

Bill Bradbury, Secretary of State

Cathy Pollino, State Auditor, Audits Division

Secretary of State Audit Report



Enterprise Funds 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, 2004





Secretary of State Audit Report

Enterprise Funds 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, 2004



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

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 (SPWF) and Water Fund (WF).

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, 2004, 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 SPWF's and WF'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

T A B L E O F C O N T E N T S

| | <u>Page</u> |
|--|-------------|
| FINANCIAL SECTION | |
| Independent Auditor's Report..... | 3 |
| Basic Financial Statements | |
| Balance Sheet – June 30, 2004 | 5 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – For the Fiscal Year Ended June 30, 2004 | 7 |
| Statement of Cash Flows – For the Fiscal Year Ended June 30, 2004 | 9 |
| Notes to the Financial Statements..... | 11 |
| OTHER REPORTS | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters | 21 |

FINANCIAL SECTION



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Special Public Works Fund (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, 2004, 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 the SPWF and WF, enterprise funds of the State of Oregon, Economic and Community Development Department. They do not purport to, and do not, present fairly the financial position of the department or the State of Oregon as of June 30, 2004, 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, 2004, 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 February 16, 2005, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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

A handwritten signature in black ink, appearing to read "Bill Bradbury", written in a cursive style.

Bill Bradbury
Secretary of State

February 16, 2005

**STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND AND WATER FUND
ENTERPRISE FUNDS
BALANCE SHEET
JUNE 30, 2004**

| | SPWF | WF | Total |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 71,907,897 | \$ 29,823,533 | \$ 101,731,430 |
| Investments – Restricted | – | 1,026,316 | 1,026,316 |
| Interest Receivable | 4,791,008 | 2,264,872 | 7,055,880 |
| Due from Other Funds | 37,897 | 7,474 | 45,371 |
| Total Current Assets | 76,736,802 | 33,122,195 | 109,858,997 |
| Noncurrent Assets: | | | |
| Cash and Cash Equivalents – Restricted | 29,900,529 | 20,254,002 | 50,154,531 |
| Investments – Restricted | 3,541,811 | 1,335,528 | 4,877,339 |
| Deferred Charges | 1,616,456 | 813,588 | 2,430,044 |
| Advances to Other Funds | – | 100,000 | 100,000 |
| Loans Receivable | 166,743,284 | 71,872,127 | 238,615,411 |
| Total Noncurrent Assets | 201,802,080 | 94,375,245 | 296,177,325 |
| TOTAL ASSETS | \$ 278,538,882 | \$ 127,497,440 | \$ 406,036,322 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts Payable | \$ 54,371 | \$ 5,448 | \$ 59,819 |
| Interest Payable – Bonds | 3,008,078 | 1,587,213 | 4,595,291 |
| Due to Other Governments | 512,799 | 234,500 | 747,299 |
| Bonds Payable | 6,180,000 | 2,825,000 | 9,005,000 |
| Trust Funds Payable | 697,637 | 1,754,724 | 2,452,361 |
| Compensated Absences Payable | 65,501 | 12,973 | 78,474 |
| Total Current Liabilities | 10,518,386 | 6,419,858 | 16,938,244 |
| Noncurrent Liabilities: | | | |
| Bonds Payable | 122,202,203 | 61,894,154 | 184,096,357 |
| Trust Funds Payable | 193,957 | 384,758 | 578,715 |
| Total Noncurrent Liabilities | 122,396,160 | 62,278,912 | 184,675,072 |
| TOTAL LIABILITIES | \$ 132,914,546 | \$ 68,698,770 | \$ 201,613,316 |
| Net Assets: | | | |
| Restricted for Debt Service | 3,424,006 | 664,827 | 4,088,833 |
| Restricted for Infrastructure projects | 19,781,220 | 18,228,414 | 38,009,634 |
| Unrestricted | 122,419,110 | 39,905,429 | 162,324,539 |
| TOTAL NET ASSETS | 145,624,336 | 58,798,670 | 204,423,006 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 278,538,882 | \$ 127,497,440 | \$ 406,036,322 |

