Common School Fund

Annual Financial Report

For the Fiscal Year Ended June 30, 2023

Oregon Department of State Lands

An Agency of the State of Oregon

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Director

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

State Land Board
Oregon Department of State Lands
Salem, Oregon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Common School fund, major governmental fund of the State of Oregon, which comprise the balance sheet as of June 30, 2023, and the related statement of revenues, expenditures, and changes in fund balances of the Common School fund of the State of Oregon, as of and for the year ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Common School Fund of the State of Oregon as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of Oregon, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Common School Fund of the State of Oregon are intended to present the financial position and the changes in financial position that is attributable to the transactions of the Common School Fund. They do not purport to, and do not, present fairly the financial position of the State of Oregon, the Department of State Lands, or the Oregon State Treasury as of June 30, 2023, or the changes in its financial position 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State of Oregon's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2023, on our consideration of the Common School Fund of the State of Oregon'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 Common School Fund of the State of Oregon'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 Common School Fund of the State of Oregon's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise Idaho
November 6, 2023

BASIC FINANCIAL STATEMENTS

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Balance Sheet
June 30, 2023

ASSETS		
Cash and Cash Equivalents	$	91,179,361
Cash and Cash Equivalents, Restricted		1,155,096
Investments		2,184,098,701
Investments, Restricted		98,697,556
Securities Lending Collateral		3,981,740
Accounts and Interest Receivables		9,502,515
Due from Other Funds		166,285
Advances to Other Funds		300,000
Net Contracts, Notes, and Other Receivables		11,590
Total Assets	$	2,389,092,844
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$	20,059,574
Obligations Under Securities Lending		3,981,740
Due to Other Funds		349,394
Deposit Liabilities		236,038,120
Total Liabilities		260,428,828
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Contracts		11,590
Total Deferred Inflows of Resources		11,590
Fund Balances:		
Restricted by:		
Oregon Constitution		1,465,237,766
Enabling Legislation		663,414,660
Total Fund Balances		2,128,652,426
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	2,389,092,844

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2023

REVENUES	
Licenses and Fees	$ 567,167
Federal	668,787
Charges for Services	311,612
Rebates and Recoveries	65,553
Fines, Forfeitures, and Penalties	100,214
Rents and Royalties	5,184,439
Investment Income	141,643,348
Sales	142,842
Unclaimed and Escheat Property Revenue	71,237,518
Other	22,730
Total Revenues	219,944,210
EXPENDITURES	
Personal Services	12,950,528
Services and Supplies	16,216,530
Intergovernmental	675,500
Capital Improvements	3,940,211
Debt Service:	
Principal	423,594
Interest	102,702
Investment Expenditures	7,368,876
Total Expenditures	41,677,941
Excess of Revenues Over Expenditures	178,266,269
OTHER FINANCING SOURCES (USES)	
Transfers from Other Funds	3,060,497
Transfers to Other Funds	(78,858,365)
Leases Incurred	132,689
Subscriptions	1,905,512
Insurance Recoveries	2,666,126
Total Other Financing Sources (Uses)	(71,093,541)
Net Change in Fund Balances	107,172,728
Fund Balances - Beginning	2,021,479,698
Fund Balances - Ending	$ 2,128,652,426

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Common School Fund have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

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 Oregon State Treasury (Treasury) began managing the Unclaimed Property Program starting the fiscal year 2022, which remains in the Common School Fund.

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 statement of revenues, expenditures, and changes in fund balances reports revenues by type and expenditures by natural classification. 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. 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.

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 except for investments in the OSTF with remaining maturities of up to 90 days are carried at amortized cost, which approximates fair value. The Department and the Treasury report these investments as cash and cash equivalents on the balance sheet.

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

The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and generally values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust securities is determined by the custodian's pricing agent using recognized pricing services and generally reflects the last reported sales price. For investments that do not have an active market, such as private placements or comingled investment vehicles, the value is stated at the net asset value of units held, or its equivalent, as reported by the fund manager or general partner.

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 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 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 uncollectable accounts. 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 Annual Comprehensive Financial Report. Interfund balances (due to/from other funds and advances to/from other funds) result from the time lag between the 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 in interfund transactions.

G – RESTRICTED ASSETS

Restricted cash and cash equivalents and restricted investments are held in trust for third parties in the Unclaimed Property Program.

H – FUND BALANCES

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) Non-spendable, (2) Restricted, (3) Committed, (4) Assigned, and (5) Unassigned.

Restricted fund balances are the result of constraints imposed by the 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 and the Treasury determine 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 and the Treasury expend resources from the appropriate fund based on each fund's specific spending constraints. Ending fund balances, therefore, are the result of that spending.

