30, 2003, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2004, on our consideration of the SPWF's and WF's internal control over financial reporting and on our tests of 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 as listed in the table of contents.

OREGON AUDITS DIVISION

Bill Bradbury  
Secretary of State

March 23, 2004

STATE OF OREGON  
**OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT**  
**SPECIAL PUBLIC WORKS FUND AND WATER FUND**  
**ENTERPRISE FUNDS**  
**BALANCE SHEET**  
JUNE 30, 2003

	SPWF	WF	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 45,613,840	\$ 25,687,027	\$ 71,300,867
Interest Receivable	4,803,318	1,909,939	6,713,257
Due to Other Funds	-	100,000	100,000
<b>Total Current Assets</b>	<b>50,417,158</b>	<b>27,696,966</b>	<b>78,114,124</b>
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	17,326,362	24,705,759	42,032,121
Investments - Restricted	4,107,232	1,088,319	5,195,551
Deferred Expenditures	1,485,652	641,207	2,126,859
Loans Receivable	166,421,559	58,184,272	224,605,831
<b>Total Noncurrent Assets</b>	<b>189,340,805</b>	<b>84,619,557</b>	<b>273,960,362</b>
<b>TOTAL ASSETS</b>	<b>\$ 239,757,963</b>	<b>\$ 112,316,523</b>	<b>\$ 352,074,486</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts Payable	\$ 101,528	\$ 20,429	\$ 121,957
Interest Payable - Bonds	3,299,221	1,439,619	4,738,840
Due to Other Governments	355,164	868,257	1,223,421
Bonds Payable – Short Term	5,620,000	2,405,000	8,025,000
Trust Funds Payable – Short Term	774,790	1,765,930	2,540,720
Compensated Absences Payable	29,432	17,386	46,818
<b>Total Current Liabilities</b>	<b>10,180,135</b>	<b>6,516,621</b>	<b>16,696,756</b>
Noncurrent Liabilities:			
Bonds Payable	117,919,341	53,786,122	171,705,463
Trust Funds Payable	394,798	384,758	779,556
<b>Total Noncurrent Liabilities</b>	<b>118,314,139</b>	<b>54,170,880</b>	<b>172,485,019</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 128,494,274</b>	<b>\$ 60,687,501</b>	<b>\$ 189,181,775</b>
Net Assets:			
Restricted for Debt Service	3,776,455	717,182	4,493,637
Restricted for Infrastructure projects	13,996,605	22,587,806	36,584,411
Unrestricted	93,490,629	28,324,034	121,814,663
<b>TOTAL NET ASSETS</b>	<b>111,263,689</b>	<b>51,629,022</b>	<b>162,892,711</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 239,757,963</b>	<b>\$ 112,316,523</b>	<b>\$ 352,074,486</b>

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



STATE OF OREGON  
**OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT**  
**SPECIAL PUBLIC WORKS FUND AND WATER FUND**  
**ENTERPRISE FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	SPWF	WF	Total
OPERATING REVENUES:			
Loan Interest Income	\$ 8,640,743	\$ 3,751,766	\$ 12,392,509
Interest Income on Cash and Cash Equivalents	743,672	498,324	1,241,996
Investment Income	201,566	54,178	255,744
Other Income	83,998	-	83,998
<b>TOTAL OPERATING REVENUES</b>	<b>9,669,979</b>	<b>4,304,268</b>	<b>13,974,247</b>
 OPERATING EXPENSES:			
Salaries and Wages	1,138,745	466,931	1,605,676
Services and Supplies	479,737	323,107	802,844
Special Payments – Grants	3,623,227	3,590,275	7,213,502
Debt Service	6,111,348	2,892,931	9,004,279
<b>TOTAL OPERATING EXPENSES</b>	<b>11,353,057</b>	<b>7,273,244</b>	<b>18,626,301</b>
 <b>OPERATING INCOME (LOSS)</b>	<b>(1,683,078)</b>	<b>(2,968,976)</b>	<b>(4,652,054)</b>
Transfers from Other Funds, Lottery Bond Proceeds	18,059,475	11,799,999	29,859,474
Transfers to Other Funds, SPWF to Water Fund	(623,785)	623,785	-
Transfers to Other Funds, Water Fund to Safe Drinking Water	-	(2,302,240)	(2,302,240)
<b>CHANGE IN NET ASSETS</b>	<b>15,752,612</b>	<b>7,152,568</b>	<b>22,905,180</b>
<b>Net Assets—Beginning</b>	<b>95,511,077</b>	<b>44,476,454</b>	<b>139,987,531</b>
<b>NET ASSETS—ENDING</b>	<b>\$ 111,263,689</b>	<b>\$ 51,629,022</b>	<b>\$ 162,892,711</b>

