

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Enterprise Funds of the State of Oregon

### **Oregon Business Development Department** Special Public Works Fund and Water Fund

For the Fiscal Year Ended June 30, 2010

Office of the Secretary of State

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



Audits Division

Gary Blackmer  
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The Honorable John Kitzhaber, Governor of Oregon  
Tim McCabe, Director, Oregon Business Development Department  
Oregon Business Development Commission  
Oregon Infrastructure Finance Authority Board

This report presents the results of our audit of the Special Public Works Fund and Water Fund of the Oregon Business Development Department (department), for the year ended June 30, 2010.

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, 2010, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the department's internal control of the Special Public Works Fund and Water Fund and compliance with applicable laws, regulations, contracts, and grant agreements. 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*. 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 Oregon Business Development Department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

A handwritten signature in cursive script that reads "Gary Blackmer".

Gary Blackmer  
Director

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## FINANCIAL SECTION

**Office of the Secretary of State**

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**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Special Public Works Fund and Water Fund, enterprise funds of the State of Oregon, Business Development Department, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Oregon Business Development 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 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, Business Development Department, are intended to present the financial position, changes in financial position, and cash flows of only the Special Public Works Fund and Water Fund. They do not purport to, and do not, present fairly the financial position of the Oregon Business Development Department or the State of Oregon as of June 30, 2010, and the changes in their financial position and their 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 Special Public Works Fund and Water Fund as of June 30, 2010, 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 21, 2011 on our consideration of the Oregon Business Development Department's internal control over financial reporting relating to the Special Public Works Fund and Water Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the 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 presented separately in the Other Report section as listed in the table of contents.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read 'Kate Brown', with a long horizontal flourish extending to the right.

Kate Brown  
Secretary of State

March 21, 2011

**STATE OF OREGON**  
**OREGON BUSINESS DEVELOPMENT DEPARTMENT**  
**SPECIAL PUBLIC WORKS FUND AND WATER FUND**  
**ENTERPRISE FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2010**

	<u>SPWF</u>	<u>WF</u>	<u>TOTAL</u>
<b>Assets</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 80,998,532	\$ 12,402,894	\$ 93,401,426
Securities Lending Collateral	31,424,363	4,811,852	36,236,215
Interest Receivable	9,138,537	2,975,223	12,113,760
Due from Other Funds	21,271	-	21,271
Total Current Assets	<u>121,582,703</u>	<u>20,189,969</u>	<u>141,772,672</u>
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	9,760,254	3,113,621	12,873,875
Deferred Charges	1,536,777	541,447	2,078,224
Advances to Other Funds	-	100,000	100,000
Loans Receivable (net)	<u>241,457,616</u>	<u>96,662,698</u>	<u>338,120,314</u>
Total Noncurrent Assets	<u>252,754,647</u>	<u>100,417,766</u>	<u>353,172,413</u>
<b>Total Assets</b>	<u>\$ 374,337,350</u>	<u>\$ 120,607,735</u>	<u>\$ 494,945,085</u>
<b>Liabilities and Net Assets</b>			
Current Liabilities			
Accounts Payable	\$ 4,912	\$ 20,234	\$ 25,146
Interest Payable - Bonds	2,675,239	1,158,698	3,833,937
Obligations Under Securities Lending	31,424,363	4,811,852	36,236,215
Due to Other Governments	-	24,092	24,092
Bonds Payable	6,810,000	2,815,000	9,625,000
Trust Funds Payable	212,306	-	212,306
Compensated Absences Payable	<u>4,968</u>	<u>18,349</u>	<u>23,317</u>
Total Current Liabilities	<u>41,131,788</u>	<u>8,848,225</u>	<u>49,980,013</u>
Noncurrent Liabilities:			
Bonds Payable	108,239,339	46,102,679	154,342,018
Trust Funds Payable	151,067	212,581	363,648
Compensated Absences Payable	23,480	9,453	32,933
Net Obligation for Other Post-Employment Benefits	<u>15,112</u>	<u>5,312</u>	<u>20,424</u>
Total Noncurrent Liabilities	<u>108,428,998</u>	<u>46,330,025</u>	<u>154,759,023</u>
<b>Total Liabilities</b>	<u>149,560,786</u>	<u>55,178,250</u>	<u>204,739,036</u>
Net Assets:			
Restricted for Debt Service	3,180,898	1,055,334	4,236,232
Restricted for Transportation-Eligible Projects	5,067,237	-	5,067,237
Restricted for Infrastructure Projects	523,193	-	523,193
Unrestricted	<u>216,005,236</u>	<u>64,374,151</u>	<u>280,379,387</u>
<b>Total Net Assets</b>	<u>224,776,564</u>	<u>65,429,485</u>	<u>290,206,049</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 374,337,350</u>	<u>\$ 120,607,735</u>	<u>\$ 494,945,085</u>