I – IMPLEMENTATION OF GASB STATEMENT NO. 96

As of July 1, 2022, the Common School Fund adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA*). This standard requires recognition of capital outlay expenditures related to assets acquired under software subscription agreements and other financing sources for long-term subscriptions that were previously recorded as expenditures based on the provisions of the software subscription agreements. The implementation of this standard enhances the relevance and reliability of financial statements and establishes a SBITA asset and SBITA liability. The effect of the implementation of this standard required additional disclosures and are included in Note 5. The SBITA assets and SBITA liabilities are recorded on the State of Oregon's Annual Comprehensive Financial Report for the year ending June 30, 2023.

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 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 60% equity, 20% fixed income, 10% real estate, 5% real assets, and 5% diversifying strategies target with a range of plus or minus 5%, 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.

Asset Class	Benchmark	Target Allocation	Range
Global Equities	MSCI ACWI IMI (Net)	45%	40% - 50%
Private Equities	Russell 3000 + 300 bps Index	15%	10% - 20%
	Total Equities	60%	50% - 70%
Fixed Income	Bloomberg US Aggregate Bond Index	20%	15% - 25%
Real Estate	NCREIF ODCE QTR Lag (Net)	10%	5% - 15%
Real Assets	CPI + 4%	5%	0% - 10%
Diversifying Strategies	HFRI FOF: Consv Index	5%	0% - 10%
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:

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

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 $98.7 million held outside Treasury and is reported as restricted investments on the balance sheet.

A – DEPOSITS

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, the Department and the Treasury will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Department and the Treasury do 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. 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 depository 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 Treasury uses an internally developed web application to administer the PFCP and facilitate depository, custodian, and public official compliance with ORS Chapter 295. Under the PFCP, depositories are required to report quarterly to Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) limits. Depositories are also required to report their net worth and capitalization information. The FDIC or NCUA assigns each bank or credit union a capitalization category quarterly: well capitalized, adequately capitalized, or undercapitalized. Based on this information, the depository's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all depositories is calculated for the next quarter. The maximum liability is reported to the depository, Treasury, and the custodian.

Barring any exceptions, a depository is required to pledge collateral valued at no less than 10% of its last reported uninsured public fund deposits if the depository is well capitalized and as much as 110% if the depository is adequately capitalized, undercapitalized, or assigned to pledge 110% by Treasury.

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

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

Where interest bearing balances within the OSTF exceed the FDIC or NCUA amount of $250,000 the balances were covered by collateral held in the PFCP.

As of June 30, 2023, $1.2 million in other depository balances of the Common School Fund was held by AVENU not covered by the FDIC rules. However, the firms are members of the Securities Investor Protection Corporation (SIPC) which provides protection up to $500 thousand, of which $250 thousand applies to cash credit balances. Consequently, $250 thousand was insured by SIPC and $905 thousand was uninsured and held by the counterparty in the Treasury's name.

B – INVESTMENTS

<u>Custodial Credit Risk</u>

Custodial credit risk for investments of the Common School Fund is the risk that, in the event of the failure of the counterparty 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 the securities by a custodian or counter party. For the year ended June 30, 2023, no investment holdings of the Common School Fund held at Treasury were exposed to custodial credit risk.

As of June 30, 2023, the Common School Fund held $101.6 million in investments outside Treasury. AVENU and other investment firms held investments totaling $98.7 million. The firms are members of the Securities Investor Protection Corporation (SIPC) which provides protection up to $500 thousand of which a maximum of $250 thousand applies to cash credit balances. Investments outside Treasury also included $2.9 million of real estate property. All the investment holdings of the Common School Fund held outside Treasury other than the real estate property were registered in the Treasury's name and therefore not exposed to custodial credit risk. The real estate property is registered in the Department's name and therefore not exposed to custodial credit risk.

<u>Interest Rate Risk</u>

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 25.62% 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% of the Barclays Capital Universal Index. No more than 30% of the total fixed income portfolio at market value, may be maintained in securities rated less than Baa3. No more than 10% of the total fixed income portfolio, at market value, may be maintained in Rule 144A securities. No more than 25% 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).

Interest Rate Sensitive Investments

The Common School Fund held approximately $109.1 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 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 $9.3 million of asset-backed securities backed primarily by student loan and manufactured housing loan receivables.

