

**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, 2013**

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

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Year ended June 30, 2013**

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Financial Section

Office of the Secretary of State

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Secretary of State

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Special Public Works Fund and Water Fund, enterprise funds of the State of Oregon, Business Development Department, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, the changes in financial position and cash flows that are only 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, 2013, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oregon Business Development Department's internal control over financial reporting and compliance.

OREGON AUDITS DIVISION



Kate Brown
Secretary of State

March 20, 2014

Basic Financial Statements

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Statement of Net Position (Dollars in thousands)
June 30, 2013

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 81,185	28,474	109,659
Securities lending collateral	5,395	1,892	7,287
Interest receivable	5,472	2,085	7,557
Accounts receivable	75	16	91
Total current assets	<u>92,127</u>	<u>32,467</u>	<u>124,594</u>
Noncurrent assets:			
Cash and cash equivalents - restricted	2,844	1,641	4,485
Deferred charges	888	448	1,336
Loans receivable (net)	191,426	86,047	277,473
Total noncurrent assets	<u>195,158</u>	<u>88,136</u>	<u>283,294</u>
Total assets	<u>287,285</u>	<u>120,603</u>	<u>407,888</u>
Liabilities			
Current liabilities:			
Accounts payable	18	973	991
Interest payable - bonds	1,346	748	2,094
Obligations under securities lending	5,395	1,892	7,287
Due to other governments	2	-	2
Bonds payable	2,560	1,440	4,000
Compensated absences payable	69	27	96
Pension-related debt	4	2	6
Total current liabilities	<u>9,394</u>	<u>5,082</u>	<u>14,476</u>
Noncurrent liabilities:			
Bonds payable	58,519	33,376	91,895
Compensated absences payable	37	14	51
Net obligation for other post-employment benefits	23	8	31
Pension-related debt	177	73	250
Total noncurrent liabilities	<u>58,756</u>	<u>33,471</u>	<u>92,227</u>
Total liabilities	<u>68,150</u>	<u>38,553</u>	<u>106,703</u>
Net position			
Restricted for debt service	1,497	893	2,390
Unrestricted	217,638	81,157	298,795
Total net position	<u>\$ 219,135</u>	<u>82,050</u>	<u>301,185</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 Position (Dollars in thousands)
Year ended June 30, 2013

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Operating revenues			
Loan interest income	\$ 8,086	3,774	11,860
Total operating revenues	<u>8,086</u>	<u>3,774</u>	<u>11,860</u>
Operating expenses			
Salaries and wages	1,429	552	1,981
Services and supplies	308	189	497
Special payments - grants	995	1,245	2,240
Bond interest	3,128	1,584	4,712
Bond issuance cost amortization	220	62	282
Bad debt expense	24	-	24
Total operating expenses	<u>6,104</u>	<u>3,632</u>	<u>9,736</u>
Operating income (loss)	1,982	142	2,124
Nonoperating revenue (expense)			
Investment income	435	142	577
Investment expense	(14)	(5)	(19)
Net nonoperating revenue	<u>421</u>	<u>137</u>	<u>558</u>
Income (loss) before transfers	2,403	279	2,682
Transfers			
Transfers from other funds	-	11,000	11,000
Transfers to other funds	(11,412)	(3,507)	(14,919)
Program recapitalization	10,000	-	10,000
Net transfers from (to) other funds	<u>(1,412)</u>	<u>7,493</u>	<u>6,081</u>
Increase (decrease) in net position	<u>991</u>	<u>7,772</u>	<u>8,763</u>
Beginning net position	218,329	74,353	292,682
Prior period adjustment	(185)	(75)	(260)
Beginning net position - restated	<u>218,144</u>	<u>74,278</u>	<u>292,422</u>
Ending net position	\$ <u><u>219,135</u></u>	<u><u>82,050</u></u>	<u><u>301,185</u></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 (Dollars in thousands)
Year ended June 30, 2013

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Cash flows from operating activities			
Loan principal repayments	\$ 25,577	13,192	38,769
Loan interest received	7,991	4,158	12,149
Payments to employees	(1,434)	(545)	(1,979)
Payments to suppliers	(308)	(189)	(497)
Grants made	(986)	(283)	(1,269)
Loans made	(9,881)	(4,469)	(14,350)
Net cash provided by operating activities	<u>20,959</u>	<u>11,864</u>	<u>32,823</u>
Cash flows from noncapital financing activities			
Principal payments on debt	(14,104)	(4,087)	(18,191)
Interest payments on debt	(3,435)	(1,665)	(5,100)
Transfers from other funds	-	11,000	11,000
Transfers to other funds	(11,412)	(3,507)	(14,919)
Program recapitalization	10,000	-	10,000
Net cash (used) by noncapital financing activities	<u>(18,951)</u>	<u>1,741</u>	<u>(17,210)</u>
Cash flows from investing activities			
Interest earned	421	137	558
Net cash provided by investing activities	<u>421</u>	<u>137</u>	<u>558</u>
Increase (decrease) in cash and cash equivalents	2,429	13,742	16,171
Beginning cash and cash equivalents	<u>81,600</u>	<u>16,373</u>	<u>97,973</u>
Ending cash and cash equivalents	<u>\$ 84,029</u>	<u>30,115</u>	<u>114,144</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 (Dollars in thousands)
Year ended June 30, 2013**