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



STATE OF OREGON  
**OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT**  
**SPECIAL PUBLIC WORKS FUND AND WATER FUND**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	SPWF	WF	Total
<b>Cash Flows From Operating Activities:</b>			
Loan Principal Repayments	\$ 9,785,965	\$ 3,445,281	\$ 13,231,246
Loan Interest Received	8,120,985	3,617,376	11,738,361
Payments to Employees for Services	(1,136,988)	(470,956)	(1,607,944)
Payments to Suppliers	(400,708)	(265,132)	(665,840)
Grants Made	(4,136,364)	(3,211,309)	(7,347,673)
Loans Made	(40,935,675)	(9,542,881)	(50,478,556)
Other Receipts (Payments)	83,998	52,973	136,971
Net Cash Provided (Used) in Operating Activities	(28,618,787)	(6,374,648)	(34,993,435)
<b>Cash Flows from Noncapital Financing Activities:</b>			
Proceeds from Bond Sales	25,200,000	3,625,000	28,825,000
Principal Payments on Bonds	(4,825,300)	(2,180,000)	(7,005,300)
Interest Payments on Bonds	(5,465,614)	(2,787,199)	(8,252,813)
Bond Issuance Costs	(499,916)	(102,319)	(602,235)
Transfers from Other Funds	43,363,367	21,110,538	64,473,905
Transfers to Other Funds	(25,927,678)	(10,988,992)	(36,916,670)
Net Cash Provided (Used) in Noncapital Financing Activities	31,844,859	8,677,028	40,521,887
<b>Cash Flows From Investing Activities:</b>			
Purchases of Investments	(4,108,253)	(2,848,426)	(6,956,679)
Proceeds from Sales and Maturities of Investments	4,263,161	2,848,817	7,111,978
Interest on Investments and Cash Balances	737,374	538,299	1,275,673
Net Cash Provided (Used) in Investing Activities	892,282	538,690	1,430,972
Net Increase (decrease) in Cash and Cash Equivalents	4,118,354	2,841,070	6,959,424
Cash and Cash Equivalents - Beginning	58,821,848	47,551,716	106,373,564
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 62,940,202</b>	<b>\$ 50,392,786</b>	<b>\$ 113,332,988</b>

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

Operating Income (Loss)	\$ (1,683,078)	\$ (2,968,976)	\$ (4,652,054)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Amortization of Bond Premium and Discount	42,840	14,192	57,032
Amortization of Bond Issuance Costs	98,067	45,476	144,543
Interest Income Reported as Operating Revenue	(945,238)	(552,502)	(1,497,740)
Interest Payments Reported as Operating Expense	5,970,440	2,833,478	8,803,918
Bond Issue Costs Reported as Operating Expense	41,955	24,334	66,289
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(671,708)	(134,388)	(806,096)
Loans Receivable	(31,149,710)	(6,097,600)	(37,247,310)
Accounts Payable	37,070	(5,569)	31,501
Due to Other Governments	(513,137)	414,466	(98,671)
Trust Funds Payable	151,950	52,973	204,923
Compensated Absences Payable	1,762	(532)	1,230
Total Adjustments	(26,935,709)	(3,405,672)	(30,341,381)
Net Cash Provided (Used) by Operating Activities	\$ (28,618,787)	\$ (6,374,648)	\$ (34,993,435)