The credit rating of the Common School Fund's investments held at Treasury and using the segmented time distribution method as of June 30, 2023, follows:

		Investment Maturities (in years)				
Investment Type	**Credit Rating[1]**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10 or none**	**Total Market Value**
U.S. Treasury	Exempt	$ 2,974,473	$ 3,980,969	$ 2,141,259	$ 25,371,777	$ 34,468,478
U.S. Treasury TIPS	Exempt	-	-	2,994,301	-	2,994,301
Federal agency STRIPS	Exempt	14,762	-	-	3,420	18,182
U.S. Federal agency mortgages	Not Rated	17,664,803	246,446	2,409,299	69,249,500	89,570,048
Total U.S. government debt		20,654,039	4,227,414	7,544,859	94,624,697	127,051,009
Corporate bonds	AAA	-	1,441,750	-	98,267	1,540,017
	AA	-	1,695,088	478,862	1,149,884	3,323,834
	A	10,703,740	7,887,691	7,634,536	6,980,678	33,206,645
	BBB	11,479,395	17,539,279	14,453,391	14,775,516	58,247,581
	BB	1,626,073	3,838,330	1,549,837	2,138,011	9,152,251
	B	-	-	-	6,973	6,973
Total corporate bonds		23,809,208	32,402,138	24,116,626	25,149,329	105,477,301
Non-U.S. government debt	AA	2,848,221	-	-	-	2,848,221
	A	-	-	176,440	-	176,440
	BBB	-	1,681,974	1,415,499	10,661,422	13,758,895
	BB	-	-	-	857,189	857,189
	Not Rated	-	226,191	785,913	160,650	1,172,754
Total non-U.S. government debt		2,848,221	1,908,165	2,377,852	11,679,262	18,813,500
Asset-backed securities	AAA	1,282,898	851,120	-	706,937	2,840,955
	AA	1,823,693	-	-	205,486	2,029,179
	A	1,008,184	-	-	405,137	1,413,321
	BBB	857,625	198,514	-	264,727	1,320,866
	BB	335,373	-	-	-	335,373
	B	971,167	-	-	-	971,167
	CCC	17,881	-	-	-	17,881
	CC	118,799	-	-	-	118,799
	Not Rated	223,660	-	-	-	223,660
Total asset-backed securities		6,639,281	1,049,634	-	1,582,287	9,271,203
Collateralized mortgage obligations	AAA	4,365,365	-	-	-	4,365,365
	A	1,082,528	-	-	-	1,082,528
	BBB	2,561,440	-	-	-	2,561,440
	CCC	63,519	-	-	-	63,519
	Not Rated	70,896	-	-	-	70,896
Total collateralized mortgage obligations		8,143,749	-	-	-	8,143,749

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Investment Type	Credit Rating[1]	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 or none	Total Market Value
Collateralized mortgage-backed securities	AAA	5,846,919	-	-	2,300,670	8,147,589
	AA	1,582,103	-	-	890,711	2,472,814
	A	42,875	-	-	-	42,875
	BBB	-	-	-	26,267	26,267
	B	37,400	-	-	-	37,400
	CCC	4,837	-	-	-	4,837
	CC	5,775	-	-	-	5,775
	C	84,707	-	-	-	84,707
	Not Rated	546,941	-	-	-	546,941
Total collateralized mortgage-backed securities		8,151,558	-	-	3,217,647	11,369,204
Domestic fixed income funds	Not Rated	-	-	-	278,720,846	278,720,846
Total debt investments		$ 70,246,055	$ 39,587,351	$ 34,039,338	$414,974,067	558,846,811
Domestic equity securities						300,001,146
International equity securities						50,565,627
Domestic equity funds						300,573,912
International equity funds						473,077,669
Private equity holdings						173,714,519
Domestic real estate investment trusts						3,687,667
Real estate LP						5,165,044
Real estate open ended funds						194,539,280
Alternative diversifying strategies						82,117,341
Alternative real assets						38,904,686
Total investments held at Treasury						$2,181,193,702

[1] Investments of $34,468,478 in U.S. Treasury securities, $2,994,301 in U.S. Treasury Inflation Protected Securities (TIPS), $18,182 in Federal Agency STRIPS, and $21,441,132 in Government National Mortgage Association (GNMA), which are reported within U.S. Federal agency mortgages, are explicitly guaranteed by the U.S. government, and therefore, are exempt from credit risk disclosure requirements.

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.

Investments Held Outside Treasury

The following table shows the credit rating and segmented time distribution for Investments held outside Treasury as of June 30, 2023.

