

State of Oregon  
Department of  
State Lands  
Common School  
Fund

Annual Financial  
Statements  
for the Fiscal  
Year Ended  
June 30, 2014

State of Oregon Department of State Lands  
Common School Fund  
Table of Contents  
June 30, 2014

---

**FINANCIAL SECTION**

Independent Auditor's Report ..... 3

**Basic Financial Statements**

Balance Sheet ..... 6

Statement of Revenues, Expenditures, and Changes in Fund Balances ..... 7

Notes to the Financial Statements ..... 8

**OTHER REPORTS**

Independent Auditor's 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* ..... 22

---

This page intentionally left blank.

State of Oregon Department of State Lands  
Common School Fund  
June 30, 2014

---

**FINANCIAL SECTION**

---

This page intentionally left blank.

**INDEPENDENT AUDITOR'S REPORT**

State Land Board  
Department of State Lands  
Salem, Oregon

We have audited the accompanying financial statements of the Common School Fund, a major governmental fund of the State of Oregon as of and for the year ended June 30, 2014, 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 of 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 financial position of the Common School Fund as of June 30, 2014, and the changes in financial position 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 present only the Common School Fund and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of State Lands, as of June 30, 2014, the changes in their financial position, or where applicable, their cash flows for the year then ended in accordance 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 December 2, 2014, on our consideration of Common School Fund's internal control over financial reporting 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* in considering Common School Fund's internal control over financial reporting and compliance.



Merina & Company, LLP  
West Linn, Oregon  
December 2, 2014

State of Oregon Department of State Lands  
Common School Fund  
June 30, 2014

---

**BASIC FINANCIAL STATEMENTS**

---

This page intentionally left blank.

State of Oregon Department of State Lands  
Common School Fund  
June 30, 2014

---

**Balance Sheet**

**ASSETS**

Cash and Cash Equivalents	\$ 89,100,543
Investments	1,342,174,796
Custodial Assets	9,837,927
Securities Lending Collateral	71,295,496
Accounts and Interest Receivables (net)	18,282,415
Due from Other Funds	126,472
Advances to Other Funds	300,000
Net Contracts, Notes, and Other Receivables	1,082,954

**Total Assets** \$ 1,532,200,603

**LIABILITIES AND FUND BALANCES**

**Liabilities:**

Accounts Payable	\$ 35,282,447
Obligations Under Securities Lending	71,295,496
Due to Other Funds	26,160,114
Custodial Liabilities	207,850,553

**Total Liabilities** 340,588,610

**DEFERRED INFLOWS OF RESOURCES**

Unavailable revenue - contracts	1,082,954
---------------------------------	-----------

**Total Deferred Inflows of Resources** 1,082,954

**Fund Balances:**

Restricted by:	
Oregon Constitution	892,976,023
Enabling Legislation	297,494,091
Donors and Other External Parties	58,925
Total Fund Balances	<u>1,190,529,039</u>

**Total Liabilities, Deferred Inflows of Resources,  
and Fund Balances** \$ 1,532,200,603

The notes to the financial statements are an integral part of this statement.

State of Oregon Department of State Lands  
Common School Fund  
For the Year Ended June 30, 2014

---

**Statement of Revenues, Expenditures, and Changes in Fund Balances**

<b>REVENUES</b>	
Licenses and fees	\$ 766,803
Charges for Services	253,691
Fines, Forfeitures, and Penalties	85,335
Rents and Royalties	5,862,618
Investment Income	226,185,447
Sales	187,592
Unclaimed and Escheat Property Revenue	24,359,782
Other	4,316,201
<b>Total Revenues</b>	262,017,469
<b>EXPENDITURES</b>	
Personal Services	7,253,390
Services and Supplies	6,033,302
Capital Improvements	261,459
Investment Expenditures	5,181,385
<b>Total Expenditures</b>	18,729,536
Excess (Deficiency) of Revenues Over (Under) Expenditures	243,287,933
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers From Other Funds	3,657,435
Transfers to Other Funds	(55,937,018)
Insurance Recoveries	797,205
<b>Total Other Financing Sources (Uses)</b>	(51,482,378)
Net Change in Fund Balances	191,805,555
Fund Balances - Beginning	998,734,222
Prior Period Adjustments	(10,738)
Fund Balances - Beginning - As Restated	998,723,484
<b>Fund Balances - Ending</b>	\$ 1,190,529,039

The notes to the financial statements are an integral part of this statement.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

**Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements of the Oregon Department of State Lands' Common School Fund have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants (AICPA).

***A – THE REPORTING ENTITY***

The Department of State Lands (Department) is the administrative agency of the State Land Board handling the day-to-day work of the board in managing the land and other resources dedicated to the Common School Fund. The State Land Board, which consists of the Governor, the Secretary of State and the State Treasurer, is the trustee of the fund as outlined in the Oregon Constitution.