**Noncash Investing and Capital and Related Financing Activities:**

Net change in Fair Value of Investments	\$ 55,604	\$ 14,203	\$ 69,807
Total Noncash Investing and Capital and Related Financing Activities	\$ 55,604	\$ 14,203	\$ 69,807

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



STATE OF OREGON  
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT  
SPECIAL PUBLIC WORKS FUND AND WATER FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

**1. Summary of Significant Accounting Policies**

The accompanying financial statements of the Oregon Economic and Community Development Department's Special Public Works Fund (SPWF) and Water Fund (WF) 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 SPWF and WF do 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**

A major focus of the Oregon Economic and Community Development Department (department) is to help communities build and maintain public infrastructure such as sewers, safe drinking water systems and community facilities, and to enhance livability and economic prosperity for Oregon. Good public infrastructure is necessary to support current and future business and jobs.

The department achieves these goals, in part, through the programs of the SPWF and the WF. The financial statements report the financial activity of the SPWF and WF. The SPWF and WF are part of the State of Oregon reporting entity and are included in Oregon's comprehensive annual financial report.

The 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 department on July 1, 1987. 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.

The WF was created in 1993 as a program within the department. The WF program operates under the provisions of sections 285B.560 through 285B.599 of the 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, the WF program makes loans and grants to municipalities for the construction and improvement of water and wastewater collection systems in order to provide safe drinking water and appropriate disposal of wastewater for Oregon residents.

**b. Basis of Presentation**

The SPWF and WF are accounted for as Enterprise Funds, a proprietary fund type. Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises.

**c. Measurement Focus of Accounting 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 the SPWF and WF are included on the balance sheet. Equity is reported as Net Assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets.

The SPWF and WF distinguish operating revenues and expenses from non-operating revenues and expenses. All revenue is considered operating revenue, with the exception of transfers from or to other funds. All expenses are considered operating expenses except Gain (Loss) on Disposition of Assets. The SPWF and WF program revenues include interest earned on loans for infrastructure project loans, interest earned on cash and cash equivalents in cash account, 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. The SPWF and WF net all internal activity between program funds.

**d. Budgetary Accounting**

The State of Oregon's budgets are approved on a biennial basis by the Oregon Legislature. For each biennium, the Legislature allocates Lottery funds and Lottery bond proceeds to the Oregon Community Development Fund (CDF). The Oregon Economic and Community Development Commission reviews and approves a biennial Allocation Plan, which establishes biennial targets for allocation within the CDF which include the SPWF and WF programs. The SPWF and WF program 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 and WF have continuous spending authority under ORS 285B.455 and 285B.563, respectively.

**e. Bond Discounts, Premiums and Issuance Costs**

Bond discounts, premiums and issuance costs for proprietary fund types are 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 underwriter's discount and issuance costs are presented as deferred charges. The SPWF and WF do not currently have any liability for arbitrage. Governmental units that the SPWF and WF provide financing for are responsible for arbitrage liability incurred on the loans.

**f. Cash, Cash Equivalents, and Investments (Includes Restricted)**

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) for the year. The fair value of debt and equity securities is determined by the custodial agent 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 at June 30 consisted of 314 loans totaling \$224,605,831. An allowance for uncollectible accounts was not established because the SPWF and WF programs have not had any defaults, and none are anticipated. If a borrower does default, the charge will be taken in the year of default.

**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 for employees is recorded as an expense and a liability of the SPWF and WF as the benefits accrue to the employee. No liability is recorded for accumulated sick pay benefits.

**i. Restricted Assets**

Restricted assets consists of:

- Cash and investments held by trustees, either as security for or payment of revenue bonds of the SPWF and WF, and
- Cash held by the SPWF and WF, 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.

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

## 2. Cash, Cash Equivalents, and Investments

Cash and cash equivalents and cash and cash equivalents - restricted reported on the Balance Sheet of \$107,885,277 includes the SPWF and WF equity in the State Treasurer's Oregon Short Term Fund (OSTF). The book value of deposits does not differ materially from the bank value 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.