Investment Type	Credit Rating	Investment Maturities (in years): Less than 1	1 to 5	6 to 10	More than 10 years	Total Market Value
U.S. Agency Securities	Exempt	$ -	$ -	$ 44	$ 34,060	$ 34,104
U.S. Agency Securities	Aaa	-	-	-	8,736	8,736
U.S. Treasury Strips	Exempt	994	-	-	-	994
GNMA	Exempt	-	-	-	24,842	24,842
Municipal Bonds	Aaa	-	-	-	5,015	5,015
Municipal Bonds	Aa	-	-	-	5,043	5,043
Municipal Bonds	Not Rated	-	-	24,984	103,777	128,762
International Debt Securities	Baa	-	6	-	-	6
Corporate Bonds	A	-	-	15,742	-	15,742
Corporate Bonds	Baa	-	27,058	46,524	-	73,582
Corporate Bonds	Ba	-	-	11,706	-	11,706
Corporate Bonds	Not Rated	3	81	20,812	2	20,898
Debt Investments		$ 997	$ 27,145	$119,812	$ 181,475	329,430
Mutual Funds						35,252,985
Domestic Equity Securities						62,943,552
International Equity Securities						145,008
Real Estate Investment Trust						26,582
Real Estate						2,905,000
Total Investments Held Outside Treasury						$101,602,556

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 20 to 30% 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, 2023, follow:

	Deposits and Investments (U.S. Dollars)			
Foreign Currency Denominations	Deposits	International Equity Securities	Non-US Government Debt	Total
Argentine Peso	$ 2,736	$ -	$ -	$ 2,736
Brazilian Real	-	756,448	-	756,448
Canadian Dollar	121,665	1,039,812	2,848,221	4,009,698
Euro	12	21,352,403	-	21,352,415
British Pound	18	51,224,842	-	51,224,860
Hong Kong Dollar	-	4,707,251	-	4,707,251
Japanese Yen	-	4,962,540	-	4,962,540
Korean Won	-	733,901	-	733,901
Mexican Peso	279,660	-	10,656,318	10,935,978
Russian Ruble	22,219	-	1,172,754	1,194,973
Swedish Krona	-	2,954,688	-	2,954,688
South African Rand	-	1,535,476	-	1,535,476
Total	$ 426,310	$ 89,267,361	$ 14,677,293	$ 104,370,964

C – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of investments within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Investments held by Treasury:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
  - Investments managed by Treasury: investments in equity securities, including exchange-traded derivatives, when their value is based on quoted prices from an active market; and real estate, which consist of investments in real estate investment trusts, when their valued based on an active market price.
  - Investments not managed by Treasury: funds priced using a fair value per share that is published daily and validated with a sufficient level of observable activity; and equity securities, including exchange-traded derivatives, when their value is based on quoted prices from an active market.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

  - Investments managed by Treasury: investments with remaining maturities of fewer than 90 days are carried at amortized cost, which approximates fair value; investments with maturities of greater than 90 days, debt securities, and investments not valued at fair value per share are valued using the latest bid prices or evaluated quotes from independent pricing vendors, which use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions; certain non-U.S. government commercial paper is reported at amortized cost as independent vendor pricing was not available; and where observable activity is limited, yet supports that the fair value per share represents an exit value of the security at the measurement date.
  - Investments not managed by Treasury: debt securities are valued using the latest bid prices or evaluated quotes from independent pricing vendors, which use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions; and where observable activity is limited, yet supports that the fair value per share represents an exit value of the security at the measurement date.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.
  - Investments not managed by Treasury: in the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or prices provided by investment managers; and funds that do not meet the criteria to be measured at fair value because the fair value per share (or its equivalent) was not calculated in a manner consistent with the Governmental Accounting Standards Board's measurement principles for investment companies.

Investments that are measured at net asset value (NAV) as a practical expedient, such as most private equity, alternative, opportunity and real estate investments, are excluded from the fair value hierarchy if the NAV per share (or its equivalent) was calculated in a manner consistent with the Governmental Accounting Standards Board's measurement principles for investment companies.

Private equity consists of 16 funds, organized as limited partnerships and limited liability companies, participating in diversified strategies including leveraged-buyouts, venture capital, growth equity, fund of funds, co-investments and special situations. The fair values of the private equity investments have been determined using the NAV per share (or its equivalent) as provided by the general partner or managing member. These funds have a finite term. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 12-14 years.

Investments in real estate, other than real estate investment trusts which are generally valued based on an active market price have been valued based on the NAV per share (or its equivalent), as provided by the general manager. This type includes three commingled real state funds, structured as limited partnerships, where the funds have a finite term. Distributions from the funds will be received as the underlying investments of the funds are liquidated. Liquidation is expected to take place during the five-year period following the termination of the investment period which extends to 2035. Real estate also includes investment in three open-ended funds that permit quarterly redemption of shares, subject to certain requirements being met.

Alternative equity funds seek to provide diversification and inflation hedging characteristics to the Common School Fund and includes investments with a focus on infrastructure. Alternative equity consists of 14 investments in commingled funds organized as limited partnerships and limited liability companies. The fair values of the investments have been determined using NAV per share (or its equivalent) of the investments as provided by the fund manager. For alternative real assets, which includes 4 of the 14 funds, the funds have a finite term. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 8 to 12 years. Alternative diversifying strategies permit periodic redemption of shares, subject to certain requirements being met, and consist of 10 funds investing in diversifying hedge strategies.