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, 2004

| | <u>SPWF</u> | <u>WF</u> | <u>Total</u> |
|--|------------------------------|-----------------------------|------------------------------|
| OPERATING REVENUES: | | | |
| Loan Interest Income | \$ 9,281,804 | \$ 4,077,900 | \$ 13,359,704 |
| Interest Income on Cash and Cash Equivalents | 961,894 | 410,900 | 1,372,794 |
| Investment Income | 9,139 | 12,377 | 21,516 |
| Other Income | 49,258 | — | 49,258 |
| TOTAL OPERATING REVENUES | <u>10,302,095</u> | <u>4,501,177</u> | <u>14,803,272</u> |
| OPERATING EXPENSES: | | | |
| Salaries and Wages | 959,031 | 401,866 | 1,360,897 |
| Services and Supplies | 373,503 | 137,543 | 511,046 |
| Special Payments – Grants | 1,403,228 | 2,801,257 | 4,204,485 |
| Debt Service | 6,254,254 | 3,078,721 | 9,332,975 |
| TOTAL OPERATING EXPENSES | <u>8,990,016</u> | <u>6,419,387</u> | <u>15,409,403</u> |
| OPERATING INCOME (LOSS) | 1,312,079 | (1,918,210) | (606,131) |
| Transfers from Other Funds, Lottery Bond Proceeds | 33,500,000 | 9,127,860 | 42,627,860 |
| Transfers from (to) Other Funds | 247 | (247) | — |
| Transfers to Other Funds, to Governor’s Office | (360,000) | — | (360,000) |
| Transfers to Other Funds, to PERS for Debt Service | (91,679) | (39,755) | (131,434) |
| CHANGE IN NET ASSETS | <u>34,360,647</u> | <u>7,169,648</u> | <u>41,530,295</u> |
| Net Assets – Beginning | <u>111,263,689</u> | <u>51,629,022</u> | <u>162,892,711</u> |
| NET ASSETS—ENDING | <u>\$ 145,624,336</u> | <u>\$ 58,798,670</u> | <u>\$ 204,423,006</u> |

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND AND WATER FUND
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | <u>SPWF</u> | <u>WF</u> | <u>Total</u> |
|--|-----------------------|------------------------|-----------------------|
| Cash Flows From Operating Activities: | | | |
| Loan Principal Repayments | \$ 18,837,056 | \$ 5,006,549 | \$ 23,843,605 |
| Loan Interest Received | 9,294,114 | 3,722,967 | 13,017,081 |
| Payments to Employees for Services | (985,803) | (416,436) | (1,402,239) |
| Payments to Suppliers | (416,112) | (168,111) | (584,223) |
| Grants Made | (1,371,857) | (3,439,269) | (4,811,126) |
| Loans Made | (19,138,365) | (18,694,404) | (37,832,769) |
| Other Receipts (Payments) | (228,735) | (11,207) | (239,942) |
| Net Cash Provided (Used) in Operating Activities | <u>5,990,298</u> | <u>(13,999,911)</u> | <u>(8,009,613)</u> |
| Cash Flows from Noncapital Financing Activities: | | | |
| Proceeds from Bond Sales | 13,690,000 | 11,785,000 | 25,475,000 |
| Principal Payments on Bonds | (8,830,000) | (3,230,000) | (12,060,000) |
| Interest Payments on Bonds | (6,310,354) | (2,860,774) | (9,171,128) |
| Bond Issuance Costs | (348,420) | (286,930) | (635,350) |
| Transfers from Other Funds | 70,968,952 | 22,403,671 | 93,372,623 |
| Transfers to Other Funds | (37,828,705) | (13,276,058) | (51,104,763) |
| Net Cash Provided (Used) in Noncapital Financing Activities | <u>31,341,473</u> | <u>14,534,909</u> | <u>45,876,382</u> |
| Cash Flows From Investing Activities: | | | |
| Purchases of Investments | (3,842,585) | (2,614,058) | (6,456,643) |
| Proceeds from Sales and Maturities of Investments | 4,408,005 | 1,335,084 | 5,743,089 |
| Interest on Investments and Cash Balances | 971,033 | 428,725 | 1,399,758 |
| Net Cash Provided (Used) in Investing Activities | <u>1,536,453</u> | <u>(850,249)</u> | <u>686,204</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 38,868,224 | (315,251) | 38,552,973 |
| Cash and Cash Equivalents – Beginning | <u>62,940,202</u> | <u>50,392,786</u> | <u>113,332,988</u> |
| Cash and Cash Equivalents – Ending | <u>\$ 101,808,426</u> | <u>\$ 50,077,535</u> | <u>\$ 151,885,961</u> |
| Reconciliation of operating income to net cash provided (used) by Operating Activities: | | | |
| Operating Income (Loss) | \$ 1,312,079 | \$ (1,918,210) | \$ (606,131) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Amortization of Bond Issuance Costs | 111,565 | 51,550 | 163,115 |
| Amortization of Bond Premium and Discount | 54,408 | 18,802 | 73,210 |
| Interest Income Reported as Operating Revenue | (971,033) | (423,275) | (1,394,308) |
| Interest Payments Reported as Operating Expense | 6,310,354 | 2,860,774 | 9,171,128 |
| Bond Issue Costs Reported as Operating Expense | 34,506 | 17,229 | 51,735 |
| Net Changes in Assets and Liabilities: | | | |
| Accounts and Interest Receivable | 12,310 | (354,933) | (342,623) |
| Due from Other Funds | (37,897) | (7,474) | (45,371) |
| Loans Receivable | (321,725) | (13,687,855) | (14,009,580) |
| Accounts Payable | (47,157) | (14,981) | (62,138) |
| Interest Payable – Bonds | (291,143) | 147,594 | (143,549) |
| Due to Other Governments | 65,956 | (673,513) | (607,557) |
| Trust Funds Payable | (277,994) | (11,206) | (289,200) |
| Compensated Absences Payable | 36,069 | (4,413) | 31,656 |
| Total Adjustments | <u>4,678,219</u> | <u>(12,081,701)</u> | <u>(7,403,482)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 5,990,298</u> | <u>\$ (13,999,911)</u> | <u>\$ (8,009,613)</u> |
| Noncash Investing and Capital and Related Financing Activities: | | | |
| Net Change in Fair Value of Investments | \$ (18,809) | \$ (5,451) | \$ (24,260) |
| Total Noncash Investing and Capital and Related Financing Activities | <u>\$ (18,809)</u> | <u>\$ (5,451)</u> | <u>\$ (24,260)</u> |