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

**STATE OF OREGON  
OREGON BUSINESS 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, 2010**

	<u>SPWF</u>	<u>WF</u>	<u>TOTAL</u>
<b>Operating Revenues:</b>			
Loan Interest Income	\$ 12,193,108	\$ 3,439,623	\$ 15,632,731
Other Income	276,940	30	276,970
<b>Total Operating Revenues</b>	<u>12,470,048</u>	<u>3,439,653</u>	<u>15,909,701</u>
<b>Operating Expenses:</b>			
Salaries and Wages	1,077,144	439,115	1,516,259
Services and Supplies	320,067	144,524	464,591
Special Payments - Grants	1,181,137	1,879,225	3,060,362
Bond Interest	5,605,859	2,622,162	8,228,021
Bond Issuance Cost Amortization	350,332	96,274	446,606
<b>Total Operating Expenses</b>	<u>8,534,539</u>	<u>5,181,300</u>	<u>13,715,839</u>
<b>Operating Income (Loss)</b>	3,935,509	(1,741,647)	2,193,862
<b>Non Operating Revenues (Expenses):</b>			
Investment Income	562,060	275,527	837,587
Investment Expense	(51,966)	(11,666)	(63,632)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>510,094</u>	<u>263,861</u>	<u>773,955</u>
<b>Income (Loss) Before Transfers</b>	4,445,603	(1,477,786)	2,967,817
<b>Transfers</b>			
Transfers From Other Funds	1,419,010	1,652,765	3,071,775
Transfers to Other Funds	(4,951,972)	(1,613,806)	(6,565,778)
<b>Net Transfers From (To) Other Funds</b>	<u>(3,532,962)</u>	<u>38,959</u>	<u>(3,494,003)</u>
<b>Change In Net Assets</b>	<u>912,641</u>	<u>(1,438,827)</u>	<u>(526,186)</u>
<b>Beginning Net Assets</b>	224,278,711	66,852,966	291,131,677
Prior Period Adjustment	(414,788)	15,346	(399,442)
<b>Beginning Net Assets, Restated</b>	<u>223,863,923</u>	<u>66,868,312</u>	<u>290,732,235</u>
<b>Net Assets - Ending</b>	<u>\$ 224,776,564</u>	<u>\$ 65,429,485</u>	<u>\$ 290,206,049</u>

