



775 Summer St. NE, Ste. 201 | Salem, OR 97301 | 503-986-0123 | fax 503-581-5115 | TTY 800-735-2900 | biz.oregon.gov

**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, 2021**

**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, 2021**

TABLE OF CONTENTS

Financial Section	1
Independent Auditor Opinion	2
Basic Financial Statements	4
Statement of Net Position.....	5
Statement of Revenues, Expenses, and Changes in Fund Net Position	6
Statement of Cash Flows.....	7
Notes to Basic Financial Statements	9
Other Reports.....	21

Financial Section

Independent Auditor's Report

The Honorable Kate Brown
Governor of Oregon

Sophorn Cheang, Director, Oregon Business Development Department
Infrastructure Finance Authority Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Oregon Business Development Department, as of and for the year ended June 30, 2021, 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 financial position of the combined Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Oregon Business Development Department, as of June 30, 2021, and the changes in its financial position and cash flows 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 combined Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Oregon Business Development Department, and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Oregon Business Development Department as of June 30, 2021, the changes in its financial position, or, where applicable, its 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 will also issue our report dated October 25, 2022, on our consideration of the Oregon Business Development Department'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 solely 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 effectiveness of the Oregon Business Development Department's 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.

Office of the Secretary of State, Audits Division

State of Oregon
October 25, 2022

Basic Financial Statements

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

Statement of Net Position (Dollars in thousands)

June 30, 2021

Assets	SPWF	WF	Total
Current Assets:			
Cash and Cash Equivalents	92,821	37,577	130,398
Investments	12,465	-	12,465
Securities Lending Collateral	284	115	399
Accounts & Interest Receivable	4,627	976	5,603
Due from Other Funds	17	5,148	5,165
Loans Receivable (net)	13,807	3,443	17,250
Total Current Assets	124,021	47,259	171,280
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	1,159	-	1,159
Loans Receivable (net)	171,669	53,701	225,370
Net OPEB Asset	5	2	7
Total Noncurrent Assets	172,833	53,703	226,536
Total Assets	296,854	100,962	397,816
Deferred Outflows of Resources			
Related to Pensions	505	225	730
Related to OPEB	7	3	10
Total Deferred Outflows of Resources	512	228	740
Liabilities			
Current Liabilities:			
Accounts and Interest Payable	1,257	150	1,407
Obligations Under Securities Lending	284	115	399
Due to Other Funds	5,142	1	5,143
Due to Other Governments	85	211	296
Compensated Absences Payable	108	55	163
Contracts, Mortgages, and Notes Payable	14	6	20
Bonds Payable	2,800	-	2,800
Total Current Liabilities	9,690	538	10,228
Noncurrent Liabilities:			
Compensated Absences Payable	70	21	91
Contracts, Mortgages, and Notes Payable	95	39	134
Bonds Payable	64,357	-	64,357
Net Pension Liability	1,481	658	2,139
Net OPEB Liability	3	1	4
Total OPEB Liability	28	12	40
Total Noncurrent Liabilities	66,034	731	66,765
Total Liabilities	75,724	1,269	76,993
Deferred Inflows of Resources			
Related to Pensions	34	15	49
Related to OPEB	7	3	10
Total Deferred Inflows of Resources	41	18	59
Net Position			
Restricted for OPEB	5	2	7
Unrestricted	221,596	99,901	321,497
Total Net Position	221,601	99,903	321,504

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

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

**Statement of Revenues, Expenses, and Changes in Fund Net Position (Dollars in thousands)
For the Year Ended June 30, 2021**