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,982	142	2,124
Adjustments:			
Amortization of bond issuance costs	198	58	256
Amortization of bond premium and discount	21	4	25
Interest payments reported as noncapital financing	3,435	1,665	5,100
Decrease (increase) in assets			
Interest receivable	865	383	1,248
Accounts receivable	(21)	(1)	(22)
Advances to other funds	-	100	100
Loans receivable	14,736	8,623	23,359
Allowance for uncollectible accounts	24	-	24
Increase (decrease) in liabilities			
Accounts payable	13	969	982
Interest payable	(307)	(82)	(389)
Due to other governments	(17)	(7)	(24)
Compensated absences and net obligation for other post-employment benefits payable	30	10	40
Total adjustments	<u>18,977</u>	<u>11,722</u>	<u>30,699</u>
Net cash provided by operating activities	\$ <u><u>20,959</u></u>	<u><u>11,864</u></u>	<u><u>32,823</u></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 (Dollars in thousands)
Year ended June 30, 2013**

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).

All applicable GASB pronouncements have been applied including: GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The implementation of statements No. 62 and No. 63 did not have financial impact on the financial statements of the SPWF or WF.

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.

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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, any deferred outflows of resources, liabilities, and any deferred inflows of resources associated with the operation of the SPWF and WF are included on the statement of fund net position. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position.

The SPWF and WF statement of revenues, expenses, and changes in fund net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position.

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 to which SPWF and WF provide financing 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.

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1.G - RECEIVABLES

Interest receivable includes interest due on loans to local governments and special districts. Loans Receivable at June 30 consisted of approximately 286 loans totaling \$280,037. An allowance for uncollectible loans was established in the SPWF to estimate the potential loss from uncollectible loans. As of June 30, 2013 the allowance for uncollectible loans equals \$2,564. Actual loan losses may vary from estimated amounts.

1.H - COMPENSATED ABSENCES

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

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 POSITION

Net position is 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, 2013, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-Term Fund (OSTF)	\$ 109,659
Money market funds held by BNY Mellon, trustee	4,485
	<u>114,144</u>

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

Current assets	
Cash and cash equivalents	\$ 109,659
Noncurrent assets	
Cash and cash equivalents – restricted	4,485
	<u>114,144</u>

2.A - DEPOSITS

As of June 30, 2013, the book balance of monies held in demand accounts in the OSTF was \$109,659. The bank balance was \$109,561. The Oregon State Treasurer maintains the OSTF, a cash and investment pool that is available for use by the Department.

**Oregon Business Development Department, State of Oregon
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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#stat](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx#stat)

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. As of June 30, 2013, 3 percent of OSTF demand deposits were covered by FDIC insurance, and 97 percent of 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 BNY Mellon (Oregon Bond Bank trustee) as agents for the Department totaled \$4,485. 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.

**Oregon Business Development Department, State of Oregon
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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 Mellon Cash Reserve Accounts. Therefore, at June 30, 2013, 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 Mellon Cash Reserve Accounts. Therefore, at June 30, 2013, 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 Mellon Cash Reserve Accounts. Therefore, at June 30, 2013, 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 provisions of securities lending agreements during the year ended June 30, 2013.

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 U.S. securities, international fixed income securities, or 105 percent in the case of international equity. 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 OSTF and Oregon state agencies other than PERS. As permitted under the fund's

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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 position. 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.

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, 2013, is effectively one day. On June 30, 2013, 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:

	<u>Total OSTF</u>	<u>SPWF</u>	<u>WF</u>
Cash collateral received			
for the securities on loan	\$ 850,185	\$ 5,395	\$ 1,892
Fair value of all securities on loan	833,167	7,538	2,644
Fair value of all investments made with cash collateral received	596,311	5,395	1,892

The securities on loan from the OSTF in total included:

	<u>Percent</u>
U.S. Treasury securities	81.06 %
U.S. Agency securities	4.08
Domestic fixed income securities	14.86
	<u>100.00</u>

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Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (Dollars in thousands)
Year ended June 30, 2013**

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, 2013:

	July 1, 2012	Increase	Decrease	June 30, 2013	Due in one year
Bonds payable					
Principal	\$ 114,085	-	(18,185)	95,900	4,000
Premium	27	-	(1)	26	-
Discount	(58)	-	27	(31)	-
Total bonds payable	114,054	-	(18,159)	95,895	4,000
Compensated absences	114	33	-	147	96
Net obligation for post-employment benefits	27	4	-	31	-
Pension-related debt	260	-	(4)	256	6
	<u>\$ 114,455</u>	<u>37</u>	<u>(18,163)</u>	<u>96,329</u>	<u>4,102</u>

