

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**

**Annual Financial Report
Year ended June 30, 2011**

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**

**Annual Financial Report
Year ended June 30, 2011**

Table of Contents

	Page
Financial Section	
Independent Auditor's Report	1
Basic Financial Statements	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Fund Net Assets	4
Statement of Cash Flows	5
Notes to the Basic Financial Statements	7
Other Report	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	20

Financial Section

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

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

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, 2011, 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, 2011, 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, 2011, 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, 2012 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, 2012

Basic Financial Statements

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Statement of Net Assets (in \$thousands)
June 30, 2011

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 107,125	13,149	120,274
Securities lending collateral	33,144	4,068	37,212
Interest receivable	6,428	2,827	9,255
Due from other funds	7	-	7
Total current assets	<u>146,704</u>	<u>20,044</u>	<u>166,748</u>
Noncurrent assets:			
Cash and cash equivalents - restricted	5,827	2,436	8,263
Deferred charges	1,533	693	2,226
Advances to other funds	-	100	100
Loans receivable (net)	216,257	101,279	317,536
Total noncurrent assets	<u>223,617</u>	<u>104,508</u>	<u>328,125</u>
Total assets	<u>370,321</u>	<u>124,552</u>	<u>494,873</u>
Liabilities			
Current liabilities			
Accounts payable	266	4	270
Interest payable - bonds	2,360	1,251	3,611
Obligations under securities lending	33,144	4,068	37,212
Due to other governments	25	14	39
Bonds payable	5,670	3,005	8,675
Trust funds payable	215	1	216
Compensated absences payable	54	18	72
Total current liabilities	<u>41,734</u>	<u>8,361</u>	<u>50,095</u>
Noncurrent liabilities:			
Bonds payable	97,961	52,851	150,812
Trust funds payable	151	212	363
Compensated absences payable	28	9	37
Net obligation for other post-employment benefits	17	6	23
Total noncurrent liabilities	<u>98,157</u>	<u>53,078</u>	<u>151,235</u>
Total liabilities	<u>139,891</u>	<u>61,439</u>	<u>201,330</u>
Net assets:			
Restricted for debt service	76,008	15,085	91,093
Unrestricted	154,422	48,028	202,450
Total net assets	<u>\$ 230,430</u>	<u>63,113</u>	<u>293,543</u>

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

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Statement of Revenues, Expenses, and
Changes in Fund Net Assets (in \$thousands)
Year ended June 30, 2011

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Operating revenues			
Loan interest income	\$ 7,729	4,347	12,076
Other income	133	-	133
Total operating revenues	<u>7,862</u>	<u>4,347</u>	<u>12,209</u>
Operating expenses			
Salaries and wages	1,376	467	1,843
Services and supplies	378	163	541
Special payments - grants	2,025	591	2,616
Bond interest	5,230	2,588	7,818
Bond issuance cost amortization	108	39	147
Total operating expenses	<u>9,117</u>	<u>3,848</u>	<u>12,965</u>
Operating income (loss)	(1,255)	499	(756)
Nonoperating revenue (expense)			
Investment income	576	90	666
Investment expense	(85)	(13)	(98)
Net nonoperating revenue	<u>491</u>	<u>77</u>	<u>568</u>
Income (loss) before transfers	(764)	576	(188)
Transfers			
Transfers to other Funds	(6,028)	(2,892)	(8,920)
Transfer to Department of Transportation	(5,081)	-	(5,081)
Program recapitalization	17,526	-	17,526
Net transfers from (to) other funds	<u>6,417</u>	<u>(2,892)</u>	<u>3,525</u>
Increase (decrease) in net assets	5,653	(2,316)	3,337
Beginning net assets	<u>224,777</u>	<u>65,429</u>	<u>290,206</u>
Ending net assets	<u>\$ 230,430</u>	<u>63,113</u>	<u>293,543</u>

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

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Statement of Cash Flows (in \$thousands)
Year ended June 30, 2011