Operating Revenues:	SPWF	WF	Total
Loan Interest Income	\$ 6,003	1,867	7,870
Other Revenue	98	-	98
Total Operating Revenues	<u>6,101</u>	<u>1,867</u>	<u>7,968</u>
 Operating Expenses:			
Salaries and Wages	1,565	685	2,250
Services and Supplies	922	177	1,099
Distributions to Other Governments	5,754	3,361	9,115
Bond Interest	1,668	177	1,845
Total Operating Expenses	<u>9,909</u>	<u>4,400</u>	<u>14,309</u>
 Operating Income (Loss)	 (3,808)	 (2,533)	 (6,341)
 Nonoperating Revenue (Expense):			
Investment Income (Loss)	1,029	263	1,292
Other Interest Expense	(9)	(3)	(12)
Total Nonoperating Revenue	<u>1,020</u>	<u>260</u>	<u>1,280</u>
 Income (Loss) Before Transfers	 (2,788)	 (2,273)	 (5,061)
 Transfers:			
Transfers from Other Funds	601	3,976	4,577
Transfers to Other Funds	(10,550)	(461)	(11,011)
Net Transfers	<u>(9,949)</u>	<u>3,515</u>	<u>(6,434)</u>
 Increase (Decrease) in Net Position	 <u>(12,737)</u>	 <u>1,242</u>	 <u>(11,495)</u>
Beginning Net Position	<u>234,338</u>	<u>98,661</u>	<u>332,999</u>
Ending Net Position	<u>\$ 221,601</u>	<u>99,903</u>	<u>321,504</u>

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

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

**Statement of Cash Flows (Dollars in thousands)
For the Year Ended June 30, 2021**

Cash Flows from Operating Activities:	SPWF	WF	Total
Payments to Employees for Services	\$ (1,257)	(560)	(1,817)
Payments to Suppliers	(126)	(22)	(148)
Payments to Other Funds for Services	(246)	(82)	(328)
Distributions to Other Governments	(5,996)	(3,117)	(9,113)
Other Receipts	132	-	132
Net Cash Provided (Used) in Operating Activities	(7,493)	(3,781)	(11,274)
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond Sales	37,017	-	37,017
Bond Issuance Costs	(427)	-	(427)
Principal Payments on Bonds	(11,225)	(4,280)	(15,505)
Principal Payments on Pensions	(15)	(6)	(21)
Interest Payments on Bonds	(1,625)	(444)	(2,069)
Interest Payments on Pensions	(9)	(3)	(12)
Transfers from Other Funds	601	3,976	4,577
Transfers to Other Funds	(10,550)	(461)	(11,011)
Net Cash Provided (Used) in Noncapital Financing Activities	13,767	(1,218)	12,549
Cash Flows from Investing Activities:			
Interest on Investments and Cash Balances	676	263	939
Interest Income from Securities Lending	1	1	2
Loan Principal Repayments	10,377	10,359	20,736
Loan Interest Received	5,549	2,173	7,722
Loans Made	(20,927)	(475)	(21,402)
Net Cash Provided (Used) in Investing Activities	(4,324)	12,321	7,997
Net Increase (Decrease) in Cash and Cash Equivalents			
Beginning Cash and Cash Equivalents	92,030	30,255	122,285
Ending Cash and Cash Equivalents	\$ 93,980	37,577	131,557

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

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

**Statement of Cash Flows (Dollars in thousands)
For the Year Ended June 30, 2021**

	SPWF	WF	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (3,808)	(2,533)	(6,341)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Amortization of Bond Premium and Discount	(354)	-	(354)
Interest Receipts Reported as Operating Income	(5,549)	(2,173)	(7,722)
Interest Payments Reported as Operating Expense	1,626	443	2,069
Bond Issuance Cost Reported as Operating Expense	427	-	427
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable (net)	(234)	307	73
Due from Other Funds	31	(42)	(11)
Loans Receivable	(131)	-	(131)
Net OPEB Asset	8	4	12
Accounts and Interest Payable	364	(75)	289
Due to Other Funds	60	-	60
Due to Other Governments	(208)	168	(40)
Compensated Absences Payable	8	4	12
Net Pension Liability	423	187	610
Net OPEB Liability	(3)	(2)	(5)
Total OPEB Liability	(1)	(1)	(2)
Increase (Decrease) in Deferred Outflow of Resources:			
Related to Pensions	(131)	(59)	(190)
Related to OPEB	(3)	(1)	(4)
Increase (Decrease) in Deferred Inflows of Resources:			
Related to Pensions	(17)	(8)	(25)
Related to OPEB	(1)	-	(1)
Total Adjustments	(3,685)	(1,248)	(4,933)
Net Cash Provided (Used) in Operating Activities	\$ (7,493)	(3,781)	(11,274)
Noncash Investing and Related Financing Activities			
Net Change in Fair Value of Investments	\$ 352	-	352

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

Notes to Basic 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, 2021

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.

