Report No. 2009-06

March 30, 2009

Kate Brown, Secretary of State   Drummond Kahn, Interim Director, 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, 2008

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
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Audits Division

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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, 2008, 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 internal control and compliance with applicable laws and regulations, contracts, and grant agreements relating to the Special Public Works Fund and the Water Fund. Our report on the results of those reviews is included in the Other Reports section of this report. Our consideration of internal control was limited to the scope necessary to achieve our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined by generally accepted auditing standards.

We appreciated the cooperation and assistance of the department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

Drummond Kahn, MS, CIA, CGFM, CGAP
Interim Director

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Special Public Works Fund and Water Fund, enterprise funds of the State of Oregon, Economic and Community Development Department (department), as of and for the year ended June 30, 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over financial reporting relating to the Special Public Works Fund and Water Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 of the Special Public Works Fund and Water Fund, enterprise funds of the State of Oregon, Economic and Community Development Department, are intended to present the financial position, and the changes in financial position and cash flows that are attributable to the transactions of the Special Public Works Fund and Water Fund. 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, 2008, 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 respective financial position of the Special Public Works Fund and Water Fund as of June 30, 2008, and the respective 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 25, 2009, on our consideration of the internal control over financial reporting relating to the Special Public Works Fund and Water Fund 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

Kate Brown

Kate Brown
Secretary of State

March 25, 2009

STATE OF OREGON
OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT
SPECIAL PUBLIC WORKS FUND AND WATER FUND
ENTERPRISE FUNDS
BALANCE SHEET
JUNE 30, 2008

	SPWF	WF	TOTAL
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 50,314,258	$ 12,964,011	$ 63,278,269
Investments	162,680	–	162,680
Interest Receivable	7,827,664	2,471,637	10,299,301
Due from Other Funds	67,207	6,504	73,711
Total Current Assets	58,371,809	15,442,152	73,813,961
Noncurrent Assets:			
Cash and Cash Equivalents – Restricted	10,133,664	1,360,919	11,494,583
Investments – Restricted	1,874,563	372,685	2,247,248
Deferred Charges	1,806,367	605,455	2,411,822
Advances to Other Funds	–	100,000	100,000
Loans Receivable (net)	261,466,267	90,196,253	351,662,520
Total Noncurrent Assets	275,280,861	92,635,312	367,916,173
Total Assets	$ 333,652,670	$ 108,077,464	$ 441,730,134
Liabilities and Net Assets			
Current Liabilities:			
Accounts Payable	$ 17,386	$ 1,205	$ 18,591
Interest Payable – Bonds	2,766,396	1,259,795	4,026,191
Due to Other Governments	81,890	120,010	201,900
Bonds Payable	6,395,000	3,010,000	9,405,000
Trust Funds Payable	490,602	65,470	556,072
Compensated Absences Payable	55,341	16,429	71,770
Total Current Liabilities	9,806,615	4,472,909	14,279,524
Noncurrent Liabilities:			
Bonds Payable	110,538,735	48,566,343	159,105,078
Trust Funds Payable	151,067	218,285	369,352
Compensated Absences Payable	27,257	8,091	35,348
Net Obligation for Other Post-Employment Benefits	6,916	2,280	9,196
Total Noncurrent Liabilities	110,723,975	48,794,999	159,518,974
Total Liabilities	120,530,590	53,267,908	173,798,498
Net Assets:			
Restricted for Debt Service	1,768,385	164,358	1,932,743
Restricted for Transportation-Eligible Projects	4,931,427	–	4,931,427
Restricted for Infrastructure Projects	1,294,237	–	1,294,237
Unrestricted	205,128,031	54,645,198	259,773,229
Total Net Assets	213,122,080	54,809,556	267,931,636
Total Liabilities and Net Assets	$ 333,652,670	$ 108,077,464	$ 441,730,134