State Treasurer demand deposit accounts and time certificates of deposit investments of the OSTF held in state banks are insured or collateralized in excess of Federal Deposit Insurance Corporation (FDIC) coverage for a minimum of 25 percent in accordance with ORS 295.025. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified as Cash and Cash Equivalents on the Statement of Net Assets. A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE, Suite 100, Salem, OR 97301-3896, or from the Secretary of State's web page at

<http://www.sos.state.or.us/audits/audreports/reports1.shtml>

*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.

Cash and cash equivalents—restricted and investments—restricted reported on the Balance Sheet include \$5,447,711 in cash and cash equivalents and \$5,195,551 in US Government securities, representing deposits in financial institutions with the department's bond trustee, the Bank of New York. The first \$100,000 of the combined deposits of the SPWF and WF were covered by federal depository insurance at the fiscal years end; the balance of the funds held by the trustee are backed by the faith and credit of the Bank of New York, and are neither insured nor collateralized.

The SPWF and 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.

**Notes to the Financial Statements (continued)**  
**June 30, 2003**

As of June 30, 2003, investment balances were as follows:

	Category			Reported Amount	Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government Securities	<u>\$5,195,551</u>	-	-	<u>\$5,195,551</u>	<u>\$5,195,551</u>
Totals	<u>\$5,195,551</u>			<u>\$5,195,551</u>	<u>\$5,195,551</u>

The restricted cash and investment balance includes \$7,383,753, which is recorded in the department's Debt Service Reserve Accounts. 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 requirements and the balances of these accounts as of June 30, 2003 were materially sufficient to meet these legal requirements.

**3. Bonds Issued and Outstanding**

Since the inception and commencing in February 1991 for the SPWF and November 1994 for the WF, the Oregon Bond Bank has issued \$241,650,000 in revenue bonds, of which \$61,685,000 has been retired or refunded. As of June 30, 2003, \$179,965,000 is outstanding. Bonds Payable on the balance sheet is recorded net of any original issue discounts and premiums. Bond discounts of \$248,276 and bond premiums of \$13,739 are included in Bonds Payable as of June 30, 2003. The following table summarizes bonds outstanding as of June 30, 2003.

OREGON BOND BANK REVENUE BONDS

Series Issued	Amount of Bonds Issued			Bonds Outstanding					
	Due Dates	Interest Range From	To	Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1993 Series A	1994-2013	2.80-	5.50%	\$21,610,000	\$11,860,000		\$1,450,000	\$10,410,000	\$1,220,000
1993 Series B	1998-2013	5.75-	7.75%	955,000	675,000		40,000	635,000	50,000
1993 Series C	1995-2014	3.20-	5.38%	11,815,000	7,865,000		665,000	7,200,000	505,000
1994 Series A	1996-2015	5.00-	6.00%	5,690,000	4,345,000		235,000	4,110,000	250,000
1994 Series One	1999-2015	4.60-	6.70%	8,110,000	825,000		325,000	500,000	30,000
1995 Series A	1997-2016	3.90-	5.75%	4,755,000	3,855,000		210,000	3,645,000	225,000

**Notes to the Financial Statements (continued)**  
**June 30, 2003**

1996 Series A	1998–2017	4.10–5.50%	6,000,000	5,150,000	235,000	4,915,000	245,000	
1996 Series One	1997–2016	3.50–5.50%	10,665,000	8,415,000	430,000	7,985,000	455,000	
1996 Series Two	2000–2016	4.20–5.50%	2,400,000	2,100,000	110,000	1,990,000	110,000	
1997 Series A	1999–2018	3.95–5.10%	10,520,000	9,285,000	340,000	8,945,000	415,000	
1998 Series A	1999–2023	4.25–5.00%	6,000,000	5,440,000	190,000	5,250,000	205,000	
1998 Series B	1999–2015	4.10–4.75%	6,105,000	5,820,000	60,000	5,760,000	380,000	
1999 Series A	2000–2024	4.25–5.25%	7,050,000	6,490,000	200,000	6,290,000	215,000	
2000 Series A	2001–2025	5.25–5.63%	47,240,000	45,100,000	1,245,000	43,855,000	1,360,000	
2000 Series B	2002–2026	4.45–5.50%	34,020,000	33,090,000	970,000	32,120,000	1,015,000	
2002 Series A	2003–2027	3.00–5.00%	7,850,000	7,850,000	320,000	7,530,000	320,000	
2002 Series B	2004–2028	3.00–4.75%	<u>28,825,000</u>	<u>0</u>	<u>28,825,000</u>	<u>0</u>	<u>28,825,000</u>	<u>1,025,000</u>
	Total		<u>\$219,610,000</u>	<u>\$158,165,000</u>	<u>\$28,825,000</u>	<u>\$7,025,000</u>	<u>\$179,965,000</u>	<u>\$8,025,000</u>