The Common School Fund, a governmental fund, was established at statehood and is intended to generate earnings to distribute to public schools. The Common School Fund accounts for programs that manage state-owned land, including a leasing program that generates annual revenues, for the benefit of the public school system. Estate funds that become the property of the state, unclaimed property, and income derived from unclaimed property are also accounted for in this fund. Statutory and constitutional provisions stipulate that the assets of the fund, including investment income, must be used for common school purposes. The primary funding sources for these programs include investment income, leasing revenues, forest management, unclaimed property receipts, and transfers from other funds.

***B – FUND FINANCIAL STATEMENTS***

The fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances. The balance sheet is presented as: total assets equal liabilities, deferred inflows of resources, and fund balances. Information for receivables not expected to be collected within one year of the date of the financial statements and payables reported in the financial statements is discussed in Note 4. The statement of revenues, expenditures, and changes in fund balances reports revenues by type and expenditures by function. Other financing sources and other financing uses are reported in the last section of the statement.

***C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The Common School Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, revenues are considered available, if they are collected within 90 days of the end of the current fiscal year. Expenditures generally are recognized when a liability is incurred, as under accrual accounting.

***D – DEPOSITS AND INVESTMENTS***

DEPOSITS

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. 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 include: cash on hand, cash and investments held by the Office of the State Treasurer in the Oregon Short-Term Fund (OSTF), cash deposits held in demand deposit accounts with custodial banks, and cash deposits of debt proceeds in investment funds held by a trustee.

INVESTMENTS

Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Investments in private equities are reported at cost.
- Investments in the OSTF with remaining maturities of up to 90 days are carried at amortized cost, which approximates fair value. The Department reports these investments as cash and cash equivalents on the balance sheet, but as investments in Note 2.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

**DERIVATIVES**

In accordance with State investment policies, the Office of the State Treasurer participates in contracts that have derivative characteristics. Derivative instruments are used to lower the cost of borrowing, to hedge against fluctuations in foreign currency rates, and to manage the overall risk of investment portfolios. The fair value of all derivative instruments within the Common School Fund are reported on the balance sheet as investments, accounts and interest receivable, and accounts and interest payable. The change in fair value for all Common School Fund derivative instruments is reported with investment income on the statement of revenues, expenditures, and changes in fund balances.

***E – RECEIVABLES AND PAYABLES***

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to other funds.” Receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectible amounts. Payables consist of amounts owed to vendors for operational expenditures, other state agencies for services received and investment liabilities outstanding.

***F – INTERFUND TRANSACTIONS***

Interfund transactions are transactions between the Common School Fund and other funds included in the Oregon Comprehensive Annual Financial Report. Interfund balances (due to/from other funds and advances to/from other funds) result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances to/from other funds are not expected to be repaid within one year. See Note 7 for more on interfund transactions.

***G – RESTRICTED ASSETS***

Custodial assets are non-cash assets held in trust for third parties in the Unclaimed Property Program.

***H – FUND EQUITY***

The difference between assets and liabilities plus deferred inflows of resources is labeled “Fund Balance” on the fund financial statements. Fund balance is reported in five components: (1) Nonspendable, (2) Restricted, (3) Committed, (4) Assigned, and (5) Unassigned.

*Restricted fund balances* are the result of constraints imposed by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments. Common School Fund Balances are all restricted.

For fund balance classification purposes, the Department determines the appropriate classification of each of their detail-level funds based on the resources accounted for in those funds and the constraints on spending those resources. The Department expends resources from the appropriate fund based on each fund’s specific spending constraints. Ending fund balances, therefore, are the result of that spending.

***I – CHANGES IN ACCOUNTING PRINCIPLE***

For the fiscal year ended June 30, 2014, the Department implemented one new accounting standard issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, identifies the specific items previously reported as assets and liabilities that should be reclassified and reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The reclassifications are necessary to report financial statement elements in accordance with the definitions in GASB Concepts Statement No. 4. Implementation of this standard is reflected in the fund financial statements.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Common School Fund Investment Portfolio held at Treasury

Investments of the Common School Fund held by the State Treasurer (Treasurer) require the exercise of prudent and reasonable care in the context of the Common School Fund's investment portfolio and as part of an overall investment strategy. The Treasurer is required to diversify investments unless it is not prudent to do so. In addition, the Treasurer must exercise reasonable care to incorporate risk and return objectives suitable to the particular investment fund. The Treasurer has a policy and procedure that addresses objectives and strategies for investments of the Common School Fund.

