
Secretary of State

An Enterprise Fund of the
State of Oregon

DEPARTMENT OF TRANSPORTATION
Oregon Transportation Infrastructure Bank
For the Fiscal Year Ended June 30, 2003



Audits Division

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Oregon Transportation Infrastructure Bank
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Audits Division



Auditing for a Better Oregon

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

Bruce Warner, Director
Department of Transportation
Transportation Building
355 Capitol Street NE, Room 135
Salem, Oregon 97301-3871

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

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 OTIB'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 did not note any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Similarly, we did not note any material weaknesses in internal control over financial reporting.

We appreciated the cooperation and assistance of the management and staff of the Oregon Department of Transportation during the course of our audit.

OREGON AUDITS DIVISION

Cathy Pollino
State Auditor

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon Transportation Infrastructure Bank (OTIB), an enterprise fund of the State of Oregon, Department of Transportation (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 the 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 OTIB, an enterprise fund of the State of Oregon, Department of Transportation, and do not purport to, and do not, present fairly the financial position of the State of Oregon, as of June 30, 2003, and the changes in its 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 OTIB, as of June 30, 2003, 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 31, 2004, on our consideration of the OTIB'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 as listed in the table of contents.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

March 31, 2004

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE BANK
BALANCE SHEET
JUNE 30, 2003

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 16,407,981
Accounts Receivable – Other	5,990
Interest Receivable – Loans	56,243
<i>Total Current Assets</i>	<u>16,470,214</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	786,292
Loans Receivable	2,369,231
Allowance for Doubtful Accounts	(85,402)
<i>Total Noncurrent Assets</i>	<u>3,070,121</u>

Total Assets \$ 19,540,335

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 11,085
Due to Other Funds	13,943
Trust Funds Payable	305,722
<i>Total Current Liabilities</i>	<u>330,750</u>

Net Assets:

Restricted for Loan Commitments	786,292
Unrestricted	18,423,293
<i>Total Net Assets</i>	<u>19,209,585</u>
Total Liabilities and Net Assets	<u><u>\$ 19,540,335</u></u>

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

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE BANK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Operating Revenues:	
Interest Income on Loans	\$ 167,484
Application and Closing Fees	17,500
Total Operating Revenues	<u>184,984</u>
Operating Expenses:	
Administrative Expenses	<u>60,909</u>
Total Operating Expenses	<u>60,909</u>
Operating Income	<u>124,075</u>
Non-Operating Revenues:	
Net Interest Income on Cash Balances	<u>239,839</u>
Total Nonoperating Revenue	<u>239,839</u>
Change in Net Assets	363,914
Net Assets – Beginning	19,166,220
Prior Period Adjustment	(320,549)
Net Assets Beginning-Restated	<u>18,845,671</u>
Net Assets – Ending	<u><u>\$ 19,209,585</u></u>

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

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE BANK
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Cash Flows from Operating Activities:	
Loan Principal Repayments	\$ 6,410,284
Loan Interest Received	202,777
Loan Fees Received	12,650
Payments to Employees for Services	(53,507)
Payments to Suppliers	(59,415)
Loans Made	(4,112,061)
Other Receipts	38,138
Net Cash Provided/(Used) in Operating Activities:	<u>2,438,866</u>
 Cash Flows from Investing Activities:	
Interest on Cash Balances	<u>239,839</u>
Net Cash Provided by Investing Activities:	<u>239,839</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	
	2,678,705
Cash and Cash Equivalents – Beginning	14,515,568
Cash and Cash Equivalents – Ending	<u><u>\$ 17,194,273</u></u>
 Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities:	
Operating Income	<u>\$ 124,075</u>
Adjustments to Reconcile Operating Income to Net Cash Provided/(Used) by Operating Activities:	
(Increase)/Decrease in Accounts Receivable	(4,860)
(Increase)/Decrease in Interest Receivable	23,892
(Increase)/Decrease in Loan Interest Receivable	35,293
(Increase)/Decrease in Advances to Other Funds	3,166,017
(Increase)/Decrease in Loans Receivable	(853,233)
Increase/(Decrease) in Accounts Payable	9,954
Increase/(Decrease) in Due to Other Funds	(47,445)
Increase/(Decrease) in Trust Funds Payable	(14,827)
Total Adjustments	<u>2,314,791</u>
Net Cash Provided/(Used) by Operating Activities:	<u><u>\$ 2,438,866</u></u>

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

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE BANK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. Summary of Significant Accounting Policies

a. Reporting Entity

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

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

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

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

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

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). In accordance with GASB Statement No. 20, the OTIB does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

The OTIB is accounted for as an Enterprise Fund, which is a Proprietary Fund Type. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods and services to the general public be financed or recovered primarily through user charges.