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, 2008

	SPWF	WF	TOTAL
Operating Revenues:			
Loan Interest Income	$ 13,230,406	$ 4,208,253	$ 17,438,659
Interest Income on Cash and Cash Equivalents	2,866,216	765,885	3,632,101
Investment Income	342,758	54,426	397,184
Net Decrease in the Fair Value of Investments	(12,174)	(3,107)	(15,281)
Other Income	459	–	459
Total Operating Revenues	16,427,665	5,025,457	21,453,122
Operating Expenses:			
Salaries and Wages	1,586,973	475,264	2,062,237
Services and Supplies	399,242	131,527	530,769
Special Payments – Grants	958,670	1,184,323	2,142,993
Bad Debt Expense	185,334	–	185,334
Debt Service	7,105,920	2,645,363	9,751,283
Total Operating Expenses	10,236,139	4,436,477	14,672,616
Operating Income (Loss)	6,191,526	588,980	6,780,506
Transfers from (to) Other Funds	(11,042)	(2,413,079)	(2,424,121)
Change in Net Assets	6,180,484	(1,824,099)	4,356,385
Net Assets – Beginning	206,941,596	56,633,655	263,575,251
Net Assets – Ending	$ 213,122,080	$ 54,809,556	$ 267,931,636

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, 2008

	SPWF	WF	TOTAL
Cash Flows From Operating Activities:			
Loan Principal Repayments	$ 34,187,828	$ 4,222,339	$ 38,410,167
Loan Interest Received	12,307,759	3,857,836	16,165,595
Payments to Employees for Services	(1,608,125)	(469,944)	(2,078,069)
Payments to Suppliers	(425,547)	(135,377)	(560,924)
Grants Made	(887,311)	(1,228,142)	(2,115,453)
Loans Made	(31,503,899)	(10,233,454)	(41,737,353)
Other Receipts (Payments)	(341,892)	(37,258)	(379,150)
Net Cash Provided (Used) in Operating Activities	11,728,813	(4,024,000)	7,704,813
Cash Flows from Noncapital Financing Activities:			
Principal Payments on Bonds	(26,575,000)	(2,870,000)	(29,445,000)
Interest Payments on Bonds	(6,786,718)	(2,636,217)	(9,422,935)
Bond Issuance Costs	(15,582)	–	(15,582)
Transfers to Other Funds	(11,042)	(2,413,079)	(2,424,121)
Net Cash Provided (Used) in Noncapital Financing Activities	(33,388,342)	(7,919,296)	(41,307,638)
Cash Flows From Investing Activities:			
Purchases of Investments	(43,610,242)	(1,622,529)	(45,232,771)
Proceeds from Sales and Maturities of Investments	44,606,453	1,623,716	46,230,169
Interest on Investments and Cash Balances	3,050,608	820,311	3,870,919
Net Cash Provided (Used) in Investing Activities	4,046,819	821,498	4,868,317
Net Increase (Decrease) in Cash and Cash Equivalents	(17,612,710)	(11,121,798)	(28,734,508)
Cash and Cash Equivalents – Beginning	78,060,632	25,446,728	103,507,360
Cash and Cash Equivalents – Ending	$ 60,447,922	$ 14,324,930	$ 74,772,852

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 (continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	SPWF	WF	TOTAL
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	$ 6,191,526	$ 588,980	$ 6,780,506
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Amortization of Bond Issuance Costs	132,738	47,851	180,589
Amortization of Bond Premium and Discount	76,910	21,344	98,254
Bad Debt Expense	185,334	–	185,334
Interest Income Reported as Operating Revenue	(3,431,075)	(817,204)	(4,248,279)
Interest Payments Reported as Operating Expense	6,896,272	2,576,168	9,472,440
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(688,373)	(350,417)	(1,038,790)
Loans Receivable	2,683,929	(6,011,115)	(3,327,186)
Accounts Payable	(1,129,092)	(318,385)	(1,447,477)
Due to Other Governments	71,359	(43,819)	27,540
Trust Funds Payable	(342,350)	(37,258)	(379,608)
Compensated Absences Payable	1,081,635	319,855	1,401,490
Total Adjustments	5,537,287	(4,612,980)	924,307
Net Cash Provided (Used) by Operating Activities	$ 11,728,813	$ (4,024,000)	$ 7,704,813
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	$ (12,174)	$ (840)	$ (13,014)
Total Noncash Investing and Capital and Related Financing Activities	$ (12,174)	$ (840)	$ (13,014)

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, 2008

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). 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 plan, design and construct municipally–owned infrastructure such as safe drinking water and wastewater 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 SPWF and the WF programs. These financial statements report the financial activity of the SPWF and WF programs. SPWF and WF are part of the State of Oregon reporting entity and are incorporated in Oregon's comprehensive annual financial report.