The Common School Fund's investment policies are governed by statute and the Oregon Investment Council (Council). The Treasurer is the investment officer for the Council and is responsible for the funds on deposit with the Oregon State Treasury (Treasury). The Treasurer works with the State Land Board to ensure implementation of the asset allocation policy that meets the business needs of the Common School Fund. The Council does not make asset allocation changes without considering input from the State Land Board. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill and caution. The Treasurer is authorized to use demand deposit accounts, fixed income investments, and direct equity investment transactions, although the majority of equity investments are directed by external investment managers under contract with the Council. Investments are managed around a 70 percent equity and a 30 percent fixed income target with a range of plus or minus 5 percent, as detailed below. The Common School Fund's actual asset allocation is monitored monthly relative to established asset allocation policy targets and ranges. A deviation outside of any of the ranges triggers a review and rebalancing back toward the target asset allocation with due consideration given to the liquidity of the investments and transaction costs. Whenever possible, cash flows into and out of the fund are used to rebalance between asset classes. Cash is held only for business operating purposes.

<b>Asset Class</b>	<b>Benchmark</b>	<b>Target Allocation</b>	<b>Range</b>
Domestic Equities	Russell 3000 Index	30%	25% - 35%
International Equities	MSCI ACWI ex-US	30%	25% - 35%
Private Equity	Russell 3000 + 300 bps	10%	0% - 12%
	Total Equities	70%	65% - 75%
US Fixed Income	Barclays Capital Universal Bond Index	30%	25% - 35%
Cash		0%	0% - 3%
Policy Mix	Weighted aggregate of indexes listed above at target allocation	100%	

Common School Fund Participation in the Oregon Short Term Fund Held at Treasury

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by the Common School Fund. Because the pool operates as a demand deposit account, the Common School Fund portion of the OSTF is classified on the financial statements as cash and cash equivalents. Additional information about the OSTF can be found in the OSTF financial statements at <http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-%28OSTF%29.aspx#stat>

Common School Fund Investments Held Outside Treasury

Statutes govern the placement of investments of the Common School Fund held outside Treasury as part of trust agreements or mandatory asset holdings by regulatory agencies. The Common School Fund investment portfolio includes \$9,612,927 held outside Treasury and included in the \$9,837,927 identified as custodial assets on the balance sheet.

A real estate investment portfolio held by the Department includes one parcel valued at \$1,100,974 and is included within investments on the balance sheet.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

**A – DEPOSITS**

Custodial Credit Risk for Deposits

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 deposit 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 the deposit insurance amounts. This requirement provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable.

ORS Chapter 295 provides the statutory authority for the Public Funds Collateralization Program (PFCP). The PFCP is an application created by Treasury to facilitate bank depository, custodian, and public official compliance with ORS Chapter 295. Under the PFCP, banks are required to report quarterly to Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. Banks are also required to report their net worth and FDIC Capitalization information. The FDIC assigns each bank a capitalization category quarterly; well capitalized, adequately capitalized or undercapitalized. Based on this information, the bank's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all banks is calculated for the next quarter. The maximum liability is reported to the bank, Treasury and the custodian.

Barring any exceptions, a bank depository is required to pledge collateral valued at 10 percent or more of the bank's quarter-end public fund deposits if the bank is well capitalized and 110 percent if the bank is adequately capitalized, undercapitalized, or assigned to pledge 110 percent by Treasury.

There are three exceptions to this calculation, and any exceptions are required to be collateralized at 100 percent.

1. A bank may not accept public fund deposits from one depositor in excess of the bank's net worth. If the bank has a drop in net worth that takes it out of compliance, the bank is required to post 100 percent collateral on any amount the depositor has in excess of the bank's net worth while working to eliminate that excess.
2. A bank may not hold aggregate public funds in excess of a percentage of the bank's net worth based on its capitalization category (100 percent for undercapitalized, 150 percent for adequately capitalized, 200 percent for well capitalized) unless approved for a period of 90 days or less by Treasury.
3. A bank may hold in excess of 30 percent of all aggregate public funds reported by all banks holding Oregon public funds, only if the excess is collateralized at 100 percent.

All deposits in the OSTF at June 30, 2014, were with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, all non-interest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the entire bank balance of un-invested OSTF deposits was fully insured.

As of June 30, 2014 \$27,528 in other bank balances of the Common School Fund was held by an investment firm, not covered by the FDIC rules. However the firm is a member of the Securities Investor Protection Corporation which provides protection up to \$500,000, of which \$250,000 applies to cash credit balances. Consequently the entire bank balance of uninvested Common School Fund deposits was fully insured.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

***B – INVESTMENTS***

**Custodial Credit Risk**

Custodial credit risk for investments of the Common School Fund is the risk that, in the event of the failure of the counter party to a transaction, the State will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Council has no formal policy regarding the holding of securities by a custodian or counter party. For the year ended June 30, 2014, no investment holdings of the Common School Fund held at Treasury were exposed to custodial credit risk.