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

**STATE OF OREGON  
OREGON BUSINESS DEVELOPMENT DEPARTMENT  
SPECIAL PUBLIC WORKS FUND AND WATER FUND  
ENTERPRISE FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>SPWF</u>	<u>WF</u>	<u>TOTAL</u>
<b>Cash Flows From Operating Activities:</b>			
Loan Principal Repayments	\$ 37,483,138	\$ 7,080,884	\$ 44,564,022
Loan Interest Received	11,503,425	3,752,418	15,255,843
Payments to Employees for Services	(1,118,270)	(432,197)	(1,550,467)
Payments to Suppliers	(378,853)	(130,136)	(508,989)
Grants Made	(2,273,020)	(2,479,897)	(4,752,917)
Loans Made	(17,100,492)	(15,413,023)	(32,513,515)
Other Receipts (Payments)	<u>500</u>	<u>30</u>	<u>530</u>
Net Cash Provided (Used) in Operating Activities	<u>28,116,428</u>	<u>(7,621,921)</u>	<u>20,494,507</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Principal Payments on Bonds	(7,075,000)	(4,420,000)	(11,495,000)
Interest Payments on Bonds	(5,298,072)	(2,436,277)	(7,734,349)
Transfers from Other Funds	1,440,357	1,659,040	3,099,397
Transfers to Other Funds	<u>(5,247,782)</u>	<u>(1,667,006)</u>	<u>(6,914,788)</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(16,180,497)</u>	<u>(6,864,243)</u>	<u>(23,044,740)</u>
<b>Cash Flows From Investing Activities:</b>			
Proceeds from Sales and Maturities of Investments	6,665,153	2,175,147	8,840,300
Interest on Investments and Cash Balances	<u>514,157</u>	<u>258,157</u>	<u>772,314</u>
Net Cash Provided (Used) in Investing Activities	<u>7,179,310</u>	<u>2,433,304</u>	<u>9,612,614</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	19,115,241	(12,052,860)	7,062,381
<b>Cash and Cash Equivalents - Beginning</b>	<u>71,643,545</u>	<u>27,569,375</u>	<u>99,212,920</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 90,758,786</u>	<u>\$ 15,516,515</u>	<u>\$ 106,275,301</u>

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

**STATE OF OREGON**  
**OREGON BUSINESS DEVELOPMENT DEPARTMENT**  
**SPECIAL PUBLIC WORKS FUND AND WATER FUND**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS (continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>SPWF</u>	<u>WF</u>	<u>TOTAL</u>
<b>Reconciliation Of Operating Income To Net Cash</b>			
<b>Provided (Used) By Operating Activities:</b>			
Operating Income (Loss)	\$ 3,935,509	\$ (1,741,647)	\$ 2,193,862
<b>Adjustments To Reconcile Operating Income To Net Cash</b>			
<b>Provided (Used) By Operating Activities:</b>			
Amortization of Bond Issuance Costs	350,332	96,274	446,606
Amortization of Bond Premium and Discount	15,306	11,650	26,956
Reduction in Allowance for Uncollectible Accounts	(276,440)	-	(276,440)
Interest Payments Reported as Operating Expense	5,298,072	2,436,277	7,734,349
<b>Net Changes in Assets and Liabilities:</b>			
Interest Receivable	(689,683)	312,795	(376,888)
Loans Receivable	20,382,646	(8,332,139)	12,050,507
Accounts Payable	(1,150,669)	(584,045)	(1,734,714)
Interest Payable	292,481	174,235	466,716
Compensated Absences Payable	(41,126)	4,679	(36,447)
Total Adjustments	<u>24,180,919</u>	<u>(5,880,274)</u>	<u>18,300,645</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 28,116,428</u>	<u>\$ (7,621,921)</u>	<u>\$ 20,494,507</u>

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

**STATE OF OREGON**  
**OREGON BUSINESS DEVELOPMENT DEPARTMENT**  
**SPECIAL PUBLIC WORKS FUND AND WATER FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Oregon Business 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.

**1.A - THE REPORTING ENTITY**

A major focus of the Oregon Business Development Department (the Department) is to help communities plan, design and construct municipally-owned infrastructure such as safe drinking water systems, 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.

**1.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.

**1.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

## **SPECIAL PUBLIC WORKS FUND AND WATER FUND**

### **Notes to Financial Statements (continued)**

June 30, 2010

sheet. Equity is reported as Net Assets. The SPWF and WF statement of revenues, expenses, and changes in fund net assets present increases (e.g. revenues) and decreases (e.g. expenses) in net assets.

Operating revenues and expenses generally result from providing services to municipalities. Significant operating income includes loan interest received. 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. The SPWF and WF are accounted for as separate programs; therefore, there is no internal activity.

#### **1.D - BUDGETARY ACCOUNTING**

The Oregon Legislature approves the State of Oregon's budget on a biennial basis. 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. The SPWF and WF have continuous spending authority under ORS 285B.455 and 285B.563.

#### **1.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. The governmental units SPWF and WF provide financing to are responsible for any arbitrage liability incurred on the bonds.