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 Annual Comprehensive 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.

The Department has chosen to report its basic financial statements in amounts that round to the nearest one thousand dollars. The natural round of all amounts, including subtotals and totals, has been maintained.

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 net position. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position.

**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, 2021**

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, distributions to other governments, and interest paid on 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 DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

Bond discounts and premiums 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; issuance costs are expensed in the period incurred. SPWF and WF do not have any liability for 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.

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

1.G - RECEIVABLES

Receivables are amounts due representing revenues earned or accrued in the current period. Interest receivable includes interest due on loans to local governments and special districts. An allowance for uncollectible loans was established to estimate the potential loss from uncollectible loans. Actual loan losses may vary from estimated amounts.

Forgivable loans are expected to be forgiven once certain restrictions and obligations are met. However, until the conditions are met, forgivable loans are recorded as receivables with an offsetting allowance for doubtful accounts.

1.H - INTRAFUND TRANSACTIONS

Intrafund activity (transfers to/from other funds) within each fund in the financial statements have been eliminated.

**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, 2021**

1.I - 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.J - RESTRICTED ASSETS

Restricted assets consist of cash or another item of monetary value that is set aside for a particular purpose, primarily to satisfy regulatory or contractual requirements.

1.K - NET POSITION

Net position is presented in two classifications: Restricted for OPEB and Unrestricted.

The amount restricted for OPEB is \$7 and the unrestricted portion is \$321,497.

Note 2 - Cash and Cash Equivalents

At June 30, 2021, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-Term Fund (OSTF)	\$ 130,331
Money market funds held by Zions Bank, trustee	67
Debt service funds held by Zions Bank, trustee	1,159
	<u>\$ 131,557</u>

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

Current Assets:	
Cash and Cash Equivalents	\$ 130,398
Noncurrent Assets:	
Cash and Cash Equivalents – Restricted	1,159
	<u>\$ 131,557</u>

2.A - DEPOSITS

As of June 30, 2021, the book balance of monies held in demand accounts in the OSTF was \$130,331. The bank balance was \$130,510. The Oregon State Treasurer maintains the OSTF, a cash and investment pool that is available for use by the Department.

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.

A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report may be obtained from the Oregon State Treasury, 867 Hawthorne Ave SE, Salem, OR 97301, or from the Treasury's website at:

<https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.aspx>

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, 2021

The balance of money market accounts held by the Zions Bank (Oregon Bond Bank trustee) as agents for the Department totaled \$1,159. 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 ORS 285B.455 which allows moneys in the SPWF to be invested as provided by ORS 293.701 to 293.857. 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. At June 30, 2021, the Department reported investments in SPWF of \$12,465 which includes \$2,465 of unrealized gains reported as investment income. Investments are with the Oregon Intermediate Term Pool (OITP).

OITP is not registered with the U.S. Securities and Exchange Commission as an investment company. Additional information about OITP, including its audited financial statements, can be found at:

<https://www.oregon.gov/treasury/invested-for-oregon/Pages/Oregon-Intermediate-Term-Investments.aspx>

The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to OST. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in OITP are further governed by guidelines approved by the Council, establishing diversification percentages and specifying the types and maturities of investments.

3.A - 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 Intermediate Term Pool (OITP).

At June 30, 2021, OITP guidelines require that all investments meet minimum ratings requirements at the time of purchase. Minimum required ratings are subject to investment type as dictated by the guidelines.

3.B - 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 a policy concerning interest rate risk. Investments are with the OITP.

At June 30, 2021, OITP portfolio guidelines require that the portfolio's modified duration, a measure of interest rate risk, shall not exceed three years. The weighted average duration for the OITP was 3.89 years. The maximum maturity for any single investment should not be greater than 10.25 years from settlement date, with exceptions for asset-backed securities, mortgage-backed securities, and commercial mortgage-backed securities. These securities use weighted average life (WAL) as a proxy for maturity and are limited to a WAL of five years, or less, at the time of purchase.