Real estate property investments held outside of the Treasury are valued by appraisals using market sales approach and income approach. Collectibles held outside Treasury are valued using comparative sales.

The following table shows the fair value classification hierarchy for investments as of June 30, 2023:

Investments by Fair Value Level	**Fair Value Classification Heirarchy**			**Total**
	Level 1	**Level 2**	**Level 3**	**Investments**
Investments Held at Treasury				
U.S. Treasury	$ -	$ 34,468,478	$ -	$ 34,468,478
U.S. Treasury TIPS	-	2,994,301	-	2,994,301
U.S. Federal Agency Strips	-	18,182	-	18,182
U.S. Federal Agency Mortgages	-	89,570,048	-	89,570,048
Corporate Bonds	-	105,477,301	-	105,477,301
Non-US Government Debt	-	18,813,500	-	18,813,500
Asset-backed Securities	-	9,271,203	-	9,271,203
Collateralized Mortgage Obligations	-	8,143,748	-	8,143,748
Collateralized Mortgage-backed Securities	-	11,369,204	-	11,369,204
Total debt securities	-	280,125,965	-	280,125,965
Domestic equity securities	350,566,549	-	224	350,566,773
International equity funds	57,979,740	-	-	57,979,740
Real Estate Investment Trust	3,687,667	-	-	3,687,667
Investments measured at fair value	412,233,956	280,125,965	224	692,360,145
Investments Measured at Net Asset Value (NAV):				
Domestic equity funds				300,573,912
International equity funds				415,097,929
Domestic Fixed Income funds				278,720,846
Private equity				173,714,519
Real estate LP				5,165,044
Real estate open ended funds				194,539,280
Alternative diversifying strategies				82,117,341
Alternative real assets				38,904,686
Total investments measured at NAV				1,488,833,557
Total Investments Held at Treasury				2,181,193,702
Investments Held Outside Treasury				
U.S. agency securities	-	42,840	-	42,840
U.S. Treasury strips	-	994	-	994
GNMA	-	24,842	-	24,842
Municipal bonds	-	138,820	-	138,820
Corporate bonds	-	121,928	-	121,928
Domestic equity securities	62,934,096	9,455	-	62,943,552
International equity securities	145,008	-	-	145,008
Real Estate Investment Trust	26,582	-	-	26,582
Real Estate	-	-	2,905,000	2,905,000
International debt securities	-	6	-	6
Mutual funds	35,252,985	-	-	35,252,985
Total Investments Held Outside Treasury	98,358,671	338,885	2,905,000	101,602,556
Total Investments by fair value level	$510,592,627	$ 280,464,850	$2,905,224	$ 2,282,796,258

The following table shows the investments measured at net asset value per share (or its equivalent) including unfunded commitments and redemption as of June 30, 2023.

Investments Measured at Net Asset Value (NAV)	Fair Value	Unfunded Commitments[1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic fixed income funds	$ 278,720,846	$ -	Daily	5 days
Domestic equity funds	300,573,912	-	Daily	2 days
International equity funds	415,097,929	-	Daily, Quarterly	2 - 120 days
Real estate LP	5,165,044	24,467,650	NA	NA
Real estate open-ended funds	194,539,280	4,089,172	Monthly, Quarterly	15 days
Alternative real assets	38,904,686	27,598,381	NA	NA
Alternative diversifying strategies	82,117,341	-	Monthly, Quarterly	2 - 65 days
Private equity	173,714,519	22,382,724	NA	NA
Total Investments at fair value	$ 1,488,833,557	$ 78,537,927		

[1] Excludes new commitments not yet funded at June 30, 2023.

D – SECURITIES LENDING

Common School Fund participates in securities lending transactions in accordance with State investment policies. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the Common School Fund securities pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2023.

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

As of June 30, 2023, the fair value of cash and non-cash collateral received was $5.0 million and invested cash collateral was $4.0 million for Common School Fund. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

State Street, as a lending agent, has created a fund to reinvest cash collateral received on behalf of the OSTF. Common School Fund receives an allocated portion of this activity based on its deposits in OSTF. As of June 30, 2023, Common School Fund's allocated portion of cash collateral received and invested cash collateral were $28 thousand and $28 thousand respectively. Securities on loan from OSTF in total included U.S. Treasury securities (12.44%), U.S. Agency securities (80.44%), and domestic fixed income securities (7.12%).