Note 5 - DEBT SERVICE REQUIREMENTS TO MATURITY

Future maturities of principal and interest as of June 30, 2013:

Year(s) ending June 30	Principal	Interest	Total
2014	\$ 4,000	\$ 4,190	\$ 8,190
2015	4,140	4,050	8,190
2016	4,300	3,897	8,197
2017	4,470	3,735	8,205
2018	4,570	3,565	8,135
2019-2023	24,770	14,927	39,697
2024-2028	29,265	8,951	38,216
2029-2033	18,225	2,601	20,826
2034-2035	2,160	115	2,275
Total	<u>\$ 95,900</u>	<u>\$ 46,031</u>	<u>\$ 141,931</u>

Note 6 - BONDS ISSUED AND OUTSTANDING

As of June 30, 2013, Oregon Bond Bank revenue bonds totaling \$95,900 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 position are recorded net of original issue premiums and discounts. Bond premiums of \$26 and bond discounts of \$31 are included in Bonds Payable as of June 30, 2013. The following table summarizes the changes in bonds outstanding during fiscal year 2013:

**Oregon Business Development Department, State of Oregon
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Series	Due January 1	Interest	Original issue	July 1 2012	Increase	Decrease	June 30 2013	Due in one year
1993 B	1998-13	5.75-7.75	955	85	-	(85)	-	-
2002 B	2004-28	3.00-4.75	28,825	6,305	-	(6,305)	-	-
2003 A	2005-29	3.00-4.63	25,475	18,570	-	(4,910)	13,660	740
2004 A	2006-30	3.00-4.50	6,325	4,990	-	(1,335)	3,655	155
2004 B	2006-25	3.00-5.25	3,365	2,550	-	(2,550)	-	-
2007 A	2008-32	4.00-4.38	26,905	22,930	-	(945)	21,985	975
2007 B	2008-32	5.13-6.00	8,900	7,915	-	(255)	7,660	270
2009 A	2010-34	3.00-5.25	32,830	29,960	-	(1,015)	28,945	1,055
2010 A	2011-35	2.00-5.71%	21,555	20,780	-	(785)	19,995	805
			\$ 155,135	114,085	-	(18,185)	95,900	4,000

Note 7 - Employee Retirement Plans

7.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.

7.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.

7.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.

**Oregon Business Development Department, State of Oregon
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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.

7.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.

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

Year ended June 30	PERS	OPSRP	IAP
2013	9.55%	8.05%	6.00%
2012	9.55%	8.05%	6.00%
2011	2.06%	2.84%	6.00%

7.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, 2013 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2013	\$ 80	\$ 67	\$ 50
2012	79	\$ 66	\$ 49
2011	20	27	57

Note 8 - Other Postemployment Benefit Plans

8.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

**Oregon Business Development Department, State of Oregon
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8.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, 2013, 2012, and 2011 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.

8.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, 2013, 2012, and 2011 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.

**Oregon Business Development Department, State of Oregon
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8.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.

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.

8.E - OPEB OBLIGATION

The Department's liability for OPEB expenses in SPWF and WF for fiscal year 2013 was \$3 and \$1, respectively.

Note 9 - 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.

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Notes to the Basic Financial Statements (Dollars in thousands)
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Note 10 - COMMITMENTS

The Department has signed contracts to fund various SPWF and WF projects. The amount of money committed but not disbursed at June 30, 2013 is:

<u>SPWF</u>	<u>WF</u>	<u>Total</u>
\$ 20,576	21,417	41,993

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

Note 11 - SUBSEQUENT EVENTS

The Department has called for Optional Redemption of \$490 of outstanding State of Oregon, Oregon Bond Bank Revenue Bonds:

<u>Issue</u>	<u>Redemption date</u>	<u>Payable from</u>		<u>Total bond call</u>	<u>Redemption price</u>
		<u>SPWF</u>	<u>WF</u>		
2004 Series A	07/30/13	490	-	490	101%
		\$ 490	-	490	

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.

Note 12 - PRIOR PERIOD ADJUSTMENT

Beginning net position of the SPWF and WF were reduced by \$185 and \$75. This represents the SPWF's and the WF's share of pension-related liabilities not previously allocated by the State of Oregon to the SPWF and WF.

Other Report

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Special Public Works Fund and Water Fund basic financial statements, and have issued our report thereon dated March 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oregon Business Development Department's internal control over financial reporting (internal control) related to the Special Public Works Fund and Water Fund to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Oregon Business Development Department's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control

that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Business Development Department's financial statements of the Special Public Works Fund and Water Fund are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

OREGON AUDITS DIVISION



Kate Brown
Secretary of State

March 20, 2014