

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon

Applying Agreed-Upon Procedures

**Department of Human Services
Safe Drinking Water Revolving
Loan Fund**

For 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
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Director and Management of the Department of Human Services:

As required by the U.S. Environmental Protection Agency, the State of Oregon submits financial statements for the Safe Drinking Water Revolving Loan Fund. Oregon's financial statements include three agencies: Oregon Business Development Department (OBDD), Department of Human Services (department) and the Department of Environmental Quality (DEQ). The department prepares the financial statements for DHS and DEQ. The OBDD prepares their own financial statements and provides them to the department for inclusion in the report.

We performed the procedures, as described below, which were agreed to by the department. The procedures were solely to provide the department assurance that the department's set-aside funds, reported as part of the Safe Drinking Water Revolving Loan Fund financial statements for the year ended June 30, 2010, were reported in accordance with generally accepted accounting principles. Department management is responsible for preparing the financial statements and any required supplementary information, maintaining adequate accounting records, and selecting and applying appropriate accounting standards. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below.

The procedures performed and the results are discussed below.

1. We determined whether the balance sheet and operating statement, excluding note disclosures, were mathematically accurate and prepared in a format required by Generally Accepted Accounting Principles (GAAP).

We found no exceptions as a result of this procedure.

2. We determined whether the statement of cash flows was mathematically accurate and prepared in the format required by GAAP. We did not review the details of the line items.

We found no exceptions as a result of this procedure.

3. We agreed account balances on the balance sheet and operating statement to the state's accounting system and ensured they were adequately supported in accordance with GAAP.

We found no exceptions as a result of this procedure.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the department and is not intended to be and should not be used by anyone other than the 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

April 8, 2011

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
BALANCE SHEET
June 30, 2010**

ASSETS	<u>OBDD</u>	<u>DHS</u>¹	<u>DEQ</u>	<u>Unaudited TOTALS</u>
<i>Current Assets:</i>				
Cash	\$ 36,667,058	\$ (227,691)	\$ (58,500)	\$ 36,380,867
Interest Receivable	1,647,967	-	-	1,647,967
Securities Lending Cash Collateral	14,225,430	-	-	14,225,430
Accounts Receivable - Federal	-	540,487	-	540,487
Due from Other Funds	80,712	-	104,243	184,955
<i>Total Current Assets</i>	<u>52,621,167</u>	<u>312,796</u>	<u>45,744</u>	<u>52,979,706</u>
<i>Noncurrent Assets:</i>				
Loans Receivable, Net	127,064,800	-	-	127,064,800
<i>Total Noncurrent Assets:</i>	<u>127,064,800</u>	<u>-</u>	<u>-</u>	<u>127,064,800</u>
Total Assets	<u>\$ 179,685,967</u>	<u>\$ 312,796</u>	<u>\$ 45,744</u>	<u>\$ 180,044,506</u>
 LIABILITIES AND NET ASSETS				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 124,706	\$ 127,841	\$ 3,119	\$ 255,666
Obligations Under Securities Lending	14,225,430	-	-	14,225,430
Payroll Payable	-	-	42,436	42,436
Compensated Absences Payable	21,271	-	-	21,271
Due to Other Funds	-	184,955	-	184,955
<i>Total Current Liabilities</i>	<u>14,371,407</u>	<u>312,796</u>	<u>45,555</u>	<u>14,729,758</u>
<i>Noncurrent Liabilities:</i>				
Due to Other Funds	102,486	-	188	102,674
Compensated Absences Payable	10,958	-	-	10,958
<i>Total Noncurrent Liabilities</i>	<u>113,444</u>	<u>-</u>	<u>188</u>	<u>113,632</u>
Total Liabilities	<u>14,484,851</u>	<u>312,796</u>	<u>45,743</u>	<u>14,843,390</u>
Unrestricted Net Assets:	<u>165,201,116</u>	<u>-</u>	<u>0</u>	<u>165,201,116</u>
Total Net Assets	<u>165,201,116</u>	<u>-</u>	<u>0</u>	<u>165,201,116</u>
Total Liabilities and Net Assets	<u>\$ 179,685,967</u>	<u>\$ 312,796</u>	<u>\$ 45,744</u>	<u>\$ 180,044,506</u>