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Cash flows from operating activities			
Loan principal repayments	\$ 30,033	9,361	39,394
Loan interest received	9,896	4,495	14,391
Payments to employees	(1,367)	(473)	(1,840)
Payments to suppliers	(178)	(173)	(351)
Grants made	(1,718)	(591)	(2,309)
Loans made	(4,562)	(14,142)	(18,704)
Net cash provided (used) by operating activities	<u>32,104</u>	<u>(1,523)</u>	<u>30,581</u>
Cash flows from noncapital financing activities			
Proceeds from bond sales	7,720	14,069	21,789
Bond issuance costs	(52)	(97)	(149)
Principal payments on bonds	(18,985)	(7,060)	(26,045)
Interest payments on bonds	(5,544)	(2,495)	(8,039)
Transfers from other funds	14	-	14
Transfers to other funds	(6,004)	(2,903)	(8,907)
Transfer to department of transportation	(5,081)	-	(5,081)
Program recapitalization	17,526	-	17,526
Net cash provided (used) by noncapital financing activities	<u>(10,406)</u>	<u>1,514</u>	<u>(8,892)</u>
Cash flows from investing activities			
Interest earned	495	77	572
Net cash provided by investing activities	<u>495</u>	<u>77</u>	<u>572</u>
Increase in cash and cash equivalents	22,193	68	22,261
Beginning cash and cash equivalents	<u>90,759</u>	<u>15,517</u>	<u>106,276</u>
Ending cash and cash equivalents	<u>\$ 112,952</u>	<u>15,585</u>	<u>128,537</u>

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

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Statement of Cash Flows (in \$thousands)
Year ended June 30, 2011**

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating incomes (loss)	\$ (1,255)	499	(756)
Adjustments:			
Amortization of bond issuance costs	106	38	144
Amortization of bond premium and discount	2	1	3
Reduction in allowance for uncollectible accounts	(133)	-	(133)
Bond premium applied to loans receivable	(205)	(164)	(369)
Interest payments reported as noncapital financing	5,544	2,495	8,039
Decrease (increase) in assets	-	-	-
Interest Receivable	2,710	148	2,858
Loans Receivable	25,334	(4,616)	20,718
Increase (decrease) in liabilities	-	-	-
Accounts Payable	261	(16)	245
Interest Payable	(315)	92	(223)
Compensated Absences Payable	55	-	55
Total adjustments	<u>33,359</u>	<u>(2,022)</u>	<u>31,337</u>
Net cash provided (used) by operating activities	<u>\$ 32,104</u>	<u>(1,523)</u>	<u>30,581</u>

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

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011

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

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

WF are included on the statement of net assets. Equity is reported as Net Assets. The SPWF and WF statement of revenues, expenses, and changes in fund net assets presents 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 EQUIVALENTS, AND INVESTMENTS (INCLUDING RESTRICTED)

Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents consist of: cash and investments held by the Office of the State Treasurer in the Oregon Short-term Fund; and moneys held in money market funds held by a trustee.

1.G - RECEIVABLES

Interest receivable includes interest due on loans to local governments and special districts. Loans Receivable at June 30 consisted of approximately 330 loans totaling \$319,506. An allowance for uncollectible loans was established in the SPWF to estimate the potential loss from uncollectible loans. As of June 30, 2011 the allowance for uncollectible loans equals \$1,970. Actual loan losses may vary from estimated amounts.

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

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.

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.

1.J - NET ASSETS

Net Assets are presented in two classifications: Restricted for Debt Service, 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.

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

Note 2 - Cash and Cash Equivalents

At June 30, 2011, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-term Fund (OSTF)	\$	120,274
Money market funds held by Bank of New York, trustee		8,263
		128,537
		128,537

Cash and cash equivalents are displayed in the financial statements as follows:

Current assets		
Cash and cash equivalents	\$	120,274
Noncurrent assets		
Cash and cash equivalents - restricted		8,263
		128,537
		128,537

2.A - DEPOSITS

As of June 30, 2011, the book balance of monies held in demand accounts in the OSTF was \$120,274. The bank balance was \$120,657. The Oregon State Treasurer maintains the OSTF, a cash and investment pool that is available for use by the Department

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/About/Investment/>.