**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, 2021**

3.C - SECURITIES LENDING

In accordance with State of Oregon investment policies, state agencies may participate in securities lending. Neither SPWF or WF have any of its own securities lending activity but were allocated a share related to the OSTF securities lending activity. As of June 30, 2021, there were no securities lending activities to disclose for the OITP. Additional information about OSTF and OITP securities lending can be found in the audited financial statements. See links previously provided above. Securities lending information is provided in the following table:

Oregon Short-Term Fund (OSTF)	Total
Securities Lending Cash Collateral	\$ 399
Total cash and noncash collateral	1,823
Securities on loan	1,787
Investments purchased with cash collateral	399

The securities on loan from the OSTF in total included:	Percent
U.S. Treasury Securities	63.18
U.S. Agency Securities	17.62
Domestic Fixed Income Securities	19.20
	<u>100.00</u>

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, 2021:

	July 1, 2020	Increase	Decrease	June 30, 2021	Due in one year
Bonds payable					
Principal	\$ 42,200	30,625	(15,505)	57,320	2,800
Premium	3,799	6,392	(354)	9,837	-
Total bonds payable	45,999	37,017	(15,859)	67,157	2,800
Compensated absences	242	10	-	252	163
Contracts, Mortgages, and Notes Payable	174	-	(22)	152	20
	<u>\$ 46,415</u>	<u>37,027</u>	<u>(15,881)</u>	<u>67,561</u>	<u>2,983</u>

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (Dollars in thousands)
Year ended June 30, 2021**

Note 5 - DEBT SERVICE REQUIREMENTS TO MATURITY

Future maturities of principal and interest as of June 31, 2021:

Year(s) ending 30-Jun	Principal	Interest	Total
2022	\$ 2,800	2,416	5,216
2023	2,970	2,451	5,421
2024	3,100	2,314	5,414
2025	3,225	2,171	5,396
2026	3,395	2,021	5,416
2027-2031	18,235	7,580	25,815
2032-2036	11,270	3,804	15,074
2037-2041	5,935	1,745	7,680
2042-2046	5,160	664	5,824
2047-2051	1,230	108	1,338
Total	\$57,320	25,274	82,594

Note 6 - BONDS ISSUED AND OUTSTANDING

As of June 30, 2021, Oregon Bond Bank bonds totaling \$57,320 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 \$9,837 and bond discounts of \$0 are included in Bonds Payable as of June 30, 2021.

The following table summarizes the changes in bonds outstanding during the fiscal year ended June 30, 2021:

Series	Period	Interest	Original Issue	July 1, 2020	June 30, 2021	Increase	Decrease	Due in one year
2010A	2011-35	2.00-5.71	21,555	13,995	-	-	13,995	-
2018A	2018-48	3.50-5.00	31,275	28,205	26,695	-	1,510	1,600
2021A	2021-51	3.00-5.00	26,260		26,260	26,260		975
2021B	2021-41	0.27-2.57	4,365		4,365	4,365		225
			\$83,455	42,200	\$57,320	\$30,625	\$15,505	\$2,800

6.A – REFUNDING

On February 18, 2021, the Department issued bonds through the Oregon Bond Bank program pursuant to Oregon Revised Statutes (ORS) 285B.410 through 285B.479, Special Public Works Fund Act

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, 2021

(SPWF) for the purpose of providing new loans to local Oregon municipalities and special districts as well as to refund all or a portion of bonds then currently outstanding.

The Department issued \$26,260 of Series A (2021A) tax-exempt Revenue bonds with an average interest rate of 5% and \$4,365 of Series B (2021B) taxable Revenue bonds with an average interest rate of 1.18%. The Department used \$11,100 of the proceeds to refund Series 2010 A-1 and Series 2010 A-2 bonds with an average interest rate of 4.4%. The refunding was undertaken to reduce total debt service payments over the following 13 years by \$1,700, resulting in an economic gain of \$1,700. See Notes 4, 5, and 6 for additional information on aggregate outstanding bond liability, changes in bond liabilities, and annual debt service.

As part of the refunding, \$8,655 of Water Fund bonds were refunded and the underlying Water Fund pledged loans of \$10,041, originally funded with Water Fund bonds, continue to repay without issue as part of the SPWF program. As of 6/30/2021, all Water Fund bond liabilities were refunded and all related pledged loans were transferred to the Special Public Works Fund.

