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, 2012

Oregon Business Development Department, State of Oregon
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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, 2012, 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, and the changes in financial position and cash flows that are attributable to the transactions of the Special Public Works Fund and Water Fund. They do not purport to, and do not, present fairly the financial position of the Oregon Business Development Department or the State of Oregon as of June 30, 2012, the changes in their financial position or 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 previously present fairly, in all material respects, the respective financial position of the Special Public Works Fund and Water Fund as of June 30, 2012, and the respective changes in financial position and cash flows thereof 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 12, 2013, 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

Kate Brown
Secretary of State

March 12, 2013

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 (Dollars in thousands)
June 30, 2012

		SPWF	WF	Total
Assets				
Current assets:				
Cash and cash equivalents	$	77,279	14,648	91,927
Securities lending collateral		9,098	1,725	10,823
Interest receivable		6,337	2,468	8,805
Accounts receivable		54	15	69
Total current assets		92,768	18,856	111,624
Noncurrent assets:				
Cash and cash equivalents - restricted		4,321	1,725	6,046
Deferred charges		1,086	506	1,592
Advances to other funds		-	100	100
Loans receivable (net)		206,186	94,670	300,856
Total noncurrent assets		211,593	97,001	308,594
Total assets		304,361	115,857	420,218
Liabilities				
Current liabilities:				
Accounts payable		5	4	9
Interest payable - bonds		1,653	830	2,483
Obligations under securities lending		9,098	1,725	10,823
Due to other governments		19	7	26
Bonds payable		3,290	1,505	4,795
Compensated absences payable		53	22	75
Total current liabilities		14,118	4,093	18,211
Noncurrent liabilities:				
Bonds payable		71,867	37,392	109,259
Compensated absences payable		27	12	39
Net obligation for other post-employment benefits		20	7	27
Total noncurrent liabilities		71,914	37,411	109,325
Total liabilities		86,032	41,504	127,536
Net assets:				
Restricted for debt service		1,500	894	2,394
Unrestricted		216,829	73,459	290,288
Total net assets	$	218,329	74,353	292,682

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 (Dollars in thousands)
Year ended June 30, 2012

		SPWF	WF	Total
Operating revenues				
Loan interest income	$	9,525	4,269	13,794
Total operating revenues		9,525	4,269	13,794
Operating expenses				
Salaries and wages		1,274	508	1,782
Services and supplies		352	152	504
Special payments - grants		1,930	837	2,767
Bond interest		4,152	2,082	6,234
Bond issuance cost amortization		498	202	700
Bad debt expense		34	-	34
Total operating expenses		8,240	3,781	12,021
Operating income (loss)		1,285	488	1,773
Nonoperating revenue (expense)				
Investment income		503	78	581
Investment expense		(24)	(4)	(28)
Net nonoperating revenue		479	74	553
Income (loss) before transfers		1,764	562	2,326
Transfers				
Transfers from other funds		-	13,620	13,620
Transfers to other funds		(13,865)	(2,942)	(16,807)
Net transfers from (to) other funds		(13,865)	10,678	(3,187)
Increase (decrease) in net assets		(12,101)	11,240	(861)
Beginning net assets		230,430	63,113	293,543
Ending net assets	$	218,329	74,353	292,682

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 (Dollars in thousands)
Year ended June 30, 2012

	SPWF	WF	Total
Cash flows from operating activities			
Loan principal repayments	$ 17,802	10,097	27,899
Loan interest received	9,202	4,628	13,830
Payments to employees	(1,306)	(534)	(1,840)
Payments to suppliers	(352)	(140)	(492)
Grants made	(1,675)	(837)	(2,512)
Loans made	(8,253)	(3,700)	(11,953)
Net cash provided by operating activities	15,418	9,514	24,932
Cash flows from noncapital financing activities			
Principal payments on bonds	(28,525)	(16,975)	(45,500)
Interest payments on bonds	(4,859)	(2,503)	(7,362)
Transfers from other funds	-	13,620	13,620
Transfers to other funds	(13,865)	(2,942)	(16,807)
Net cash (used) by noncapital financing activities	(47,249)	(8,800)	(56,049)
Cash flows from investing activities			
Interest earned	479	74	553
Net cash provided by investing activities	479	74	553
Increase (decrease) in cash and cash equivalents	(31,352)	788	(30,564)
Beginning cash and cash equivalents	112,952	15,585	128,537
Ending cash and cash equivalents	$ 81,600	16,373	97,973

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

Continued on page 6

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Statement of Cash Flows (Dollars in thousands)
Year ended June 30, 2012

		SPWF	WF	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$	1,285	488	1,773
Adjustments:				
Amortization of bond issuance costs		447	187	634
Amortization of bond premium and discount		51	16	67
Reduction in allowance for uncollectible accounts		570	-	570
Interest payments reported as noncapital financing		4,859	2,503	7,362
Decrease (increase) in assets				
Interest receivable		91	359	450
Accounts receivable		(54)	(15)	(69)
Due from other funds		7	-	7
Loans receivable		9,501	6,609	16,110
Increase (decrease) in liabilities				
Accounts payable		(261)	-	(261)
Interest payable		(707)	(421)	(1,128)
Due to other governments		(6)	(7)	(13)
Trust funds payable		(366)	(213)	(579)
Compensated absences and net obligation for other post-employment benefits payable		1	8	9
Total adjustments		14,133	9,026	23,159
Net cash provided by operating activities	$	15,418	9,514	24,932

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

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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).