As permitted under the fund's Declaration of Trust, participant purchases and redemptions are transacted at $1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the balance sheet.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2023, is effectively one day. On June 30, 2023, the Common School Fund had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State. 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, 2023 **Investment Type**	**Cash and Securities Collateral Received**	**Securities on Loan at Fair Value**	**Investments of Cash Collateral at Fair Value**
Domestic equity securities	$ 22,950	$ 21,879	$ 22,947
Domestic debt securities	3,946,960	3,887,857	3,915,350
International equity securities	1,015,014	963,300	14,412
	4,984,924	4,873,036	3,952,709
Allocation from Oregon Short-Term Fund	399,260	391,314	28,462
Total	$ 5,384,184	$ 5,264,350	$ 3,981,171

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 of 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 subject to foreign currency risk within the Common School Fund as of June 30, 2023:

		Currency Forward Contracts		
Currency	**Options**	**Net Receivables**	**Net Payables**	**Total Exposure**
Canadian Dollar	$ -	$ 3,582	$ (11,440)	$ (7,858)
Mexican Peso	-	5,682	(321,146)	(315,464)
Total	$ -	$ 9,264	$ (332,586)	$ (323,322)

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 specific 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 related net depreciation in fair value amounts and the notional amounts of derivative instruments outstanding within the Common School Fund as of June 30, 2023:

Investment Derivatives	Net Appreciation/ (Depreciation) in Fair Value [1,4]	Classification	Fair Value [2]	Notional Value [3]
Foreign Exchange Forwards	$ (911,400)	Long Term Instruments	$ (323,321)	$ 5,677,449
Total	$ (911,400)		$ (323,321)	$ 5,677,449

[1] Negative values (in brackets) refer to losses
[2] Negative values refer to liabilities
[3] Notional may be a dollar amount or size of underlying for futures and options
[4] Excludes futures margin payments

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

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, Notes, and Other Receivables. Receivable reported for governmental activities as of June 30, 2023:

Accounts and Interest Receivables	Total
General accounts	$ 86,920
Interest	2,450,372
Investment broker receivable	6,965,223
Accounts and Interest Receivable, net	$ 9,502,515

Net Contracts, Notes, and Other Receivables	Total
Contracts, Notes, and Other Receivables	$ 124,149
Allowance for doubtful accounts	(112,559)
Net Contracts, Notes, and Other Receivables	$ 11,590

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 as of June 30, 2023:

Accounts Payable	Total
General accounts payable	$ 2,616,031
Investment broker payable	17,443,543
Total payables	$ 20,059,574

C – DEPOSIT LIABILITIES

Deposit liabilities consist of unclaimed property held in custody by the Treasury and 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 50.4% of the total unclaimed property being held. Starting the fiscal year 2022, the Treasury took responsibilities for all new deposit liabilities. All deposit liabilities prior to the fiscal year 2022 remain the responsibility of the Department. The total legal liability for the unclaimed property program as of June 30, 2023, was $997.5 million. The accumulated annual adjustment as of June 30, 2023, was $761.7 million.

NOTE 5 – LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

A – LEASES - LESSEE

The Department and the Treasury have various non-cancelable rental agreements for buildings and equipment with non-state entities that are accounted under the lease guidance GASB Standard No. 87, *Leases*. For the year ended June 30, 2023, the Treasury reported the lease purchase revenue as leases incurred in the amount of $133 thousand in other financing sources (uses) whereas the lease purchase expenditure is reported in capital improvements in the amount of $133 thousand. The principal and interest payments are reported as debt service payments in the amount of $160 thousand and $93 thousand, respectively. Lease liabilities and assets are recorded in the State of Oregon's Annual Comprehensive Financial Report for the year ended June 30, 2023, Statement of Net Position. There is no residual value guarantee in these lease contracts. Land is pledged as a collateral security to one of the leased building contracts. The following table shows future minimum lease payments and the related net present value as of June 30, 2023:

Year ending June 30,	Principal	Interest
2024	$ 174,545	$ 96,375
2025	199,395	94,701
2026	223,082	90,680
2027	244,543	86,234
2028	261,006	81,414
2029-2033	955,673	337,104
2034-2038	2,297,858	243,777
Total	$ 4,356,102	$ 1,030,285

B – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

The Treasury has one non-cancelable Subscription-Based Information Technology Arrangement (SBITA) with non-state entities that are accounted for under the new guidance GASB Standard No. 96, *Subscription-Based Information Technology Arrangements* related to the unclaimed property software system (KAPS). The

Department has entered into an additional subscription contract that has not yet been commenced, of which a total of $2.7 million has been committed for the year ending June 30, 2023, related to implementation cost. The subscription for software related to the Department's Land Administration System Replacement Project is estimated to commence in October of 2025 and will be recognized by the Department at that time. The SBITA revenue is reported as subscriptions in the amount of $1.9 million in other financing sources (uses) whereas the SBITA expenditure is reported in capital improvements in the amount of $1.9 million. The principal and interest payments are reported as debt service payments in the amount of $264 thousand and $10 thousand, respectively. SBITA liabilities and assets are recorded in the State of Oregon's Annual Comprehensive Financial Report for the year ended June 30, 2023, Statement of Net Position. The following table shows future minimum SBITA payments and the related net present value as of June 30, 2023:

Year ending June 30,	Principal	Interest
2024	$ 232,942	$ 48,435
2025	248,255	41,564
2026	264,273	34,240
2027	281,024	26,444
2028	298,539	18,154
2029-2033	316,846	9,347
Total	$ 1,641,879	$ 178,184

C – LEASE RECEIVABLES

The Department receives rental income from land and property leased to non-state entities. For the year ended June 30, 2023, the Department received rental income of $61 thousand on leased assets with a fair market value of $2.9 million. The leased assets are considered investments of the Department and is excluded from the lease guidance GASB Standard No. 87, *Leases*. Future minimum lease revenues for non-cancelable leases as of June 30, 2023:

Year ending June 30,	Amount
2024	$ 63,199
2025	65,095
2026	67,048
2027	69,060
2028	71,132
2029-2033	54,540
Total future minimum rental revenues	$ 390,074

NOTE 6 – POLLUTION REMEDIATION OBLIGATION

Pollution remediation obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. This includes 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.

The Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with investigation and cleanup of contamination of the in-river portions of the Portland Harbor Superfund site. There are over 100 parties, private and public, that may eventually bear a share of the costs. The Environmental Protection Agency (EPA) issued a Record of Decision estimating the cleanup to cost $1.1 billion and take approximately 13 years to complete. It is too early to estimate the total cleanup costs that may be shared by the liable parties and what portion of that will be assessed against the Common School Fund. The Portland Harbor Superfund site is discussed in greater detail in Note 12.

On May 31, 2019, the Department entered into a settlement agreement for funding remedial design with the EPA, Oregon Department of Transportation, and the City of Portland for the Portland Harbor Superfund site cleanup. The EPA settlement agreement for funding remedial design requires the State to pay $6 million to EPA in July 2019 and up to $6 million by June 2021, not to exceed $12 million in total. The EPA informed the Department that the second payment of $6 million for remedial design was not necessary.

As of June 30, 2023, the Department has remaining contracts for Portland Harbor cleanup activities estimated at $647 thousand. The pollution remediation obligation of $647 thousand for the Portland Harbor Superfund site is recorded in the State of Oregon's Annual Comprehensive Financial Report for the year ended June 30, 2023, Statement of Net Position.

NOTE 7 – INTERFUND TRANSACTIONS

Interfund balances reported in the financial statements as of June 30, 2023:

	Due from Other Funds		
Due to Other Funds	**General**	**Environmental Management**	**Common School**
Environmental Management	$ -	$ -	$ 342,802
Common School	2,025	164,260	-
Capital Projects	-	-	401
Other Custodial	-	-	6,191
Total	$ 2,025	$ 164,260	$ 349,394

	Advances from Other Funds		
Advances to 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 – RELATED PARTY TRANSACTIONS

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, 2023, the Common School Fund paid Treasury $626 thousand in fees for the management of the Common School Fund investment portfolio.

NOTE 9 – 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 dishonesty; and faithful performance coverage for certain positions by law to be covered and other key positions.

As state agencies, the Department and the Treasury participate 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 10 – FUND BALANCES

Restricted fund balances result from 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. Enabling legislation authorizes the Department to levy, access, charge, or otherwise mandated payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation. As of June 30, 2023, the Common School fund balance of $2.1 billion is restricted for K-12 Education.

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.

As of June 30, 2023, the Department had the following personal services contract commitments in effect:

Funding Source	Total
Other Funds	$ 24,233,292

The Oregon Investment Council has entered into agreements that commit the investment managers for the Common School Fund, upon request, to additional investment purchases up to a predetermined amount. As of June 30, 2023, the Common School Fund had approximately $242.4 million in commitments to purchase private equity, alternatives and real estate open-ended fund investments. These amounts are unfunded and are not recorded in the financial statements.

NOTE 12 – CONTINGENCIES

PORTLAND HARBOR SUPERFUND SITE

The Department is currently involved in a confidential, non-judicial allocation and mediation process related to environmental contamination in the Portland Harbor. In 2000, the U.S. Environmental Protection Agency (EPA) listed an approximately 10-mile stretch of the lower Willamette River area (Site) as a Superfund site under the federal Superfund law (CERCLA). EPA has identified over 100 parties as potentially responsible under CERCLA for costs related to investigation and cleanup of hazardous substances at the Site, including the State of Oregon, acting by through the Department as well as the Department of Transportation (ODOT).