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 ORS chapters 238 and 238A. Copies of the PERS annual financial reports may be obtained at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

7.B - OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

The Department's employees who were plan members before August 29, 2003, participate in 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. Monthly benefits are adjusted annually through cost-of-living (COLA) changes. The COLA is capped at 2.0 percent for all benefit recipients.

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.

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

**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, 2021**

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.

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
2021	20.76%	14.48%	6.00%
2020	20.76%	14.48%	6.00%
2019	17.84%	10.78%	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. The annual pension cost for the year ended June 30, 2021 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2021	\$ 117	\$ 82	\$ 34
2020	112	78	33
2019	79	48	26

7.F - PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefits are recognized in the month they are earned and withdrawals are recognized in the month they are due and payable. Plan investments are reported at fair value.

7.G - NET PENSION LIABILITY

At June 30, 2021, the State reported a liability of \$5 billion for its proportionate share of the net pension liability. The Department's portion for SPWF and WF is \$2,139. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by

**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, 2021**

an actuarial valuation as of December 31, 2018. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual earnings on investments	\$ 94	\$ -
Changes in assumptions	115	4
Net difference between projected and actual earnings on investments	251	0
Changes in proportion and differences between contributions and proportionate share of contributions	69	45
Total (prior to post- measurement date contributions)	<u>529</u>	<u>49</u>
Net deferred outflow (inflow) of resources before contributions subsequent to measurement date	-	481
Contributions subsequent to measurement date	201	-
Net deferred outflow (inflow) of resources		<u><u>\$ 682</u></u>

The \$201 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fund subsequent fiscal years	Deferred Inflow (Outflow) of Resources
1st Fiscal Year	\$ 112
2nd Fiscal Year	142
3rd Fiscal Year	133
4th Fiscal Year	92
5th Fiscal Year	2
Thereafter	-
Total	<u><u>\$ 481</u></u>

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 PERS and the Public Employees Benefit Board (PEBB).

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, 2021

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 \$60¹ 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. The Department contributed 0.06% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIA benefits. The Department also contributed 0.00% 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 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. The Department contributed 0.12% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIPA benefits. The Department also contributed 0.27% 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 contribution equaled the annual required contribution. The Oregon Legislature has sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

8.D - PUBLIC EMPLOYEES BENEFIT BOARD PLAN

The Public Employees Benefit Board (PEBB) plan is a single-employer plan for financial reporting purposes, 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.

¹This amount represents actual dollars and is not rounded to thousands

**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, 2021**

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 - NET OPEB ASSET & NET OPEB LIABILITY

At June 30, 2021, the Department reported an asset of \$7 for its proportionate share of the net OPEB asset and net OPEB liability of \$4. The net OPEB asset and liability were measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018.

8.F - TOTAL OPEB LIABILITY

At June 30, 2021, the Department reported a total OPEB liability of \$40. The total OPEB liability was measured as of June 30, 2021, and was determined by an actuarial valuation as of July 1, 2019.

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 278.405 of the Oregon Revised Statutes are used to service the following risks: direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees or agents; workers’ compensation; employee dishonesty; and faithful performance coverage for certain positions required by law to be covered and other key positions.

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

For the SPWF and WF programs, the amount of claim settlements did not exceed insurance coverage for each of the past three years.

Note 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, 2021 is:

SPWF	WF	Total
\$56,655	\$11,662	\$68,317

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

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (Dollars in thousands)
Year ended June 30, 2021**

Note 11 - LOANS AND FORGIVABLE LOANS RECEIVABLE

The following table disaggregates loans receivable, forgivable loans, and the allowance for doubtful accounts reported in the financial statements as Loans Receivable (net).