At June 30, 2014 the Common School Fund held \$9,585,399 in investments outside Treasury. These investments were held with Wedbush, an investment firm. The firm is a member of the Securities Investor Protection Corporation (SIPC) which provides protection up to \$500,000 of which a maximum of \$250,000 applies to cash credit balances. In addition to the coverage provide by the SIPC, the Firm has purchased from Lloyd's of London an excess SIPC bond that provides additional coverage for up to \$25,000,000 in cash and securities for each client, subject to an aggregate loss limit of \$100,000,000. The excess SIPC bond, together with SIPC coverage, provides for cash credit balances to each client to a maximum of \$1,000,000. This protection will replace client's cash and/or securities that are otherwise unrecoverable. It does not cover clients from losses resulting from the decline in the market value of securities in their accounts. No investment holdings of the Common School Fund held outside Treasury were exposed to custodial credit risk.

**Interest Rate Risk**

Interest rate risk is the risk (variable in value) borne by an interest bearing asset such as a loan or a bond, due to variability of interest rates. Approximately 30 percent of the Common School Fund's investment portfolio is invested in fixed income securities. Investment policy for fixed income investments of the Common School Fund is to maintain a well-diversified bond portfolio, managed to maximize total return, that reflects the overall characteristics of the Barclays Capital Universal Index Benchmark and to invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.

**Credit Risk and Concentration of Credit Risk**

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to make. Treasury investment policies for fixed income investments of the Common School Fund maintain an overall portfolio quality of at least "A" or higher; maintain an average bond duration level of plus or minus 20 percent of the Barclays Capital Universal Index. No more than 30 percent of the total fixed income portfolio at market value, may be maintained in securities rated less than Baa3. No more than 10 percent of the total fixed income portfolio, at market value, may be maintained in Rule 144A securities. No more than 25 percent of the fixed income allocation shall be invested in a single industry, or Government Agency. Use of leverage in any fixed income securities is not allowed (excluding use of securities in a securities lending program).

**Highly Sensitive Investments**

The Common School Fund held approximately \$53.1 million in debt instruments backed by pooled mortgages, TBAs (to-be-announced federal agency-issued mortgage pools), collateralized mortgage obligations (CMOs), or fixed-rate mortgages. These securities represent a stream of principal and interest payments from underlying mortgages and consequently, the value of these securities can be volatile as interest rates fluctuate. Assets with these characteristics may also be susceptible to prepayment by the mortgage holders which may result in a decrease in total interest realized. Additionally, the risk of default exits and collateral held may potentially be insufficient to cover the principal due. The Common School Fund also held approximately \$8.6 million of asset-backed securities backed primarily by student loan and manufactured housing loan receivables.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

*The credit rating and average effective duration for the Common School Fund's Investments Held at Treasury, at June 30, 2014.*

Investment Type	Credit Rating	< 1 Year	1-5 Years	6-10 Years	More than 10 years	Total Market Value
U.S. Treasury Obligations	AAA	\$ -	\$ 2,107,779	\$ -	\$ -	\$ 2,107,779
U.S. Treasury Obligations	Exempt	-	1,310,789	436,735	5,949,420	7,696,944
U.S. Treasury Strips	Exempt	-	-	203,282	-	203,282
U.S. Treasury TIPS	Exempt	-	-	1,974,047	1,967,365	3,941,412
US Federal Agency Debt	AA	-	-	-	120,849	120,849
US Federal Agency Debt	Not Rated	2,999,730	-	-	-	2,999,730
US Federal Agency Mortgages	AAA	17,995	-	-	-	17,995
US Federal Agency Mortgages	Not Rated	3,398,551	119,137	28,583	42,169,713	45,715,984
Corporate Bonds	AA	-	249,885	-	62,420	312,305
Corporate Bonds	A	310,744	3,274,722	4,816,821	2,414,451	10,816,738
Corporate Bonds	BBB	578,351	5,132,799	9,212,939	7,928,177	22,852,266
Corporate Bonds	BB	50,500	70,838	835,964	1,589,394	2,546,695
Corporate Bonds	B	-	78,898	127,950	76,520	283,368
Corporate Bonds	CCC	-	30,300	-	-	30,300
Non-US Government Debt	A	-	-	447,587	-	447,587
Non-US Government Debt	BBB	-	-	-	687,280	687,280
International Debt Securities	AA	-	211,491	21,157	263,908	496,556
International Debt Securities	A	-	890,800	2,069,544	2,139,873	5,100,217
International Debt Securities	BBB	-	1,364,587	3,011,608	3,163,523	7,539,717
International Debt Securities	BB	-	106,278	2,126,866	-	2,233,143
International Debt Securities	B	-	11	9,950	143,175	153,136
International Debt Securities	Not Rated	-	61,064	-	788,747	849,811
Asset Backed Securities	AAA	1,297,056	-	-	-	1,297,056
Asset Backed Securities	AA	1,495,201	-	-	-	1,495,201
Asset Backed Securities	A	1,901,094	-	-	43,115	1,944,209
Asset Backed Securities	BBB	475,033	4,945	-	-	479,978
Asset Backed Securities	BB	438,400	-	-	-	438,400
Asset Backed Securities	B	332,158	-	-	-	332,158
Asset Backed Securities	CCC	294,500	-	-	-	294,500
Asset Backed Securities	CC	2,295,986	-	-	-	2,295,986
Collateralized Mortgage Obligations	AAA	517,872	-	-	305,381	823,253
Collateralized Mortgage Obligations	AA	236,386	-	-	-	236,386
Collateralized Mortgage Obligations	A	1,437,976	-	-	292,357	1,730,333
Collateralized Mortgage Obligations	BBB	2,248,099	-	-	506,174	2,754,273
Collateralized Mortgage Obligations	BB	651,908	-	-	323,202	975,110
Collateralized Mortgage Obligations	B	4,234,132	-	-	308,779	4,542,910
Collateralized Mortgage Obligations	CCC	2,656,575	-	-	254,389	2,910,964
Collateralized Mortgage Obligations	CC	1,859,592	-	-	-	1,859,592
Collateralized Mortgage Obligations	Not Rated	228,864	-	-	232,193	461,057
Mutual Funds, Domestic Fixed Income	Not Rated	-	-	-	223,382,094	223,382,094
Mutual Funds, International Fixed Income	Not Rated	-	-	-	8,265,439	8,265,439
<b>Total Debt Investments</b>		<b>\$ 29,956,703</b>	<b>\$ 15,014,322</b>	<b>\$ 25,323,033</b>	<b>\$ 303,377,936</b>	<b>\$ 373,671,993</b>