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

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.

All deposits in the OSTF at June 30, 2011, 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 uninvested OSTF deposits were 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 \$8,263. 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. The remaining funds are neither insured, nor collateralized and are thus exposed to 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. Investments are with the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2011, the Department was not exposed to concentration of credit risk.

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011

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. Investments are with the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2011, 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. Investments are with the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2011, the Department was not exposed to interest rate risk.

3.D - SECURITIES LENDING

The Department's cash balances are invested in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool managed by the Office of the State Treasurer (Treasury).

The State of Oregon (State) participates in securities lending transactions in accordance with State investment policies. Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provision of securities lending agreements as of June 30, 2011.

State Street is authorized to lend OSTF securities. The State received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 102 percent of the fair value of the loaned security. Loans are marked to market daily. If the market value of collateral falls below 102 percent of the loaned security, the lender may demand from the borrower sufficient collateral to raise the market value to 102 percent. If the market value falls below 100 percent, the borrower must provide additional collateral to raise the market value to 102 percent. The State did not impose any restrictions during the fiscal year on the amount of the loans State Street made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default, but was fully indemnified by State Street against such losses.

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of the State and other participants in State Street's securities lending program. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at \$1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the statement of net assets. The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the agent may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the agent may direct that units be redeemed at fair value, engage in in-kind

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is deemed immaterial.

The fair value of investments held by the fund is based upon valuations provided by a recognized pricing service. These funds are not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. Since the funds are accounted for at amortized cost, the fair value of the State's position in the funds is not the same as the value of the funds' shares. No income from the funds was assigned to any other funds.

During the year, the State and borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral is reported on the statement of net assets and, since the cash collateral for all agencies is pooled, it is not exposed to custodial credit risk. Because loans were terminable at will by either party, their duration did not generally match the duration of investments made with cash collateral in either the pool or the fund. The State had no credit risk exposure to borrowers related to securities on loan.

Collateral received, securities on loan, and investments of cash collateral are:

	<u>Total OSTF</u>	<u>SPWF</u>	<u>WF</u>
Cash collateral received			
for the securities on loan	\$ 2,619,820	\$ 33,144	\$ 4,068
Fair value of all securities on loan	2,566,962	35,683	4,380
Fair value of all investments made with cash collateral received	2,384,284	33,144	4,068

The securities on loan from the OSTF in total included:

	<u>Percent</u>
U.S. Treasury securities	32.32 %
U.S. Agency securities	60.94
Domestic corporate bonds	6.74
	<u>100.00</u>

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

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, 2011:

	July 1, 2010	Increase	Decrease	June 30, 2011	Due in one year
Bonds payable					
Principal	\$ 164,075	21,555	(26,045)	159,585	8,675
Premium	34	7	(9)	32	2
Discount	(142)		12	(130)	(10)
Total bonds payable	<u>163,967</u>	<u>21,562</u>	<u>(26,042)</u>	<u>159,487</u>	<u>8,667</u>
Compensated absences	56	53		109	72
Trust funds payable	576	693	(690)	579	216
Net obligation for post- Employment benefits	20	3		23	
	<u>\$ 164,619</u>	<u>22,311</u>	<u>(26,732)</u>	<u>160,198</u>	<u>8,955</u>

Note 5 - DEBT SERVICE REQUIREMENTS TO MATURITY

Future maturities of principal and interest as of June 30, 2011:

Year(s) ending June 30	Principal	Interest	Total
2012	\$ 8,675	\$ 7,224	\$ 15,899
2013	8,715	6,860	15,575
2014	8,830	6,489	15,319
2015	9,130	6,112	15,242
2016	8,525	5,713	14,238
2017-2021	41,480	23,029	64,509
2022-2026	40,150	13,636	53,786
2027-2031	27,270	4,986	32,256
2032-2035	6,810	596	7,406
Total	<u>\$ 159,585</u>	<u>\$ 74,645</u>	<u>\$ 234,230</u>