#### **1.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.

#### **1.G - RECEIVABLES**

Interest receivable includes interest due on loans to local governments and special districts. Loans Receivable at June 30 consisted of approximately 360 loans totaling \$339,767,006. An allowance for uncollectible loans was established in the SPWF to estimate the potential loss from uncollectible loans. As of June 30, 2010 the allowance for uncollectible loans equals \$1,646,692. Actual loan losses may vary from estimated amounts.

#### **1.H - COMPENSATED ABSENCES**

Employees accumulate earned but unused vacation and sick leave benefits. Accumulated vacation leave for employees is recorded as an expense and a liability of the SPWF and WF programs as benefits accrue to the employee. A liability for unpaid accumulated sick leave is not recorded. Employees are not paid for unused sick leave benefits when employees leave Department service.

## **SPECIAL PUBLIC WORKS FUND AND WATER FUND**

### **Notes to Financial Statements (continued)**

June 30, 2010

#### **1.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.

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 "Transportation-Eligible Projects" as defined by Oregon Revised Statutes applicable to Gas Tax Revenues uses and approved by ODOT.

Proceeds from bond sales on behalf of Oregon municipalities are restricted. These proceeds, and any interest earnings, may only be used to reimburse eligible project expenditures, or to pay debt service on the bonds.

#### **1.J - NET ASSETS**

Net Assets are divided into four classifications: Restricted for Debt Service, Restricted for Transportation-Eligible Projects, Restricted for Infrastructure Projects, and Unrestricted.

Restricted for Debt Service is the total of all debt service reserve funds for all outstanding Oregon Bond Bank issues held by the bond trustee until the bond issues are paid in full. "Restricted for Infrastructure Projects" consists of un-disbursed proceeds of Oregon Bond Bank sales, which are restricted for specific loans.

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

#### **NOTE 2 - CASH AND CASH EQUIVALENTS**

##### **2.A - DEPOSITS**

As of June 30, 2010, the book balance of monies held in demand accounts with the State Treasurer was \$93,401,426. The bank balance was \$94,077,092. The Oregon State Treasurer maintains the Oregon Short-term Fund (OSTF), a cash and investment pool that is available for use by the Department. Because the pool operates as a demand deposit account, deposits in the OSTF are reported on the financial statements as cash and cash equivalents.

A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report may be obtained from the Office of the State Treasurer, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896, or from the Treasury's website at <http://www.ost.state.or.us/divisions/investments/index.htm#fund>.

##### **2.B - CUSTODIAL CREDIT RISK**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Department will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Department does not have a formal policy regarding custodial credit risk for deposits. However, banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

Oregon Revised Statutes (ORS) Chapter 295 governs the collateralization of public funds. Bank depositories are required to pledge collateral against any public fund deposits in excess of deposit insurance amounts.

## **SPECIAL PUBLIC WORKS FUND AND WATER FUND**

### **Notes to Financial Statements (continued)**

June 30, 2010

All deposits in the OSTF at June 30, 2010, are with financial institutions participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program (TAGP). Under this program, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit rules. Consequently, the entire bank balance of the OSTF was fully insured.

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 trustee) as agents for the department totaled \$12,873,875. 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 \$250,000. 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.

### **NOTE 3 - 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.

#### **3.A - CONCENTRATION OF CREDIT RISK**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department does not have a policy concerning concentration of credit risk. All investments at June 30, 2009 matured during the year ended June 30, 2010. Proceeds were deposited in the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2010, the Department was not exposed to concentration of credit risk.

#### **3.B - CREDIT RISK**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a policy concerning credit risk. All investments at June 30, 2009 matured during the year ended June 30, 2010. Proceeds were deposited in the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2010, the Department was not exposed to credit risk.

#### **3.C - INTEREST RATE RISK**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have an investment policy concerning Interest Rate Risk. All investments at June 30, 2009 matured during the year ended June 30, 2010. Proceeds were deposited in the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2010, the Department was not exposed to interest rate risk.