**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 amount of 1992 Series C defeased debt outstanding from the 1993 advanced refunding at June 30, 2003 is \$565,000.

In fiscal year 1999, \$5,415,000 of the Oregon Bond Bank 1994 Series One was advanced refunded. On January 2, 2003, the advanced refunding was called and is no longer outstanding.

**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, 2003, for each year during the next five-year period ending June 30, 2008, and in five year increments for the succeeding periods from July 1, 2008, to June 30, 2028.

**Oregon Bond Bank Bonds**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2004	\$8,025,000	\$9,192,801
2005	8,440,000	8,677,929
2006	8,840,000	8,286,761
2007	9,250,000	7,871,485
2008	9,140,000	7,432,049
2009–2013	49,415,000	30,128,604
2014–2018	42,130,000	17,980,448
2019–2023	31,450,000	8,313,398
2024–2028	13,275,000	1,471,462
Total	<u>\$179,965,000</u>	<u>\$99,354,937</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**

Department employees participate in the Oregon Public Employees 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 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 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

The PERS funding policy provides for plan contributions to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute. The Board, based on the required actuarially determined rate, establishes State employer contributions.

**Notes to the Financial Statements (continued)**  
**June 30, 2003**

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As of June 30, 2003, 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 SPWF and WF for the years ended June 30, 2003, 2002, and 2001, were approximately \$115,673, \$85,127, and \$72,269, respectively, and were equal to the required contributions for each year.

**7. Risk Financing**

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund. The insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the State, employees, or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain positions by law to be covered, and other key positions.

As a state agency, the department participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each entity based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less carry-forward or equity in the Insurance Fund.

For the Water Fund and Special Public Works programs, the amount of claim settlements did not exceed insurance coverage for each of the past three years.

**8. Commitments**

The department has awarded, but not distributed, \$51.7 million to various WF infrastructure projects and \$48 million to SPWF projects within the State of Oregon.

**9. Subsequent Events**

On July 1, 2003, the department called the remaining \$500,000 1994 Series One bonds.

In December 2003, the department issued \$25,475,000 in Oregon Bond Bank revenue bonds (2003 Series A). Bonds totaling \$11,785,000 were allocated to the WF and \$13,690,000 were allocated to the SPWF.

## **OTHER REPORTS**





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*Auditing for a Better Oregon*

The Honorable Ted Kulongoski  
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Salem, Oregon 97310-4047

Marty Brantley, Director  
Oregon Economic and Community  
Development Department  
775 Summer Street NE  
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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 Special Public Works Fund (SPWF) and Water Fund (WF), enterprise funds of the State of Oregon, Economic and Community Development Department (department), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 23, 2004. 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 and WF financial statements are free of material misstatement, we performed tests of the SPWF and WF's compliance with certain provisions of laws, regulations, contracts, grants, and trust indentures, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. 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 23, 2004

# FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

## Directory of Key Officials

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

## Audit Team

Nancy L. Young, CPA, CISA, Audit Administrator  
Michelle L. Rock, CPA  
Alan J. Bell  
Todd D. Kimball

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<http://www.sos.state.or.us/audits/audithp.htm>

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

***Auditing to Protect the Public Interest and Improve Oregon Government***