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed to the extent those standards do not conflict with, or contradict the guidance of, the GASB. Governments also have the option of following subsequent private sector guidance for their enterprise funds. However, neither the SPWF nor the WF currently applies private sector guidance issued after November 30, 1989.

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. 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 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 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 are deferred and amortized over the term of the bonds using the straight-line 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. 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 304 loans totaling $303,396. An allowance for uncollectible loans was established in the SPWF to estimate the potential loss from uncollectible loans. As of June 30, 2012 the allowance for uncollectible loans equals $2,540. Actual loan losses may vary from estimated amounts.

Notes to the Basic Financial Statements (Dollars in thousands)

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, 2012, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-Term Fund (OSTF)	$	91,927
Money market funds held by Bank of New York, trustee		6,046
		97,973

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

Current assets		
Cash and cash equivalents	$	91,927
Noncurrent assets		
Cash and cash equivalents – restricted		6,046
		97,973

2.A - Deposits

As of June 30, 2012, the book balance of monies held in demand accounts in the OSTF was $91,927. The bank balance was $91,829. 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.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx#OSTFFS.

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. ORS Chapter 295 provides the statutory authority for the Public Funds Collateralization Program (PFCP). The PFCP is an application created by the Oregon State Treasury to facilitate bank depository, custodian, and public official compliance with ORS Chapter 295.

Where interest-bearing balances within the OSTF exceed the Federal Deposit Insurance amount of $250, the balances are covered by collateral held in the PFCP. Non interest-bearing accounts are fully covered by FDIC insurance under the Dodd-Frank Wall Street Reform and Consumer Protection Act until December 12, 2012. As of June 30, 2012, all OSTF demand deposits were covered by FDIC insurance, and no OSTF deposits were collateralized under the PFCP.

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 $6,046. 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, 2012, 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. Investments are with the Oregon Short-Term Fund (OSTF) or BNY Cash Reserve Accounts. Therefore, at June 30, 2012, 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, 2012, 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 pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. There were no significant violations of the provision of securities lending agreements during the year ended June 30, 2012.

During the year, State Street had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international equity or Canadian fixed income securities. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and the State did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. The State is fully indemnified against losses due to borrower default by its custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior 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 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.

Notes to the Basic Financial Statements (Dollars in thousands)

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.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2012, is effectively one day. On June 30, 2012, the State had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State.

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

	Total OSTF	SPWF	WF
Cash collateral received for the securities on loan	$ 911,017	$ 9,098	$ 1,725
Fair value of all securities on loan	891,435	8,903	1,688
Fair value of all investments made with cash collateral received	911,190	9,100	1,725

The securities on loan from the OSTF in total included:

	Percent
U.S. Agency securities	85.97 %
Domestic corporate bonds	14.03
	100.00

Notes to the Basic Financial Statements (Dollars in thousands)

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, 2012:

		July 1, 2011	Increase	Decrease	June 30, 2012	Due in one year
Bonds payable						
Principal	$	159,585	-	(45,500)	114,085	4,795
Premium		32	-	(5)	27	-
Discount		(130)	-	72	(58)	-
Total bonds payable		159,487	-	(45,433)	114,054	4,795
Compensated absences		109	7	(2)	114	75
Trust funds payable		579	125	(704)	-	-
Net obligation for post-employment benefits		23	4	-	27	-
	$	160,198	136	(46,139)	114,195	4,870

Note 5 - Debt Service Requirements to Maturity

Future maturities of principal and interest as of June 30, 2012:

Year(s) ending June 30		Principal		Interest		Total
2013	$	4,795	$	4,967	$	9,762
2014		4,875		4,794		9,669
2015		5,060		4,619		9,679
2016		5,250		4,428		9,678
2017		5,475		4,227		9,702
2018-2022		29,700		17,689		47,389
2023-2027		32,620		10,756		43,376
2028-2032		22,540		3,672		26,212
2033-2035		3,770		284		4,054
Total	$	114,085	$	55,436	$	169,521

Notes to the Basic Financial Statements (Dollars in thousands)

Note 6 - Bonds Issued and Outstanding

As of June 30, 2012, Oregon Bond Bank revenue bonds totaling $114,085 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 statement of net assets are recorded net of original issue premiums and discounts. Bond premiums of $27 and bond discounts of $58 are included in Bonds Payable as of June 30, 2012. The following table summarizes the changes in bonds outstanding during fiscal year 2012:

Series	Due January 1	Interest	Original issue	July 1 2011	Increase	Decrease	June 30 2012	Due in one year
1993 A	1994-13	2.80-5.50%	$ 21,610	405	-	(405)	-	-
1993 B	1998-13	5.75-7.75	955	165	-	(80)	85	85
1993 C	1995-14	3.20-5.38	11,815	270	-	(270)	-	-
1994 A	1996-15	5.00-6.00	5,690	1,320	-	(1,320)	-	-
1995 A	1997-16	3.90-5.75	4,755	220	-	(220)	-	-
1996 A	1998-17	4.10-5.50	6,000	1,605	-	(1,605)	-	-
1996 1	1997-16	3.50-5.50	10,665	90	-	(90)	-	-
1996 2	2000-16	4.20-5.50	2,400	925	-	(925)	-	-
1997 A	1999-18	3.95-5.10	10,520	4,900	-	(4,900)	-	-
1998 A	1999-23	4.25-5.00	6,000	2,060	-	(2,060)	-	-
1998 B	1999-15	4.10-4.75.	6,105	2,255	-	(2,255)	-	-
1999 A	2000-24	4.25-5.25	7,050	4,280	-	(4,280)	-	-
2000 A	2001-25	5.25-5.63	47,240	5,350	-	(5,350)	-	-
2000 B	2002-26	4.45-5.50	34,020	7,465	-	(7,465)	-	-
2002 A	2003-27	3.00-5.00	7,850	4,485	-	(4,485)	-	-
2002 B	2004-28	3.00-4.75	28,825	11,885	-	(5,580)	6,305	355
2003 A	2005-29	3.00-4.63	25,475	19,530	-	(960)	18,570	990
2004 A	2006-30	3.00-4.50	6,325	5,205	-	(215)	4,990	220
2004 B	2006-20	3.00-5.25	3,365	2,685	-	(135)	2,550	145
2007 A	2008-25	4.00-4.38	26,905	23,835	-	(905)	22,930	945
2007 B	2008-19	5.13-6.00	8,900	8,150	-	(235)	7,915	255
2009 A	2010-34	3.00-5.25	32,830	30,945	-	(985)	29,960	1,015
2010 A	2011-35	2.00-5.71%	21,555	21,555	-	(775)	20,780	785
			$ 336,855	159,585	-	(45,500)	114,085	4,795

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, 2012 is $75.

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: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

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.

Notes to the Basic Financial Statements (Dollars in thousands)

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

Year ended June 30	PERS	OPSRP	IAP
2012	9.55%	8.05%	6.00%
2011	2.06%	2.84%	6.00%
2010	2.06%	2.84%	6.00%

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, 2012 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2012	$ 79	$ 66	$ 49
2011	20	27	57
2010	17	23	49

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:
http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx

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 plan was closed to new entrants hired on or after August 29, 2003.

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 0.09% of PERS-covered salary to fund the normal cost portion of RHIA benefits. The Department also contributed 0.50% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. These rates are embedded within the total PERS and OPSRP Pension Employer Rates.

The Department's contributions for the years ended June 30, 2012, 2011, and 2010 did not exceed $5 per year 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 plan was closed to new entrants hired on or after August 29, 2003.

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 0.05% of PERS-covered salary to fund the normal cost portion of RHIPA benefits. The Department also contributed 0.11% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. These rates are embedded within the total PERS and OPSRP pension employer rates.

The Department's contributions for the years ended June 30, 2012, 2011, and 2010 did not exceed $1 per year 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-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.

Notes to the Basic Financial Statements (Dollars in thousands)

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 2012 was $3 and $1, respectively.

Note 10 - RISK FINANCING

The State of Oregon's Department of Administrative Services Risk Management Section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible.

The monies set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following risks: 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 required by law to be covered and other key positions.

As a state agency, the Department participates in the self-insured property and liability program. Risk Management allocates the cost of claims and claims administration by charging an assessment to each State entity, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

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, 2012 is:

SPWF	WF	Total
$ 27,338	25,450	52,788

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.

Notes to the Basic Financial Statements (Dollars in thousands)

Note 12 - SUBSEQUENT EVENTS

The Department has called for Optional Redemption of $11,255 of outstanding State of Oregon, Oregon Bond Bank Revenue Bonds:

		Payable from			
Issue	Redemption date	SPWF	WF	Total bond call	Redemption price
2003 Series A	10/09/12	$ 3,315	-	3,315	102%
2002 Series B	11/13/12	1,110	-	1,110	101%
2002 Series B	01/01/13	2,310	2,580	4,890	100%
2003 Series A	01/01/13	825	-	825	101%
2004 Series A	01/01/13	1,115	-	1,115	102%
		$ 8,675	2,580	11,255	

The Bonds will be redeemed at the redemption price 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

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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, 2012, and have issued our report thereon dated March 12, 2013. 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 first paragraph of this section 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 previously.

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 the Oregon Business Development Department's 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

Kate Brown
Secretary of State

March 12, 2013