**SPECIAL PUBLIC WORKS FUND AND WATER FUND**

**Notes to Financial Statements (continued)**

June 30, 2010

**3.D - SECURITIES LENDING**

In accordance with State of Oregon investment policies, state agencies may participate in securities lending. The Department is involved in securities lending only with cash balances invested in the Oregon Short Term Fund (OSTF).

Details at June 30, 2010 are:

	<u>Total OSTF</u>		<u>SPWF</u>		<u>WF</u>
Collateral received for the securities on loan	\$ 3,101,449,925	\$	31,424,363	\$	4,811,852
Fair value of all securities on loan	3,038,311,073		30,785,461		4,714,021
Fair value of all investments made with cash collateral received	3,100,861,705		31,419,250		4,811,070

The Office of the State Treasurer has authorized its custodian to act as its agent in the lending of OSTF securities pursuant to a form of loan agreement, in accordance with OSTF investment policies. There have been no significant violations of the provisions of securities lending agreements during the year ended June 30, 2010.

During the year, the State's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash, U.S. Treasury and agency securities, and international debt and equity securities. Borrowers were required to deliver cash collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State did not impose any restrictions during the year on the amount of loans the securities lending agent made on its behalf. The State is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from failure of borrowers to return loaned securities.

**NOTE 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, 2010:

	<u>July 1 2009</u>		<u>Increase</u>		<u>Decrease</u>		<u>June 30 2010</u>		<u>Due in one year</u>
Bonds payable									
Principal	\$ 175,570,000	\$		\$	(11,495,000)	\$	164,075,000	\$	9,625,000
Premium	1,110,490				(1,076,753)		33,737		
Discount	(165,428)				23,709		(141,719)		
Total	<u>176,515,062</u>		<u>-</u>		<u>(12,548,044)</u>		<u>163,967,018</u>		<u>9,625,000</u>
Compensated absences	95,566		3,885		(43,201)		56,250		23,317
Trust funds payable	577,595		478,690		(480,331)		575,954		212,306
Net Obligation for Post Employment Benefits	17,555		2,869		-		20,424		
Total	<u>\$ 177,205,778</u>	\$	<u>485,444</u>	\$	<u>(13,071,576)</u>	\$	<u>164,619,646</u>	\$	<u>9,860,623</u>

**SPECIAL PUBLIC WORKS FUND AND WATER FUND**

**Notes to Financial Statements (continued)**

June 30, 2010

**NOTE 5 - BONDS ISSUED AND OUTSTANDING**

As of June 30, 2010, Oregon Bond Bank revenue bonds totaling \$164,075,000 are outstanding. Bond proceeds are lent to Oregon local governments (Borrowers) to fund eligible SPWF and WF projects. Security for bond payment is primarily from repayment of these loans made to the Department by the Borrowers. These bonds are not general obligations of the State of Oregon. Bonds payable reported on the balance sheet are recorded net of original issue discounts and premiums. Bond discounts of \$141,719 and bond premiums of \$33,737 are included in Bonds Payable as of June 30, 2010. The following table summarizes the changes in bonds outstanding during fiscal year 2010.