SPWF was created on July 1, 1985, as a program of the Intergovernmental Relations Division of the then 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 municipalities (cities, counties, ports and certain special districts) for the design and construction of municipally owned infrastructure needed to support industrial and commercial development.

WF was created in 1993 as a program within the Department. The WF program operates under the provisions of ORS sections 285B.560 through 285B.599. The program is primarily intended to provide funding to municipalities to assist in the compliance with 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 Oregon residents with safe drinking water and appropriate wastewater disposal.

b. Basis of Presentation

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

c. Measurement Focus and Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus, and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time related liabilities are incurred. All assets and liabilities associated with the operation of 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.

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. 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. Operating expenses include salaries and wages, services and supplies, special payments (infrastructure construction grants) and interest paid on Oregon Bond Bank bonds outstanding. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. SPWF and WF are accounted for as separate programs, therefore, there is no internal activity.

d. Budgetary Accounting

The Oregon Legislature approves the State of Oregon's budgets on a biennial basis. 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. 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 when the Legislature is not in session. SPWF and WF have continuous spending authority under ORS 285B.455 and 285B.563, respectively.

e. Oregon Bond Bank 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. SPWF and WF do not have any liability for Oregon Bond Bank bond arbitrage. Governmental units SPWF and WF provide financing to are responsible for any arbitrage liability incurred on the bonds.

f. Cash, Cash Equivalents, and Investments (Including Restricted)

Cash and cash equivalents consists of cash on hand, cash in managed or investment pools, cash held by the Treasurer in the Oregon Short-Term Fund, and cash and short term investments held by fiscal agents.

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.

g. Receivables

Interest receivable includes interest due on loans to local governments and special districts. Loans Receivable at June 30 consisted of 355 loans totaling $355,290,341. An allowance for uncollectible accounts was established to estimate the potential loss from uncollectible loans. As of June 30, 2008 the allowance for uncollectible debt equals $2,333,583. Actual loan losses may vary from estimated amounts. (See Note 11 – Debt Restructuring).

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 programs as the benefits accrue to the employee. No liability is recorded for accumulated sick pay benefits.

i. Restricted Assets

Restricted assets consist of:

- Cash and investments held by trustees as security for, or payment of SPWF and WF Oregon Bond Bank revenue bonds; and

- Cash held by SPWF and WF, 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 governmental units either as reimbursement for project expenditures, or for debt service on the bonds, they are classified as restricted assets.

- SPWF holds $4.5 million of State Gas tax Revenues transferred from the Oregon Department of Transportation (ODOT) in 2007. These funds plus any interest accruing on them are restricted for use in SPWF projects meeting requirements of "State Gas Tax Eligible Projects" as defined by Oregon Revised Statutes, applicable to Gas Tax Revenues uses and approved by ODOT.

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

j. Net Assets

Net Assets are divided into four classifications: Restricted for Debt Service, Restricted for Infrastructure Projects, Restricted to Oregon Gas Tax Eligible projects, and Unrestricted. Restricted for Debt Service is the total of all funds held by the bond trustee until the bond issue is paid in full. Restricted for Infrastructure Projects is un-disbursed 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 have been insured.