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

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND AND WATER FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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.

Notes to the Financial Statements (continued)
June 30, 2004

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 statements of revenues, expenses, and changes in fund net assets 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 projects, interest earned on cash and cash equivalents in cash accounts, and interest earned on investments. Principal operating expenses include interest paid on Oregon Bond Bank bonds outstanding, salaries and wages, services and supplies, and special payments (infrastructure construction grants). All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. The SPWF and WF net all internal activity between program funds.

d. Budgetary Accounting

The Oregon Legislature approves the State of Oregon's budgets on a biennial basis. 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 that establishes biennial targets for allocation within the CDF, which includes 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

Notes to the Financial Statements (continued)
June 30, 2004

(loss) for the year. The custodial agent determines the fair value of debt and equity securities, 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 as of June 30 consisted of 337 loans totaling \$238,615,410. 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.

j. Net Assets

Net Assets contains three portions, Restricted for Debt Service, Restricted for Infrastructure Projects and Unrestricted. Restricted for Debt Service is the total funds held by the bond trustee until the bond issue is paid in full. Restricted for Infrastructure Projects is undisbursed proceeds of Oregon Bond Bank sales, which are restricted for specific loans. The Department last used Debt Service Reserve funds with the 1996A issue; all subsequent bond issues are insured.

2. Cash, Cash Equivalents, and Investments

Deposits: As of June 30, 2004, the book balance of cash and cash equivalents was \$151,885,961. Monies held in demand accounts with the State Treasurer and amounts invested in the State Short Term Fund totaled \$142,199,894. The book value of deposits does not differ materially from the bank value of deposits. State Treasurer demand deposit accounts and time certificates of deposit investments of the Short Term Fund held in the state banks are insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with State statute. The bank balance of money market accounts held by the Bond Trustees as agents totaled \$9,686,067. The funds

Notes to the Financial Statements (continued)
June 30, 2004

held by the Bank of New York (Bond Trustees) are backed by the faith and credit of Bank of New York, and are neither insured nor collateralized.

Securities in the Short Term Fund are held by the Treasury's agent in the name of the State of Oregon. They consist of 13 percent in government securities and 87 percent in certificates of deposit, banker's acceptances, and other short-term commercial paper. Earnings on the Short Term Fund are allocated on daily account balances.

| | |
|---|----------------------|
| Cash with Treasury | \$142,199,894 |
| Money Market Accounts held by Bond Trustees | <u>9,686,067</u> |
| Total Cash and Cash Equivalents | <u>\$151,885,961</u> |

Balance Sheet Amounts:

| | |
|---|----------------------|
| Cash and Cash Equivalents – Current | \$101,731,430 |
| Restricted Cash and Cash Equivalents – Noncurrent | <u>50,154,531</u> |
| Total Cash and Cash Equivalents | <u>\$151,885,961</u> |

Investments: The Bond Indentures authorize the department to invest in direct obligations of, or obligations guaranteed by, the United States of America: bonds, debentures, notes, participation certificates, or other similar obligations issued by specified Federal Agencies; direct and general obligations of or obligations guaranteed by the State: investment agreements, secured or unsecured, with any institution whose debt securities are rated at least equal to the then existing rating on the bonds by the rating agencies; and deposits in interest-bearing demand deposits, or certificates of deposit secured by obligations described above. These are permissible investments under State statute.