Series	Due	Interest	Amounts in thousands of dollars:				
			Original issue	July 1 2009	Decrease	June 30 2010	Due in one year
1993 A	1994-2013	2.80-5.50%	\$ 21,610	\$ 1,970	\$ (835)	\$ 1,135	\$ 690
1993 B	1998-2013	5.75-7.75	955	310	(70)	240	75
1993 C	1995-2014	3.20-5.38	11,815	440	(80)	360	90
1994 A	1996-2015	5.00-6.00	5,690	2,175	(315)	1,860	330
1995 A	1997-2016	3.90-5.75	4,755	290	(35)	255	35
1996 A	1998-2017	4.10-5.50	6,000	2,190	(365)	1,825	220
1996 One	1997-2016	3.50-5.50	10,665	920	(175)	745	105
1996 Two	2000-2016	4.20-5.50	2,400	1,230	(150)	1,080	155
1997 A	1999-2018	3.95-5.10	10,520	6,150	(670)	5,480	580
1998 A	1999-2023	4.25-5.00	6,000	3,905	(1,280)	2,625	225
1998 B	1999-2015	4.10-4.75	6,105	3,240	(485)	2,755	500
1999 A	2000-2024	4.25-5.25	7,050	4,730	(220)	4,510	230
2000 A	2001-2025	5.25-5.63	47,240	14,835	(1,450)	13,385	805
2000 B	2002-2026	4.45-5.50	34,020	8,655	(585)	8,070	605
2002 A	2003-2027	3.00-5.00	7,850	5,450	(390)	5,060	415
2002 B	2004-2028	3.00-4.75	28,825	22,240	(1,210)	21,030	1,255
2003 A	2005-2029	3.00-4.63	25,475	21,345	(890)	20,455	925
2004 A	2006-2030	3.00-4.50	6,325	5,615	(200)	5,415	210
2004 B	2006-2020	3.00-5.25	3,365	2,940	(125)	2,815	130
2007 A	2008-2025	4.00-4.38	26,905	25,525	(830)	24,695	860
2007 B	2008-2019	5.13-6.00	8,900	8,585	(210)	8,375	225
2009 A	2010-2029	3.00-5.25%	32,830	32,830	(925)	31,905	960
			<u>\$ 315,300</u>	<u>\$ 175,570</u>	<u>\$ (11,495)</u>	<u>\$ 164,075</u>	<u>\$ 9,625</u>

**SPECIAL PUBLIC WORKS FUND AND WATER FUND**

**Notes to Financial Statements (continued)**

June 30, 2010

**NOTE 6 - DEBT SERVICE REQUIREMENTS TO MATURITY**

Future maturities of principal and interest as of June 30, 2010:

Year(s) ending June 30	Principal	Interest	Total
2011	\$ 9,625,000	\$ 7,667,873	\$ 17,292,873
2012	9,425,000	7,245,522	16,670,522
2013	9,510,000	6,828,847	16,338,847
2014	9,400,000	6,399,484	15,799,484
2015	9,740,000	5,972,001	15,712,001
2016-2020	44,600,000	23,407,144	68,007,144
2021-2025	39,390,000	13,328,627	52,718,627
2026-2030	24,920,000	4,974,962	29,894,962
2031-2034	7,465,000	771,313	8,236,313
Total	\$ <u>164,075,000</u>	\$ <u>76,595,773</u>	\$ <u>240,670,773</u>

**NOTE 7 - DEBT DEFEASED IN SUBSTANCE**

In July 1993, the SPWF 1992 Series C debt issue was advance refunded. The refunded bonds are considered defeased in substance. The liability has been removed from the SPWF statement of net assets. The amount of 1992 Series C defeased debt outstanding at June 30, 2010 is \$210,000.

**NOTE 8 - EMPLOYEE RETIREMENT PLAN**

**8.A - PLAN DESCRIPTION**

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 Employees' 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.

**8.B - OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

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

**SPECIAL PUBLIC WORKS FUND AND WATER FUND**

**Notes to Financial Statements (continued)**

June 30, 2010

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

**8.C - 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 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 to the plan. The Department currently pays the member contribution for its employees.

**8.D - PLAN RATES**

The required contribution rates applied to subject salary are:

Year ended June 30	PERS	OPSRP	IAP
2010	2.99%	5.73%	6.00%
2009	6.07%	5.82%	6.00%
2008	6.07%	5.82%	6.00%

**8.E - ANNUAL PENSION COST**

The annual pension cost for the year ended June 30, 2010 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2010	\$ 18,056	\$ 34,609	\$ 36,236
2009	52,826	50,643	52,215
2008	55,904	53,598	55,262

## **SPECIAL PUBLIC WORKS FUND AND WATER FUND**

### **Notes to Financial Statements (continued)**

June 30, 2010

#### **NOTE 9 - OTHER POSTEMPLOYMENT BENEFIT PLANS**

##### **9.A - PLAN DESCRIPTION**

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).

##### **9.B - 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, 2010 was 0.29 percent which is embedded within the total PERS contribution rate.

##### **9.C - 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, 2010 was 0.08 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.

##### **9.D - 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.

**SPECIAL PUBLIC WORKS FUND AND WATER FUND**

**Notes to Financial Statements (continued)**

June 30, 2010

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.