continued on next page

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

continued from previous page

Total Debt Investments	\$ 29,956,703	\$ 15,014,322	\$ 25,323,033	\$ 303,377,936	\$ 373,671,993
Equity - Domestic					290,832,454
Equity - International					319,416,167
Equity Mutual Funds - Domestic					229,489,984
Private Equity - Domestic					117,645,601
Real Estate - Domestic					6,646,946
Real Estate - International					3,260,028
Rights & Warrants - International					89,109
Lehman Receivable					21,539
<b>Total Held at Treasury</b>					<b>1,341,073,822</b>
Investments Not Held at Treasury, Real Estate					1,100,974 <sup>1</sup>
<b>Total Investments</b>					<b>\$ 1,342,174,796</b>

<sup>1</sup> See Investments Held Outside of Treasury note

Investments Held at Treasury

Fixed income securities are classified using final maturity date or next rate reset date, whichever is sooner. Fixed income mutual funds are classified by effective duration, the measurement used by the fund manager.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. State agencies are required to deposit moneys in state-qualified depositories under Oregon law. Exceptions due to foreign field offices and related circumstances are approved by the Treasurer. International debt securities denominated in U.S. dollars are not subject to currency risk if the investment's obligations will be paid in U.S. dollars. Investment policies for fixed income investments under the management of the Treasurer provides for investments of the Common School Fund in non-dollar denominated securities within a target allocation range of 25 to 35 percent of their portfolio. For investments not under the management of the Treasurer there are no formal policies on foreign currency risk. Deposits and investments exposed to foreign currency risk for the Common School Fund as of June 30, 2014.

Deposits and Investments (U.S. Dollars)							
Foreign Currency Denominations	Deposits	International Equity Securities	Non-US Government Debt	Real Estate	Repos	Rights and Warrants	Total
Australian Dollar	\$ 80,580	\$ 12,108,679	\$ -	\$ 907,209	\$ -	\$ -	\$ 13,096,468
Brazil Real	-	-	230,096	-	-	-	230,096
Canadian Dollar	84,281	26,561,873	-	-	-	-	26,646,154
Swiss Franc	47,936	19,195,534	-	-	-	-	19,243,470
Danish Krone	28,800	5,742,276	-	-	-	-	5,771,076
Euro	673,121	97,727,045	-	1,142,772	-	79,004	99,621,942
British Pound	39,712	35,294,312	-	297,950	-	-	35,631,974
Hong Kong Dollar	69,418	5,130,530	-	312,781	-	10,105	5,522,833
Israeli Shekel	3,938	3,815,565	-	55,888	-	-	3,875,392
Japanese Yen	350,610	55,061,245	-	543,427	-	-	55,955,282
Mexican Peso	74,942	-	2,443,769	-	-	-	2,518,711
Norwegian Krona	50,139	2,550,418	-	-	-	-	2,600,557
New Zealand Dollar	20,957	-	-	-	-	-	20,957
Swedish Krona	26,923	14,554,385	-	-	-	-	14,581,308
Singapore Dollar	58,770	1,737,609	-	-	266,013	-	2,062,392
<b>Total</b>	<b>\$ 1,610,127</b>	<b>\$ 279,479,470</b>	<b>\$ 2,673,864</b>	<b>\$ 3,260,028</b>	<b>\$ 266,013</b>	<b>\$ 89,109</b>	<b>\$ 287,378,611</b>

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

Investments Held Outside Treasury

Some custodial assets held outside Treasury are not investments. The following table shows the credit rating and segmented time distribution for Investments Held Outside Treasury at June 30, 2014.