Investments held by the Trust Departments of the Bank of New York (Bond Trustees) as agents in the department's name consists of \$5,903,655 in U.S. government securities.

The department's 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, with securities held by the department or its agent in the department's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the department's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counterparty or by its trust department or agent, but not in the department's name.

As of June 30, 2004, investment balances were as follows:

| | Risk Category | | | Reported Amount | Fair Value |
|----------------------------|--------------------|----------|----------|--------------------|--------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | | |
| U.S. Government Securities | <u>\$5,903,655</u> | – | – | <u>\$5,903,655</u> | <u>\$5,903,655</u> |
| Totals | <u>\$5,903,655</u> | – | – | <u>\$5,903,655</u> | <u>\$5,903,655</u> |

Notes to the Financial Statements (continued)
June 30, 2004

3. Bonds Issued and Outstanding

Since the inception in February 1991 for the SPWF and November 1994 for the WF, the Oregon Bond Bank has issued \$267,125,000 in revenue bonds, of which \$73,745,000 has been retired, refunded or defeased in substance (see Note 4). As of June 30, 2004, \$193,380,000 is outstanding. Bonds Payable on the balance sheet is recorded net of any original issue discounts and premiums. Bond discounts of \$291,260 and bond premiums of \$12,617 are included in Bonds Payable as of June 30, 2004. The following table summarizes bonds outstanding as of June 30, 2004.

| OREGON BOND BANK REVENUE BONDS | | | | | | | | | |
|--------------------------------|-------------|----------------|-------|-------------|-------------------|------------|------------|----------------|---------------------|
| Amount of Bonds Issued | | | | | Bonds Outstanding | | | | |
| Series Issued | Due Dates | Interest Range | | Amount | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
| | | From | To | | | | | | |
| 1993 Series A | 1994 – 2013 | 2.80% | 5.50% | 21,610,000 | 10,410,000 | | 1,940,000 | 8,470,000 | 1,260,000 |
| 1993 Series B | 1998 – 2013 | 5.75% | 7.75% | 955,000 | 635,000 | | 50,000 | 585,000 | 50,000 |
| 1993 Series C | 1995 – 2014 | 3.20% | 5.38% | 11,815,000 | 7,200,000 | | 505,000 | 6,695,000 | 530,000 |
| 1994 Series A | 1996 – 2015 | 5.00% | 6.00% | 5,690,000 | 4,110,000 | | 415,000 | 3,695,000 | 250,000 |
| 1994 Series One | 1999 – 2015 | 4.60% | 6.70% | 8,110,000 | 500,000 | | 500,000 | – | – |
| 1995 Series A | 1997 – 2016 | 3.90% | 5.75% | 4,755,000 | 3,645,000 | | 2,550,000 | 1,095,000 | 115,000 |
| 1996 Series A | 1998 – 2017 | 4.10% | 5.50% | 6,000,000 | 4,915,000 | | 245,000 | 4,670,000 | 260,000 |
| 1996 Series One | 1997 – 2016 | 3.50% | 5.50% | 10,665,000 | 7,985,000 | | 810,000 | 7,175,000 | 450,000 |
| 1996 Series Two | 2000 – 2016 | 4.20% | 5.50% | 2,400,000 | 1,990,000 | | 110,000 | 1,880,000 | 120,000 |
| 1997 Series A | 1999 – 2018 | 3.95% | 5.10% | 10,520,000 | 8,945,000 | | 415,000 | 8,530,000 | 425,000 |
| 1998 Series A | 1999 – 2023 | 4.25% | 5.00% | 6,000,000 | 5,250,000 | | 205,000 | 5,045,000 | 210,000 |
| 1998 Series B | 1999 – 2015 | 4.10% | 4.75% | 6,105,000 | 5,760,000 | | 380,000 | 5,380,000 | 395,000 |
| 1999 Series A | 2000 – 2024 | 4.25% | 5.25% | 7,050,000 | 6,290,000 | | 215,000 | 6,075,000 | 225,000 |
| 2000 Series A | 2001 – 2025 | 5.25% | 5.63% | 47,240,000 | 43,855,000 | | 1,360,000 | 42,495,000 | 1,495,000 |
| 2000 Series B | 2002 – 2026 | 4.45% | 5.50% | 34,020,000 | 32,120,000 | | 1,015,000 | 31,105,000 | 1,065,000 |
| 2002 Series A | 2003 – 2027 | 3.00% | 5.00% | 7,850,000 | 7,530,000 | | 320,000 | 7,210,000 | 330,000 |
| 2002 Series B | 2004 – 2028 | 3.00% | 4.75% | 28,825,000 | 28,825,000 | | 1,025,000 | 27,800,000 | 1,050,000 |
| 2003 Series A | 2005 – 2029 | 3.00% | 4.63% | 25,475,000 | – | 25,475,000 | – | 25,475,000 | 775,000 |
| | | Total | | 245,085,000 | 179,965,000 | 25,475,000 | 12,060,000 | 193,380,000 | 9,005,000 |

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 as of June 30, 2004, is \$520,000.