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011

Note 6 - BONDS ISSUED AND OUTSTANDING

As of June 30, 2011, Oregon Bond Bank revenue bonds totaling \$159,585 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 premiums and discounts. Bond premiums of \$32 and bond discounts of \$130 are included in Bonds Payable as of June 30, 2011. The following table summarizes the changes in bonds outstanding during fiscal year 2011:

Series	Due	Interest	Original issue	July 1 2010	Increase	Decrease	June 30 2011	Due in one year
1993 A	94-13	2.80-5.50%	\$ 21,610	1,135		(730)	405	250
1993 B	98-13	5.75-7.75	955	240		(75)	165	80
1993 C	95-14	3.20-5.38	11,815	360		(90)	270	90
1994 A	96-15	5.00-6.00	5,690	1,860		(540)	1,320	295
1995 A	97-16	3.90-5.75	4,755	255		(35)	220	40
1996 A	98-17	4.10-5.50	6,000	1,825		(220)	1,605	235
1996 1	97-16	3.50-5.50	10,665	745		(655)	90	15
1996 2	00-16	4.20-5.50	2,400	1,080		(155)	925	165
1997 A	99-18	3.95-5.10	10,520	5,480		(580)	4,900	595
1998 A	99-23	4.25-5.00	6,000	2,625		(565)	2,060	185
1998 B	99-15	4.10-4.75	6,105	2,755		(500)	2,255	525
1999 A	00-24	4.25-5.25	7,050	4,510		(230)	4,280	235
2000 A	01-25	5.25-5.63	47,240	13,385		(8,035)	5,350	290
2000 B	02-26	4.45-5.50	34,020	8,070		(605)	7,465	490
2002 A	03-27	3.00-5.00	7,850	5,060		(575)	4,485	420
2002 B	04-28	3.00-4.75	28,825	21,030		(9,145)	11,885	555
2003 A	05-29	3.00-4.63	25,475	20,455		(925)	19,530	960
2004 A	06-30	3.00-4.50	6,325	5,415		(210)	5,205	215
2004 B	06-20	3.00-5.25	3,365	2,815		(130)	2,685	135
2007 A	08-25	4.00-4.38	26,905	24,695		(860)	23,835	905
2007 B	08-19	5.13-6.00	8,900	8,375		(225)	8,150	235
2009 A	10-29	3.00-5.25	32,830	31,905		(960)	30,945	985
2010 A	11-35	2.00-5.71%	21,555		21,555		21,555	775
			\$ 336,855	164,075	21,555	(26,045)	159,585	8,675

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, 2011 is \$145.

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

Note 8 - Employee Retirement Plans

8.A - PLAN DESCRIPTION

The Oregon Public Employees Retirement System (PERS) provides retirement plans for Department employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Oregon Revised Statutes (ORS) chapters 238 and 238A. Copies of the Oregon Public Employees Retirement System annual financial reports may be obtained at: www.oregon.gov/PERS/section/financial_reports/financials.shtml.

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 PERS has two tiers of benefits. Employees hired before January 1, 1996 are in Tier One. Tier One employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. Tier Two does not have the Tier One assumed earnings rate guarantee. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options as established by ORS chapter 238. Options include survivorship benefits and lump sum distributions. The PERS also provides death and disability benefits.

8.C - OREGON PUBLIC SERVICE RETIREMENT PLAN (OPSRP)

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is part of PERS and is administered by the PERS Board. OPSRP is a hybrid pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Department employees hired after August 28, 2003 participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits as established by ORS chapter 238A.

Beginning January 1, 2004, PERS members became 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 IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute a percentage of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Department does.

8.D - PLAN RATES

For the PERS Pension and the OPSRP Pension, the Department must contribute actuarially computed amounts as determined by the Board. The funding policies provide for monthly employer contributions. Rates are subject to change as a result of subsequent actuarial valuations.