Investment Type	Credit Rating	Investment Maturities			Balance at June 30, 2014
		< 1 Year	1-5 Years	6-10 Years	
U.S. Agency Securities <sup>1</sup>	AAA	\$ -	\$ -	\$ 776	\$ 776
U.S. Treasury Strips <sup>1</sup>	AAA	1,998	1,892	2,625	6,515
GNMA <sup>1</sup>	AAA	-	2	-	2
Municipal Bonds <sup>1</sup>	AAA	4,997	14,237	-	19,234
Domestic Mutual Funds-debt <sup>1</sup>	not rated	3,120,456	-	-	3,120,456
		<u>\$ 3,127,451</u>	<u>\$ 16,131</u>	<u>\$ 3,401</u>	<u>3,146,983</u>
Real Estate <sup>1</sup>	N/A				1,100,974
Alternative Equities <sup>1</sup>	N/A				12,794
Domestic Equity Securities <sup>1</sup>	N/A				6,425,622
Total					<u>\$ 10,686,373</u>

<sup>1</sup> Some investments (along with certain cash deposits) are reported as part of custodial assets on the balance sheet.

**C – SECURITIES LENDING**

In accordance with state investment policies, CSF participates in securities lending transactions. Through securities lending authorization agreements, the Oregon State Treasury has authorized its custodian, State Street Bank, to lend its securities pursuant to the terms and conditions of policy and applicable agreements. As of June 30, 2014, the fair value of cash and non-cash collateral received was \$70.5 million and invested cash collateral was \$69.1 million for CSF. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

OSTF also participates in securities lending activity. CSF receives an allocated portion of this activity based on its deposits in OSTF. As of June 30, 2014, CSF's allocated portion of cash collateral received and invested cash collateral were \$2.2 million and \$2.2 million, respectively. Securities on loan from the OSTF in total included U.S. Treasury securities (88.91%), U.S. Agency securities (5.50%), and domestic fixed income securities (5.59%). Cash collateral received for OSTF securities lent is invested in securities lending collateral pools and is not exposed to custodial risk. The following table shows the combined balances of the securities on loan, cash and securities collateral received, and investments of cash collateral held.

Securities Lending as of June 30, 2014			
Investment Type	Securities on Loan at Fair Value	Cash and Securities Collateral Received	Investments of Cash Collateral at Fair Value
U.S. Treasury Securities	\$ 5,217,405	\$ 5,304,678	\$ 4,970,224
U.S. Agency Securities	299,201	304,425	-
Domestic Equity Securities	30,138,055	30,842,871	30,807,593
Domestic Debt Securities	15,042,259	15,339,930	15,548,691
International Equity Securities	17,844,124	18,719,660	17,796,413
Allocation from Oregon Short Term Fund	3,588,850	3,662,435	2,185,833
<b>Total</b>	<u>\$ 72,129,894</u>	<u>\$ 74,173,999</u>	<u>\$ 71,308,754</u>

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

**NOTE 3 – DERIVATIVES**

Derivatives are financial instruments whose value is derived from underlying assets, reference rates, or indexes. They generally take the form of contracts in which two parties agree to make payments at a later date based on the value of the underlying assets, reference rates, or indexes. The main types of derivatives are futures, forwards, options and swaps.

In the Common School Fund portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at the future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counter party to perform.

The following table shows the foreign currency exchange contracts within the Common School Fund as of June 30, 2014.

Currency	Options	Currency Forward Contracts		Total Exposure
		Net Receivables	Net Payables	
Australian Dollar	\$ -	\$ 90	\$ (44,217)	\$ (44,127)
Canadian Dollar	-	477,211	(296)	476,915
Swiss Franc	-	-	(77,051)	(77,051)
Danish Krone	-	66,774	-	66,774
Euro Currency	79,004	-	(142,345)	(63,341)
Pound Sterling	-	358,034	(4,868)	353,166
Hong Kong Dollar	10,105	(31)	420	10,494
New Israeli Sheqel	-	(2)	(45,200)	(45,202)
Japanese Yen	-	14,978	(94,555)	(79,577)
Norwegian Krone	-	(394)	33,721	33,327
New Zealand Dollar	-	353,515	-	353,515
Swedish Krona	-	(2,215)	(3,145)	(5,359)
Singapore Dollar	-	-	(2,741)	(2,741)
<b>Total</b>	<b>\$ 89,109</b>	<b>\$ 1,267,963</b>	<b>\$ (380,279)</b>	<b>\$ 976,793</b>

In the Common School Fund portfolio, rights and warrants are often obtained and held due to existing investments. Rights are the right, but not the obligation, to purchase newly issued equity shares, often in proportion to the number of shares currently owned, in a specified company, at a pre-established price on or within a predetermined date. A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain period. Rights and warrants are privately transacted in over-the-counter markets. Both are subject to general market risk and liquidity risk.