2. Cash, Cash Equivalents, and Investments

Deposits: As of June 30, 2008, the book balance of cash and cash equivalents was $74,772,852; the bank balance was $70,058,457. Monies held in demand accounts with the State Treasurer and amounts invested in the Oregon Short Term Fund (OSTF) totaled $70,057,255. State Treasurer demand deposit accounts and time certificates of deposit 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 statute. Balances in excess of the FDIC insurance and collateral are considered exposed to custodial credit risk. Custodial credit risk for deposits is defined as the risk that, in the event of failure of the bank the OSTF will be unable to recover the total amount of deposits. Since the OSTF is a pool, the Department's share of the risk is difficult to estimate. More information on the custodial credit risk of deposits with the OSTF can be obtained from the OSTF financial statements available from the 'Current OSTF Financial statement' link at their website: http://www.ost.state.or.us/About/Boards/OSTF/Financial%20Statements/. Copies of the report can also be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street, NE, Suite 100, Salem, Oregon, 97301-3896.

Securities held in the Short-Term Fund are held by Oregon State Treasury's agents in the name of the State of Oregon. Earnings on the Short-Term Fund are allocated on daily balances.

The balance of money market accounts held by the Bank of New York (Oregon Bond Bank trustees) as agents for the department totaled $4,715,597. The funds held by the Bond Trustee are not held in the department's name, but are held in bondholders names. Each bondholder is insured by FDIC up to $100,000. The remaining funds are neither insured, nor collateralized and are thus exposed to custodial credit risk. The Department does not have a deposit policy concerning custodial credit risk.

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; and direct and general obligations of, or guaranteed by, the State: investments 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 deposit on interest-bearing demand deposits, or certificates of deposit secured by obligations described above. These are permissible investments under State statute. Investment Standards for the State of Oregon are set in ORS 293.726 and require funds to be managed as a prudent investor would do.

Custodial Credit Risk: Investments consisting of $2,247,248 in explicitly guaranteed U.S. government securities were held by the Trust Department of the Bank of New York (Bond Trustees) as the department's custodial agent and were not registered in the Department's name or insured. The Department does not have an investment policy concerning Custodial Credit Risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All securities have a maturity of less than one year. OECDD does not have an investment policy concerning Interest Rate Risk.

3. Bonds Issued and Outstanding

As of June 30, 2008, Oregon Bond Bank bonds totaling $168,690,000 are outstanding. Bonds Payable reported on the balance sheet are recorded net of original issue discounts and premiums. Bond discounts of $188,430 and bond premiums of $8,509 are included in Bonds Payable as of June 30, 2008. The following table summarizes the changes in bonds outstanding during fiscal year 2008.

OREGON BOND BANK REVENUE BONDS

Amount of Bonds Issued					Bonds Outstanding				
		Interest Range							
Series Issued	Due Dates	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	3,340,000	–	680,000	2,660,000	690,000
1993 Series B	1998 – 2013	5.75%	7.75%	955,000	430,000	–	60,000	370,000	60,000
1993 Series C	1995 – 2014	3.20%	5.38%	11,815,000	600,000	–	80,000	520,000	80,000
1994 Series A	1996 – 2015	5.00%	6.00%	5,690,000	2,755,000	–	285,000	2,470,000	295,000
1995 Series A	1997 – 2016	3.90%	5.75%	4,755,000	355,000	–	30,000	325,000	35,000
1996 Series A	1998 – 2017	4.10%	5.50%	6,000,000	2,610,000	–	210,000	2,400,000	210,000
1996 Series One	1997 – 2016	3.50%	5.50%	10,665,000	1,125,000	–	100,000	1,025,000	105,000
1996 Series Two	2000 – 2016	4.20%	5.50%	2,400,000	1,505,000	–	135,000	1,370,000	140,000
1997 Series A	1999 – 2018	3.95%	5.10%	10,520,000	7,190,000	–	505,000	6,685,000	535,000
1998 Series A	1999 – 2023	4.25%	5.00%	6,000,000	4,385,000	–	235,000	4,150,000	245,000
1998 Series B	1999 – 2015	4.10%	4.75%	6,105,000	4,150,000	–	445,000	3,705,000	465,000
1999 Series A	2000 – 2024	4.25%	5.25%	7,050,000	5,375,000	–	255,000	5,120,000	390,000
2000 Series A	2001 – 2025	5.25%	5.63%	47,240,000	37,765,000	–	21,845,000	15,920,000	1,085,000
2000 Series B	2002 – 2026	4.45%	5.50%	34,020,000	27,745,000	–	1,230,000	26,515,000	1,305,000
2002 Series A	2003 – 2027	3.00%	5.00%	7,850,000	6,195,000	–	370,000	5,825,000	375,000
2002 Series B	2004 – 2028	3.00%	4.75%	28,825,000	24,555,000	–	1,135,000	23,420,000	1,180,000
2003 Series A	2005 – 2029	3.00%	4.63%	25,475,000	23,075,000	–	850,000	22,225,000	880,000
2004 Series A	2006 – 2030	3.00%	4.50%	6,325,000	6,000,000	–	185,000	5,815,000	200,000
2004 Series B	2006 – 2020	3.00%	5.25%	3,365,000	3,175,000	–	115,000	3,060,000	120,000
2007 Series A	2008 – 2025	4.00%	4.38%	26,905,000	26,905,000	–	580,000	26,325,000	800,000
2007 Series B	2008 – 2019	5.13%	6.00%	8,900,000	8,900,000	–	115,000	8,785,000	200,000
		Total		282,470,000	198,135,000	0	29,445,000	168,690,000	9,395,0000