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

The required contribution rates as a percentage of subject salary are:

Year ended June 30	PERS	OPSRP	IAP
2011	2.06%	2.84%	6.00%
2010	2.06%	2.84%	6.00%
2009	6.54%	8.03%	6.00%

For subject salary paid after June 30, 2011, the PERS Pension and the OPSRP Pension rates will be 9.55% and 8.05%.

8.E - ANNUAL PENSION COST

The annual pension cost is the actual contribution to PERS (which equals the required contribution) plus the 6% employee contribution which the Department has agreed to pay. The annual pension cost for the year ended June 30, 2011 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2011	\$ 20	\$ 27	\$ 57
2010	17	23	49
2009	49	61	45

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). Copies of the Oregon Public Employees Retirement System annual financial reports may be obtained at: www.oregon.gov/PERS/section/financial_reports/finanicals.shtml.

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. For Tier One and Tier Two members, the Department contributed 0.10%

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

of PERS-covered salary to fund the normal cost portion of RHIA benefits. The rate is 0.09% for PERS-covered salary paid after June 30, 2011. In addition, the Department contributed an additional 0.19% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. The rate is 0.50% for PERS-covered salary paid after June 30, 2011. These rates are embedded within the total PERS and OPSRP Pension Employer Rates.

The Department's contributions for the years ended June 30, 2011, 2010, and 2009 were less than \$1 in each fiscal year. The actual contribution equaled the annual required contribution.

The Oregon legislature has sole authority to amend the benefit provisions and funding policy for the RHIA plan.

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. For Tier One and Tier Two members, The Department contributed 0.06% of PERS-covered salary to fund the normal cost portion of RHIPA benefits. The rate is 0.05% for PERS-covered salary paid after June 30, 2011. In addition, the Department contributed an additional 0.02% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. The rate is 0.11% for PERS-covered salary paid after June 30, 2011. These rates are embedded within the total PERS and OPSRP pension employer rates.

The Department's contributions for the years ended June 30, 2011, 2010, and 2009 were less than \$1 in each fiscal year. The actual contribution equaled the annual required contribution.

The Oregon legislature has sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

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-

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011**

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 does not issue a separate, publicly available financial report.

Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB plan. As the administrator of the PEBB plan, PEBB has the authority to determine postretirement benefit increases and decreases.

9.E - OPEB OBLIGATION

The Department’s liability for OPEB expenses in SPWF and WF for fiscal year 2011 was \$2 and \$1.

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, 2011 is:

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
\$	<u>15,000</u>	<u>12,680</u>	<u>27,680</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.

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (in \$thousands)
Year ended June 30, 2011

Note 12 - SUBSEQUENT EVENTS

The Department has called for Optional Redemption of \$31,460 of outstanding State of Oregon, Oregon Bond Bank Revenue Bonds:

Issue	Redemption date	Payable from		Total bond call
		SPWF	WF	
1997 Series A	07/01/11	\$ 95		95
1993 Series A	01/01/12	155		155
1993 Series C	01/01/12	180		180
1994 Series A	01/01/12	1,025		1,025
1995 Series A	01/01/12	180		180
1996 Series A	01/01/12	1,370		1,370
1996 Series 1	01/01/12		75	75
1996 Series 2	01/01/12		760	760
1997 Series A	01/01/12	3,015	1,205	4,220
1998 Series A	01/01/12	1,525		1,525
1998 Series B	01/01/12		1,730	1,730
1999 Series A	01/01/12		4,045	4,045
2000 Series A	01/01/12	4,270	790	5,060
2000 Series B	01/01/12	2,920	4,055	6,975
2002 Series A	01/01/12	3,105	960	4,065
		<u>\$ 17,840</u>	<u>13,620</u>	<u>31,460</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.

Other Report

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

The Honorable John A. 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, 2011, and have issued our report thereon dated March 21, 2012. 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

Management of the Oregon Business Development Department is responsible for establishing and maintaining effective 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 financial statements of the 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 management of the Oregon Business Development Department, others within the entity, 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, 2012