The following table shows the changes in fair value and the fair value of rights and warrants within the Common School Fund as of June 30, 2014.

	Changes in Fair Value <sup>1</sup>		Fair Value at June 30, 2014		Notional <sup>2</sup>
	Classification	Amount	Classification	Amount	
Rights	Investment Revenue	\$ 137,505	Common Stock	\$ 89,109	\$ 120,065
Warrants	Investment Revenue	2,227,598	Long Term Instruments	887,684	\$ 124,939,794
<b>Total</b>		<b>\$ 2,365,102</b>		<b>\$ 976,793</b>	

<sup>1</sup> Excludes futures margin payments  
<sup>2</sup> Notional may be a dollar amount or size of underlying for futures and options

The fair value of derivative instruments is reported on the balance sheet as investments, accounts and interest receivables, and accounts payable, and the changes in fair value of derivative instruments are reported on the statement of revenues, expenditures and changes in fund balance as investment income.

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

**NOTE 4 – RECEIVABLES AND PAYABLES**

**A – RECEIVABLES**

The following table disaggregates receivable balances reported in the financial statements as accounts and interest receivable (net) and net contracts. Contracts are not expected to be collected within one year of the date of the financial statements.

Receivables reported for governmental activities at June 30, 2014:

<u>Governmental activities</u>	<u>Total</u>
General accounts	\$ 124,231
Due from federal government	349,500
Interest	1,718,137
Broker receivable	16,090,547
Contracts	1,134,318
Gross receivables	19,416,733
Allowance for doubtful accounts	(51,364)
<b>Total receivables, net</b>	<b>\$ 19,365,369</b>

**B – PAYABLES**

The following table disaggregates accounts payable reported in the financial statements as general accounts payable and broker payable. Payables reported for governmental activities at June 30, 2014:

<u>Governmental activities</u>	<u>Total</u>
General accounts payable	\$864,225
Broker payable	34,418,222
<b>Total payables</b>	<b>\$35,282,447</b>

**C – CUSTODIAL LIABILITIES**

Custodial liabilities consist of unclaimed property held in custody by the Department in perpetuity for the rightful owner as required by ORS 98.302-98.436 and 98.991-98.992. The unclaimed property liability is reported at approximately 39% of the total unclaimed property being held. An annual adjustment is made to this account to reduce the amount reported to the amount actually expected to be paid out based on a history of the account. The total legal liability for the unclaimed property program as of June 30, 2014 was \$505,349,239. The accumulated annual adjustment as of June 30, 2014 was \$297,498,686.

**NOTE 5 – LEASES**

**OPERATING LEASES**

The Department has entered into various non-cancelable rental agreements that are accounted for as operating leases because the agreements do not meet the criteria to be classified as capital leases. Operating lease payments are chargeable as rent and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2014, were \$120,093. Future minimum rental payments for operating leases in effect as of June 30, 2014:

<u>Year ending June 30,</u>	<u>Payments</u>
2015	\$ 112,839
2016	55,820
2017	1,279
Total future minimum rental payments	<b>\$ 169,938</b>

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

**NOTE 6 – POLLUTION REMEDIATION OBLIGATION**

Pollution remediation obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement-related activities, and post remediation monitoring. Excluded from pollution remediation obligations are obligations for pollution prevention and control activities, fines and penalties, landfill closure and post closure care, and other future remediation activities required upon retirement of an asset.

The Common School Fund recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. As of June 30, 2014 the Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of contamination in the Portland Harbor Superfund site. There are over 200 parties, private and public, that may eventually bear a share of the costs. It is too early in the Environmental Protection Agency's remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will be assessed against the Common School Fund. The Portland Harbor Superfund site is discussed in greater detail in Note 13.

**NOTE 7 – INTERFUND TRANSACTIONS**

Interfund balances reported in the financial statements as of June 30, 2014.

Due to Other Funds	Due from Other Funds		
	General	Environmental Management	Common School
General	\$ -	\$ -	\$ 25,389,627
Environmental Management	-	-	770,487
Common School	37,617	88,855	-
<b>Total</b>	<b>\$ 37,617</b>	<b>\$ 88,855</b>	<b>\$ 26,160,114</b>
<b>Advances to Other Funds</b>			
Advances from Other Funds	Common School		
Environmental Management	\$ -	\$ -	\$ 300,000

Interfund balances result from the time lag between the date a transaction for interfund goods and services or reimbursable expenditures is recorded and the date the payment between funds is made. Advances to other funds are not expected to be repaid within one year.