¹ Agreed Upon Procedures Performed only on DHS Column

STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>OBDD</u>	<u>DHS</u> ¹	<u>DEQ</u>	<u>Unaudited</u> <u>TOTALS</u>
Operating Revenues:				
Grant Income	\$ -	\$ 26,005,492	\$ -	\$ 26,005,492
Interest Income	2,602,458	-	-	2,602,458
Total Operating Revenues	<u>2,602,458</u>	<u>26,005,492</u>	<u>-</u>	<u>28,607,950</u>
Operating Expenses:				
Personal Services	527,033	-	-	527,033
Services and Supplies	62,178	-	-	62,178
Special Payments	6,303,837	-	-	6,303,837
Administrative Expenses	-	352,251	-	352,251
Technical Assistance	-	178,886	-	178,886
State Program Management	-	1,312,795	-	1,312,795
Local Assistance/Other State Programs:				
Implementation of Protection	-	331,937	-	331,937
Water Protection Projects	-	149	-	149
Implementation of Protection--DEQ	-	-	543,023	543,023
Water System Capacity Program	-	480,021	-	480,021
Total Operating Expenses	<u>6,893,048</u>	<u>2,656,039</u>	<u>543,023</u>	<u>10,092,110</u>
Operating Income (Loss)	(4,290,590)	23,349,453	(543,023)	18,515,840
Transfers-out: To DEQ	-	(543,023)	-	(543,023)
Transfers-out: To OBDD	-	(22,806,430)	-	(22,806,430)
Transfers-in: From Public Health	22,806,430	-	543,023	23,349,453
Change in Net Assets	<u>18,515,840</u>	<u>-</u>	<u>-</u>	<u>18,515,840</u>
Net Assets - Beginning	145,392,847	-	-	145,392,847
Prior Period Adjustments	1,292,429	-	-	1,292,429
Net Assets - Beginning - As Restated	<u>146,685,276</u>	<u>-</u>	<u>-</u>	<u>146,685,276</u>
Net Assets - Ending	<u>\$ 165,201,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,201,116</u>

¹ Agreed Upon Procedures Performed only on DHS Column

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Unaudited <u>TOTAL</u>
Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 7,893,309
Loan Interest Received	2,740,235
Payments to Employees for Services	(516,490)
Payments to Suppliers	(65,022)
Payments for Program Loans & Special Payments	<u>(22,747,956)</u>
Net Cash Provided (Used) in Operating Activities	<u>(12,695,924)</u>
 Cash Flows from Noncapital Financing Activities:	
US EPA Grant Receipts	<u>22,847,121</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>22,847,121</u>
 Cash Flow from Investing Activities:	
Interest on Cash and Cash Equivalent Balances	<u>217,885</u>
Net Cash Provided (Used) in Investing Activities	<u>217,885</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 10,369,082
 Cash and Cash Equivalents-Beginning	 <u>26,011,785</u>
Cash and Cash Equivalents - Ending	<u>\$ 36,380,867</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 18,515,840
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Interest Income reported on Cash and Cash Equivalents	(217,885)
Increase in Principal Forgiveness on Loans	6,364,428
Grant Income	(22,971,553)
 Changes in Assets and Liabilities:	
Decrease in Accounts Receivable Federal	1,507
Decrease in Interest Receivable	453,858
Increase in Loans Receivable	(14,916,183)
Decrease in Accounts Payable/Payroll Payable	(113,488)
Increase in Due from Other Agencies	<u>187,552</u>
Total Adjustments	<u>(31,211,764)</u>
 Net Cash Provided (Used) by Operating Activities	 <u>\$ (12,695,924)</u>

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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 Wenger, CPA, Deputy Director

Kelly Olson, CPA, Audit Manager

Byron Williams, CPA, Principal Auditor

Janet Metz, Staff Auditor

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 Department of Human Services during the course of this engagement were commendable and sincerely appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government