4. Changes in Long-Term Liabilities

The following table summarizes the changes in long-term liabilities for activities for the fiscal year ended June 30, 2008:

	Balance 7/01/2007	Additions	Deductions	Balance 6/30/2008	Due within One Year
Trust Funds Payable	$1,304,611	–	$379,187	$925,424	$556,072
Compensated Absences	110,725	70,580	74,187	107,118	71,770
Bonds:					
Principal	198,135,000	–	29,445,000	168,690,000	9,395,000
Discount	(212,441)	–	(24,011)	(188,430)	22,713
Premium	9,475	–	966	8,509	922
Total	$199,347,370	$70,580	$29,875,329	$169,542,621	$10,056,477

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, 2008, for each year during the next five-year period ending June 30, 2013, and in five-year increments for the succeeding periods from July 1, 2013, to June 30, 2033.

Debt Repayment Schedule – Oregon Bond Bank Bonds

Year Ending	Principal	Interest	Total
2009	9,395,000	8,037,740	17,432,740
2010	9,590,000	7,621,158	17,211,158
2011	9,660,000	7,188,358	16,848,358
2012	9,495,000	6,743,803	16,238,803
2013	9,530,000	6,301,393	15,831,393
2014-2018	46,815,000	24,751,862	71,566,862
2019-2023	40,955,000	13,935,681	54,890,681
2024-2028	26,060,000	5,082,114	31,142,114
2029-2033	7,190,000	795,776	7,985,776
Total	**168,690,000**	**80,457,885**	**249,147,885**

The interest stated above includes coupon interest the department expects to pay over the life of the bonds outstanding. Coupon interest is paid semiannually on January 1 and July 1. Bond principal is paid January 1.

6. 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, 2008, is $325,000.

7. 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 members become members of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now 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, P.O. Box 23700, Tigard, OR 97281-3700.

<u>Oregon Public Employees Retirement System (PERS)</u>

The Department's employees who were plan members before August 29, 2003, participate in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The Public Employees Retirement Board administers PERS 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. The rate of each covered employee's salary for fiscal year 2008 was 5.45 percent, July through December 2007 and 6.54 percent, January through June 2008. Employer contributions for the years ending June 30, 2008, 2007, and 2006 were $60,281, $98,907, and $75,382, 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 for each covered employee's salary for fiscal year 2008 is 8.03 percent. The amount contributed by the Department for the fiscal year ended June 30, 2008, 2007, and 2006, were $7,838, $3,085, and $3,909, respectively.

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. Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. State agencies currently pay the 6.0 percent member contribution for their employees. The amounts contributed by the Department for the years ending June 30, 2008, 2007, and 2006, were $66,188, $72,468, and $57,342, respectively, and were equal to the required contributions for the year.

8. Other Postemployment Benefit Plans

Department employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) and the Public Employees Benefit Board (PEBB).