Notes to the Financial Statements (continued)
June 30, 2004

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, 2004, for each year during the next five-year period ending June 30, 2009, and in five year increments for the succeeding periods from July 1, 2009, to June 30, 2034.

| <u>Debt Repayment Schedule – Oregon Bond Bank Bonds</u> | | | |
|--|--------------------|--------------------|--------------------|
| Year Ending | Principal | Interest | Total |
| 2005 | 9,005,000 | 9,495,964 | 18,500,964 |
| 2006 | 9,300,000 | 9,069,653 | 18,369,653 |
| 2007 | 9,735,000 | 8,648,203 | 18,383,203 |
| 2008 | 9,630,000 | 8,202,366 | 17,832,366 |
| 2009 | 10,085,000 | 7,760,489 | 17,845,489 |
| 2010-2014 | 52,365,000 | 31,386,301 | 83,751,301 |
| 2015-2019 | 44,410,000 | 18,974,427 | 63,384,427 |
| 2020-2024 | 35,560,000 | 8,612,622 | 44,172,622 |
| 2025-2029 | 13,290,000 | 1,448,244 | 14,738,244 |
| Total | 193,380,000 | 103,598,269 | 296,978,269 |

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 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003 become part of OPSRP, unless membership was previously established in the Oregon Public Employee’s Retirement System (PERS). OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Beginning January 1, 2004, PERS member contributions were deposited into the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions will be deposited in the member’s IAP account, not into the member’s PERS account. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, PO Box 23700, Tigard, OR 97281-3700.

Oregon Public Employee’s Retirement System (PERS)

The Department’s employees who were plan members before August 29, 2003 participate in the Oregon Public Employee’s Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board under the guidelines of *Oregon Revised Statutes*, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from several retirement benefit options. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations.

Notes to the Financial Statements (continued)
June 30, 2004

The rate of each covered employee's salary for fiscal year 2004 was 11.31 percent for July through October and 4.71 percent for November through June. Employer contributions for the years ending June 30, 2004, 2003, and 2002 were \$58,967, \$116,000 and \$85,000, respectively, equal to the required contributions for each year.

Oregon Public Service Retirement Plan (OPSRP)

The Pension Program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of Oregon Public Service retirement Plan (OPSRP). The Pension Program is administered by the Public Employees Retirement Board under the guidelines of *Oregon Revised Statutes*, Chapter 238A. The Pension Program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200, or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2004 was 8.04 percent. There were no employees subject to this section, so there was no required contribution for the year.

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of *Oregon Revised Statutes*, Chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. Current law requires employers that had been paying the member contributions into PERS to continue to pay employee contributions to the IAP until at least December 31, 2005. Employer contributions for the year ending June 30, 2004 were \$73,335 equal to the required contributions for the 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, its officers, 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.

Notes to the Financial Statements (continued)
June 30, 2004

8. Commitments

The department has awarded, but not distributed, \$38.9 million to various WF infrastructure projects and \$58.7 million to SPWF projects within the State of Oregon.

9. Subsequent Events

On July 1, 2004, the department called \$520,000 1993 Series A and \$5,690,000 1993 Series C bonds.

On November 2, 2004, the department issued \$9,690,000 in Oregon Bond Bank revenue bonds (2004 Series A & B). Bonds totaling \$3,320,000 were allocated to the WF and \$6,370,000 were allocated to the SPWF.

On January 1, 2005, the department called \$1,415,000 1996 Series A bonds.

OTHER REPORTS



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated February 16, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the SPWF's and WF'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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters 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.

This report is intended solely for the information and use of the department'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

A handwritten signature in black ink, appearing to read "Bill Bradbury". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Bill Bradbury
Secretary of State

February 16, 2005

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
Alan J. Bell, MBA
Katrina B. Dummer, MBA
David W. Terry

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from our website on the internet at:

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

by phone at 503-986-2255

or by mail from:

Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

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

Auditing to Protect the Public Interest and Improve Oregon Government