**9.E - OPEB OBLIGATION**

The Department's liability for OPEB expenses in SPWF and WF for Fiscal Year 2010 was \$2,869, and was allocated to SPWF (\$2,075) and WF (\$794).

**NOTE 10 - 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 SPWF and WF programs, the amount of claim settlements did not exceed insurance coverage for each of the past three years.

**NOTE 11 - COMMITMENTS**

The Department has signed contracts to fund various SPWF and WF projects. The amount of money committed but not disbursed at June 30, 2010 is:

Amounts in millions of dollars:

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
\$	<u>30.3</u>	<u>36.7</u>	<u>67.0</u>

Money for these projects is expected to be disbursed within three years. These commitments will be funded from current assets, future non-bond bank loan payments, and any amount provided from non-program sources, such as Oregon Lottery Revenue Bonds approved by the Oregon Legislature.

**NOTE 12 - PRIOR PERIOD ADJUSTMENT**

Beginning net assets of the SPWF and the WF programs were adjusted as follows:

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Increase (decrease)	<u>\$ (414,788)</u>	<u>15,346</u>	<u>(399,442)</u>

The adjustment was needed to correct for the difference between actual and estimated loan principal payments received just prior to June 30, 2009.

**SPECIAL PUBLIC WORKS FUND AND WATER FUND**

**Notes to Financial Statements (continued)**

June 30, 2010

**NOTE 13 - SUBSEQUENT EVENTS**

**13.A - BOND CALLS**

The Oregon State Treasurer has called for Optional Redemption of \$16,525,000 of outstanding State of Oregon, Oregon Bond Bank Revenue Bonds:

Issue	Redemption date	Payable from		Total bond call
		SPWF	WF	
1993 Series A	07/01/10	\$ 55,000		55,000
1996 Series 1	07/01/10		640,000	640,000
1998 Series A	07/01/10	275,000		275,000
2000 Series A	07/01/10	2,550,000		2,550,000
1993 Series B	01/01/11	75,000		75,000
1993 Series C	01/01/11	90,000		90,000
1994 Series A	01/01/11	210,000		210,000
1998 Series A	01/01/11	95,000		95,000
2000 Series A	01/01/11	1,345,000	3,535,000	4,880,000
2002 Series B	02/15/11	7,655,000		7,655,000
		<u>\$ 12,350,000</u>	<u>4,175,000</u>	<u>16,525,000</u>

The Bonds will be redeemed at par, plus accrued interest to the redemption date. Interest on called bonds shall cease to accrue from and after the redemption date.

**13.B - DEBT ISSUED**

The Department issued \$21,555,000 of debt dated August 31, 2010:

Issue	SPWF	WF	Total debt issued
2010 Series A-1, tax-exempt	\$ 7,560,000	8,200,000	15,760,000
2010 Series A-2, taxable		5,795,000	5,795,000
	<u>\$ 7,560,000</u>	<u>13,995,000</u>	<u>21,555,000</u>

## **OTHER REPORT**

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

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The Honorable John Kitzhaber, Governor, of Oregon  
Tim McCabe, Director, Oregon Business Development Department  
Oregon Business Development Commission  
Oregon Infrastructure Finance Authority Board

**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 and Water Fund, enterprise funds of the State of Oregon, Business Development Department, as of and for the year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. 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 Oregon Business Development Department's internal control over financial reporting relating to the Special Public Works Fund 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 Oregon Business Development Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Business Development Department's internal control over financial reporting.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Special Public Works Fund and Water Fund 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*.

This report is intended solely for the information and use of management of the Oregon Business Development Department, the Oregon Business Development Commission, the Oregon Infrastructure Finance Authority Board, 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 'Kate Brown', with a long horizontal flourish extending to the right.

Kate Brown  
Secretary of State

March 21, 2011

## **About the Secretary of State Audits Division**

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of her 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**

Mary E. Wenger, CPA, Deputy Director

V. Dale Bond, CPA, CISA, CFE, Audit Manager

Sarah A. Anderson, CPA

Shawna J. Binning, MBA

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

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

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