Retirement Health Insurance Account

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer OPEB plan which provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health insurance plan.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2008 was .37 percent which is embedded within the total PERS contribution rate.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (RHIPA) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2008 was .10 percent which is embedded within the total PERS contribution rate. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, P.O. Box 23700, Tigard, OR 97281-3700.

Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is an agent multiple-employer plan which offers medical, dental and vision benefits to eligible retired employees. Retired employees not eligible for Medicare are eligible for PEBB coverage if the retiree is receiving a service or disability benefit from PERS or another state system, is eligible to receive a retirement allowance from PERS and has reached the earliest retirement age under ORS Chapter 238, or is eligible to receive a service allowance or pension under any system offered by the state and has attained the earliest retirement age under that system. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

The Department's liability for OPEB expenses in SPWF and Water Fund for Fiscal Year 2008 was $9,196, and was allocated to SPWF ($6,916) and Water Fund ($2,280).

9. 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 coverage assessment 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.

10. Commitments

The department has awarded, but not distributed, $32.3 million to various WF infrastructure projects, and $57.9 million to SPWF projects within the State of Oregon. These awards are projected to be disbursed within three years. These commitments will be funded from current assets, future non-bond bank loan payments, and an amount to be provided from non-program sources, usually Oregon Lottery Revenue Bonds approved by the Oregon Legislature.

11. Debt Restructuring

The Department has a policy of working with financially troubled clients to keep them financially solvent, while recovering state resources loaned to the client.

At the July 2006 Commission meeting, the Commission approved a debt restructuring of six SPWF loans made to the Port of Brookings Harbor. The plan involves allowing the port to make principal-only payments on the loan at a rate that will pay off the loan by its scheduled maturity date and to defer payment of accrued interest. Subsequent to paying off the principal, the port will make payments on the deferred interest so as to pay all deferred interest by 2028. The total amount of loans outstanding at June 30, 2008, affected by this restructuring is $2,960,599. At June 30, 2008, there is $601,297 in accrued interest to be paid after loan principal has been repaid. The tentative agreement with the Port provided that the Port would pay SPWF an amount each year sufficient to satisfy the conditions of the loan restructuring conditions. Subsequent to fiscal year end, the Port has not made payments at the invoiced amount for the quarters ending September and December 2008, leaving the unpaid balance to be paid fiscal year 2009 year end. The Department is currently working with the Port to revise the debt restructuring agreement.

SPWF loans to Union County and Wallowa County for a golf course and a railroad are in the process of being restructured and are expected to be completed in Fiscal Year 2009. The unpaid balances of these loans at yearend have increased to $2,309,864 and $1,906,132, respectively.

An SPWF loan to the Port of Port Orford was restructured due to an escalating repayment schedule that will exceed their repayment ability. The loan balance at yearend is $549,623.

12. Subsequent Events

Bond Call:

The Oregon State Treasurer has called for Optional Redemption of $16,690,000 of outstanding State of Oregon. Oregon Bond Bank Revenue Bonds - Series 1999A ($135,000) will be redeemed, effective July 1, 2008). Oregon Bond Bank Revenue Bonds – Series 2000B ($16,555,000) will be redeemed, effective January 1, 2009. The Bonds will be redeemed at par, plus accrued interest to the date of redemption, except for Series 1999A which is redeemed at 101 percent. Interest on all Bonds redeemed shall cease to accrue on July 1, 2008 and January 1, 2009, respectively.

OTHER REPORTS

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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 basic financial statements of the Special Public Works Fund and Water Fund, enterprise funds of the State of Oregon, Economic and Community Development Department (department), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 25, 2009. 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 department's internal control over financial reporting relating to the Special Public Works Funds and Water Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the department's Special Public Works Fund and Water Fund are free of material misstatement, we performed tests of 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*.

This report is intended solely for the information and use of the department's management, the Economic and Community Development Commission, 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

Kate Brown

Kate Brown
Secretary of State

March 25, 2009

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.

Audit Team

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

internet: http://www.sos.state.or.us/audits/index.html

phone: 503-986-2255

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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