c. Measurement Focus and Basis of Accounting

The financial statements of the OTIB are reported using the economic resources measurement focus and accrual basis of accounting. An economic resources focus means that all transactions and events that affect the fund's total economic resources (net assets) during the period are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash inflows and outflows.

d. Budgetary Accounting

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

e. Receivables

Receivables represent revenues earned or accrued in the current period. Due To/From other funds represent interfund receivables and payables from Other Funds within the Department. All of the Due To/From amounts represent accruals to or from the State Highway Fund.

f. Cash and Cash Equivalents

All deposits classified as cash and cash equivalents are invested in the Oregon State Treasury – Oregon Short-Term Fund (OSTF). The OSTF is maintained by the State Treasurer and is an internal cash and investment pool for state agency participants and an external cash and investment pool for local government participants. The OSTF is not registered with the United States Securities and Exchange Commission as an investment company.

g. Operating and Non-Operating Revenues and Expenses

The definition of operating and non-operating revenues and expenses for the Bank is based on whether the activity is directly related to the nature of the business being performed. The only activity currently defined as non-operating is interest revenue earned at the State Treasury on cash balances in the Bank's cash account.

2. Provision for Loan Losses

As of June 30, 2003, all loans in the OTIB portfolio were current. In order to provide a reserve for potential future loan losses, the Department has implemented a policy that requires one percent of each new loan to be expensed to establish the reserve account. The policy also allows the Department to adjust that percentage and/or increase or reduce the cumulative loss reserve to reflect changes in portfolio status. For the year ended June 30, 2003, the Department's analysis of the portfolio determined that an adequate level of reserves could be obtained without charging any expense for the year.

3. Restricted Net Assets for Loan Commitments

The OTIB acts as the agent for the borrower to distribute loan proceeds throughout the life of the construction project.

Loan proceeds are held in the OTIB cash account. Disbursements are made from the account for project-related costs when borrowers submit approved invoices to the Department. The loan agreement authorizes undistributed loan proceeds to earn interest at the same rate as the Local Government Investment Pool (LGIP) administered by the Oregon State Treasury. The investment income is credited to each borrower and is available to be used for additional project-related costs, if necessary. The cash reserved for construction payments, including interest earned, is used to reduce the loans receivable balance on the Statement of Net Assets.

All proceeds, including investment income, not used on project-related costs, are returned to the OTIB when the project is completed and applied to the outstanding loan receivable balance. The amount of cash held for the borrower is classified as restricted in the Net Assets section on the Statement of Net Assets. The total amount of cash held that was committed to financing construction projects for the fiscal year ended June 30, 2003 was \$786,292.

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

4. Trust Funds Payable

All interest accrued to each borrower's undistributed proceeds account is reported on the Statement of Net Assets as Trust Funds Payable until the project related to the loan is complete. The amount reported as of June 30, 2003 was \$305,722.

5. Administrative Expenses

The Department's Financial Services Unit provides staff and other operational support (office space, professional services, supplies, equipment, etc.) for the OTIB. The Department began charging the OTIB for a portion of the Department's costs of providing this support in the fiscal year ended June 30, 2000. Administrative expenses charged to the OTIB for the fiscal year ended June 30, 2003 was \$60,909.

6. Cash and Cash Equivalents

The State's investment policies are governed by Oregon Revised Statutes (ORS) and the Oregon Investment Council. The book balance of cash on deposit with the State Treasury for the OTIB as of June 30, 2003 was \$17,194,273. The book and bank balances were not materially different as of June 30, 2003. The cash balances held in the Oregon State Treasury are considered to be a Credit Risk 3 as defined by GASB Statement 3. This means that the deposits are not collateralized.

7. Bonds Issued and Outstanding

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

8. Litigation

During the ordinary course of business, the OTIB may become involved in litigation regarding its lending activities. The program is represented in these actions by the Attorney General of the State of Oregon. The OTIB was not a party to any litigation as of June 30, 2003.

9. Prior Period Adjustment

Net Assets were adjusted on the Statement of Revenues, Expenses, and Changes in Fund Net Assets to reflect the restatement of interest earned by borrowers as of June 30, 2003.

OTHER REPORTS



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Oregon Transportation Infrastructure Bank (OTIB), an enterprise fund of the State of Oregon, Department of Transportation, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 31, 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 OTIB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered OTIB'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 the 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 Department of Transportation's management, the governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

March 31, 2004

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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

Directory of Key Officials

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

Audit Team

Kelly L. Olson, CPA, Audit Manager
Raul Valdivia, CPA
Jeanne Wolfe, CPA

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The courtesies and cooperation extended by officials and employees of the Department of Transportation during the course of this review were commendable and sincerely appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government