Current:	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Loans and Forgivable Loans	\$ 13,820	3,443	17,263
Allowance for Forgivable Loans	(13)	-	(13)
Total Current	<u>\$ 13,807</u>	<u>3,443</u>	<u>17,250</u>
Noncurrent:			
Loans and Forgivable Loans	\$ 171,924	53,701	225,625
Allowance for Forgivable Loans	(190)	-	(190)
Allowance for Loan Loss	(65)	-	(65)
Total Noncurrent	<u>\$ 171,669</u>	<u>53,701</u>	<u>225,370</u>

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

The Honorable Kate Brown, Governor of Oregon
Sophorn Cheang, Director, Oregon Business Development Department
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 combined financial statements of the Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Oregon Business Development Department (department), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated October 25, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the department's internal control over financial reporting (internal control) as a basis for designing 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 department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial statements of the Special Public Works Fund and the 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 financial statements. 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*.

Department Response to Findings

The department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express not opinion on it.

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 department'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 department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Secretary of State, Audits Division

State of Oregon
October 25, 2022

Schedule of Findings and Responses

Controls Over Financial Reporting Should be Strengthened

The Oregon Business Development Department's (department) accounting unit experienced an unusual amount of turnover in the past year. Key staff with knowledge of the financial reporting process, including the Chief Financial Officer, the Accounting Manager, and Lead Accountant, left the department before the fiscal year 2021 financial statements and note disclosures were complete. The financial reporting process was not adequately documented, and remaining staff had not been trained, nor did they have the knowledge necessary to prepare the financial statements and note disclosures.

To further complicate the process, the department refunded outstanding bonds in the Water Fund (WF) with new Special Public Works Fund (SPWF) debt. Accounting staff did not recognize or consider all the impacts of this refunding and did not correctly record the transactions in the accounting records. In addition, although staff were aware of some errors the initial financial statements were not corrected.

Despite the high turnover and lack of documented procedures and cross-training, many of the identified issues could have been avoided if the financial statements were prepared timely. The department should be able to draft financial statements and notes no later than early November following the fiscal year end. We received working trial balances on March 31, 2022 and the initial draft of fiscal year 2021 financial statements and notes on June 3, 2022 nearly a year after the end of the reporting period. The errors identified and the staff turnover resulted in auditors not receiving revised financial statements and notes until the end of September 2022.

State accounting policies require management to develop control activities to ensure the reliability of financial reporting. Lack of established control activities such as documented procedures, desk manuals, and management review, resulted in financial reporting errors and delayed the issuance of the financial statements.

We recommend management strengthen existing controls related to its financial reporting process through the following actions:

- Formally document financial reporting and other key accounting processes.
- Cross-train accounting staff to ensure knowledge and understanding of the financial reporting process is not lost when key employees leave the department.
- Conduct a more robust review of financial statements and notes, including more in-depth review of infrequent transactions such as the refunding of bonds.
- Prepare the financial statements and note disclosures timely.



Secretary of State Audits Division
255 Capitol St NE #180
Salem, OR 97310

To whom it may concern,

We agree with the auditors' comments, and the following actions will be taken to improve processes.

Oregon Business Development Department (Business Oregon) is hiring two separate consultants to help address the recommended action items identified by the auditors. The first consultant will be hired November 2022 and will work with the Business Oregon accounting staff and will be formally documenting key accounting processes, which includes financial reporting. These documented processes will help ensure that accounting staff are cross-trained since they will have professionally developed procedures and documentation to follow. In addition to those documented processes and cross-training, the agency CFO and Accounting Manager will be sure to conduct a robust review of the financial statements and its notes. This review will include an in-depth analysis of infrequent transactions. The consulting work is expected to be completed by June 2023.

The second consultant being hired by Business Oregon will compile the FY22 financial statements and is expected to be hired in November 2022. This will help ensure that the FY22 financial statements are turned in timely, with a target deadline of January or February 2023. This consultant will also be drafting procedures on how they drafted the financial statements as well as teaching accounting staff how the work of compiling the financial statements was performed. This will ensure financial statements after FY22 are performed consistently and timely. The procedures related to the financial statements are expected to be completed by April 2023.

Thank you for the opportunity to work together to identify ways to create a more effective and efficient process for accounting and complying with all requirements. We are committed to receiving the feedback and recommendations that were provided and implementing them to improve our accounting processes and procedures.

Please reach out to me with any questions you may have at alyssa.engelson@biz.oregon.gov or (971) 707-8159.

Thank you,

Alyssa Engelson
Accounting Manager, Oregon Business Development Department