EPA alleges the release of hazardous substances from third-party activities on submerged and submersible leased lands owned by the State in trust for the public and managed by the Department within the Site. Under CERCLA, responsible parties can be held jointly and severally liable for all costs, subject to certain defenses.

In 2017, EPA issued its final cleanup plan for the Site called the “Record of Decision” (ROD). The ROD requires active remediation (through dredging, capping, enhanced natural recovery, and monitored natural recovery) of nearly 400 acres of contaminated sediments and over 20,000 lineal feet of riverbank. EPA’s initial estimate for full performance of the remedy was $1.05 billion and 13 years; other parties estimate that it is a $3 billion remedy that will take 20 years to complete. Liable parties under CERCLA are responsible for funding this remedial action, as well as preliminary actions such as additional investigations, remedial design, and agency oversight. EPA has asked potentially responsible parties (PRPs) to step forward to perform components of the ROD or risk an enforcement action. Numerous parties, including the Department and ODOT, have entered into Administrative Settlements and Orders on Consent with EPA to perform pre-remedial design and related work.

A group of Portland Harbor PRPs are engaged in a confidential, non-binding private mediation process to achieve an allocation of responsibility for the costs of implementing the ROD among the responsible parties. If successful, the process will culminate in the parties developing a comprehensive settlement proposal to EPA based on the allocation. If accepted by EPA, the settlement will be memorialized in a judicial Consent Decree filed in the Oregon federal district court. The State is participating in this non-judicial allocation by and through the Department and ODOT. It is not possible to predict the relative share of cleanup costs that will be assigned to each agency through this confidential mediation or, should it fail, through litigation.

It is also too early to predict when the mediation will conclude or whether it will result in a durable comprehensive settlement with EPA.

Separately, the Portland Harbor natural resource trustees, a group composed of five tribes, two federal agencies and the State, acting through its trustee, the Oregon Department of Fish and Wildlife, are asserting a CERCLA claim for natural resource damages (NRD) against all Portland Harbor PRPs, including the Department and ODOT. The trustees have initiated a cooperative injury assessment process funded by thirty parties, the goal of which is to reach settlements of the NRD claim based on readily available information. The State is seeking a settlement of its NRD liabilities through this process.

The State has pursued claims for insurance coverage of its Portland Harbor defense costs and expects to make additional insurance claims in the future for its eventual liabilities for cleanup costs and NRD. These claims are based on commercial general liability insurance policies that the State held between 1968 and 1972 and on insurance policies that listed the Department and ODOT as additional insureds. The State has executed a settlement agreement with several of its insurers regarding their obligation to pay for most of the State's defense costs through 2024, but the insurers have reserved their rights to deny indemnity coverage.

OTHER REPORTS

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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
Oregon 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 (*Government Auditing Standards*), the financial statements of the Common School Fund, a major governmental fund of the State of Oregon, which comprise the balance sheet as June 30, 2023, and the related statement of revenues, expenditures, and changes in fund balances for the year ended, and the related notes to the financial statements, which collectively comprise the Common School Fund's basic financial statements and have issued our report thereon dated November 6, 2023.

Report on 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) 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2023-001 that we consider to be material weakness.

Report on 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 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.*

Common School Fund's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Common School Fund 's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The Common School Fund 's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Eide Bailly LLP

Boise, Idaho
November 6, 2023

2023-001 Unclaimed Property Valuation-Material Weakness

Criteria:
Management should have an internal control system in place designed to provide for the calculation of the deposit liabilities that do not require significant adjustments during the audit process.

Condition:
As part of our audit procedures, we identified an error in the calculation of the deposit liabilities regarding the estimated unclaimed amount. This amount had to be corrected during the course of the audit fieldwork. In addition, we noted the deposit liability used to determine the estimated unclaimed amount did not reconcile to the general ledger.

Cause:
Controls were not operating effectively to ensure the journal entry to record the annual adjustment for estimated unclaimed amount was correct. The Treasury department could not get holder year information on claims paid into the general ledger to calculate the estimated liability which resulted in a difference between the between the general ledger and claim system (KAPS) as of June 30, 2023.

Effect:
The deposit liability was understated by $39,490,223 and had to be corrected through the audit adjustment process. The deposit liability used to determine the unclaimed amount did not reconcile to the general ledger by $3,384,341. The unreconciled amount between the general ledger and claims system could become material if not researched and resolved timely.

Recommendation:
We recommend additional layers of review over the annual unclaimed property valuation be implemented to ensure the deposit liability is materially correct. We recommend the Treasury's claims system (KAPS) be reconciled to general ledger monthly to ensure all variances are researched (i.e. holder year information is identified) and resolved.

View of Responsible Officials:
We concur with the recommendation as stated.