**NOTE 8 – EMPLOYEE RETIREMENT PLAN**

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. A copy of the Oregon Public Employees Retirement System annual financial reports may be obtained at:

[www.oregon.gov/PERS/section/financial\\_reports/financials.shtml](http://www.oregon.gov/PERS/section/financial_reports/financials.shtml).

PERS Pension

Employees of the Department who were plan members before August 29, 2003, participate in the PERS Pension, a cost-sharing multiple-employer defined benefit pension plan. The PERS retirement allowance is

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

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.

Oregon Public Service Retirement Plan

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. 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.

For the PERS Pension and the OPSRP Pension, the Department is required by ORS 238.225 and ORS 238A.220, respectively to 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 State employee contributions and the required state employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans are as follows: the Employee rate is 6.00%; the PERS Pension Employer rate is 9.86%; and the OPSRP rate is 8.14%

Combined employer contributions for the years ended June 30, 2014, 2013, and 2012 were approximately \$436,397, \$457,509, and \$455,212 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2014, 2013, and 2012 were approximately \$291,013, \$305,696, and \$303,643 respectively.

**NOTE 9 – DEFERRED COMPENSATION PLANS**

The Oregon Savings Growth Plan (OSGP) is a deferred compensation plan available to eligible state employees. Employee contributions are deposited into the Deferred Compensation Fund established by Oregon Revised Statute 243.411. To participate, an employee enters into an individual agreement with the State to defer current earnings to be paid at a future date. The Public Employees Retirement System (PERS) administers the plan. As a trustee of the assets, PERS contracts with ING to maintain OSGP participant records. The Office of the State Treasurer, as custodian of the assets, contracts with State Street Bank and Trust Company to provide financial services. PERS may assess a charge to participants not to exceed 2 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program.

Participants direct the selection of investment options and bear any market risk. Although the State has no liability for losses under the OSGP, the State does have the prudent investor responsibility of due care. Activity of the OSGP is reported in the Oregon Comprehensive Annual Financial Report under the Deferred Compensation Plan in the fiduciary funds combining financial statements.

**NOTE 10 – RISK FINANCING**

The State of Oregon administers property and casualty 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

State of Oregon Department of State Lands  
Common School Fund  
Notes to the Financial Statements as of June 30, 2014

---

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 Common School Fund the amount of claim settlements did not exceed insurance coverage for each of the past three years.

**NOTE 11 - COMMITMENTS**

Commitments are defined as existing arrangements to enter into future transactions or events, such as contractual obligations with vendors for future purchases or services at specified prices and sometimes at specified quantities. Commitments may also include agreements to make grants and loans.

The Oregon Investment Council has entered into agreements that commit the investment managers for the Common School Fund (CSF), upon request, to additional investment purchases up to a predetermined amount. As of June 30, 2014 the Common School Fund had approximately \$84.3 million in commitments to purchase private equity investments. These amounts are unfunded and are not recorded in the financial statements.

**NOTE 12 – RELATED PARTY DISCLOSURES**

The Oregon State Treasurer (Treasurer) is a constitutional officer within the executive branch of the state of Oregon, elected by statewide vote. As chief financial officer for the state, the Treasurer heads the Oregon State Treasury (Treasury). Treasury acts as the central bank for all state agencies and is the largest financial institution in the state. Treasury manages the portfolio of investments for the state's funds, including the Common School Fund.

The State Land Board, which consists of the Governor, Secretary of State and Treasurer, is the trustee of the Common School Fund as outlined in the Oregon Constitution. The Common School Fund's investment policies are governed by statute and the Oregon Investment Council. The Treasurer is the investment officer for the Investment Council. During the year ended June 30, 2014 the Common School Fund paid Treasury \$323,789 in fees for the management of the Common School Fund investment portfolio.

**NOTE 13– CONTINGENCIES**

***A – PORTLAND HARBOR SUPERFUND SITE***

The Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a ten-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency has listed as a Superfund site under the federal Superfund law (CERCLA). The Department is one of over 200 parties, private companies, and public entities that may eventually be found liable for a share of the costs related to investigation and cleanup of the site.

---

This page intentionally left blank.

## OTHER REPORTS

---

This page intentionally left blank.

**INDEPENDENT AUDITOR'S 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***

State Land Board  
Department of State Lands  
Salem, Oregon

We have audited, 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, the Balance Sheet and the related Statement of Revenues, Expenditures, and Changes in Fund Balance of the Common School Fund, a major governmental fund of the State of Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Common School Fund's internal control over financial reporting (internal control) 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 Common School Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Common School Fund'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.

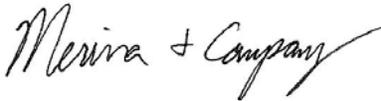
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 Common School Fund's financial statements 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.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP  
West Linn, Oregon  
December 2, 2014