Common School Fund

Annual Financial Report

For the Fiscal Year Ended June 30, 2024

Oregon Department of State Lands

An Agency of the State of Oregon

Vicki L. Walker
Director

Jean Straight
Deputy Director, Administration Division

Report Prepared by:

Joseph Flager, CPA, Fiscal Manager
Sangit Shrestha, CPA

This page intentionally left blank.

FINANCIAL SECTION

This page intentionally left blank.

FINANCIAL SECTION

This page intentionally left blank.

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, 2024, 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, 2024, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Common School Fund of the State of Oregon as of June 30, 2024, and the respective changes in its 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, 2024, 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.

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.

What inspires you, inspires us. | eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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 13, 2024, 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 13, 2024

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

Balance Sheet
June 30, 2024

ASSETS		
Cash and Cash Equivalents	$	190,105,193
Cash and Cash Equivalents, Restricted		2,283,728
Investments		2,359,453,942
Investments, Restricted		123,741,574
Securities Lending Collateral		15,532,554
Accounts and Interest Receivables		55,620,030
Due from Other Funds		141,682
Advances to Other Funds		300,000
Net Contracts, Notes, and Other Receivables		13,437
Total Assets	$	2,747,192,140
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$	136,536,284
Obligations Under Securities Lending		15,532,554
Due to Other Funds		448,939
Deposit Liabilities		277,281,235
Total Liabilities		429,799,012
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Contracts		13,437
Total Deferred Inflows of Resources		13,437
Fund Balances:		
Restricted by:		
Oregon Constitution		1,547,367,521
Enabling Legislation		770,012,170
Total Fund Balances		2,317,379,691
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	2,747,192,140

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, 2024

REVENUES	
Licenses and Fees	$ 2,360,052
Federal	1,226,662
Charges for Services	261,604
Rebates and Recoveries	17,168
Fines, Forfeitures, and Penalties	126,071
Rents and Royalties	5,598,658
Investment Income	243,978,403
Sales	880,092
Unclaimed and Escheat Property Revenue	78,848,670
Other	4,326,386
Total Revenues	337,623,766
EXPENDITURES	
Personal Services	14,207,299
Services and Supplies	10,022,815
Intergovernmental	771,459
Capital Improvements	2,408,009
Debt Service:	
Principal	412,263
Interest	150,550
Investment Expenditures	8,692,427
Total Expenditures	36,664,822
Excess of Revenues Over Expenditures	300,958,944
OTHER FINANCING SOURCES (USES)	
Transfers from Other Funds	3,784,581
Transfers to Other Funds	(117,156,723)
Insurance Recoveries	1,140,463
Total Other Financing Sources (Uses)	(112,231,679)
Net Change in Fund Balances	188,727,265
Fund Balances - Beginning	2,128,652,426
Fund Balances - Ending	$ 2,317,379,691

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

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

<u>Deposits</u>

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.

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
Public 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 $123.7 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, 2024, $2.3 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 $2 million was uninsured and held by the counterparty in the Treasury's name.

B – INVESTMENTS

Custodial Credit Risk

Custodial credit risk for investments of the Common School Fund is the risk that, in the event of the failure of the 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, 2024, no investment holdings of the Common School Fund held at Treasury were exposed to custodial credit risk.

As of June 30, 2024, the Common School Fund held $126.6 million in investments outside Treasury. AVENU and other investment firms held investments totaling $123.7 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.

Interest Rate Risk

Interest rate risk is the risk (variable in value) borne by an interest-bearing asset such as a loan or a bond, due to variability of interest rates. Approximately 24.39% 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 $101.6 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 $6.5 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, 2024, 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	$ 6,993,891	$ -	$ 37,719,325	$ 17,914,746	$ 62,627,962
U.S. Treasury TIPS	Exempt	-	-	701,078	-	701,078
Federal agency STRIPS	Exempt	12,277	-	-	101,087	113,364
Federal agency TBA	Exempt	-	-	-	2,488,402	2,488,402
Federal agency TBA	Not Rated	-	-	-	4,266,514	4,266,514
U.S. Federal agency mortgages	Exempt	1,214,859	2	13,050	19,248,598	20,476,509
U.S. Federal agency mortgages	Not Rated	16,406,349	627,997	71,391	37,455,418	54,561,155
Total U.S. government debt		24,627,375	628,000	38,504,844	81,474,764	145,234,984
Corporate bonds	AAA	1,601,429	356,093	-	95,029	2,052,551
	AA	-	871,464	817,622	1,125,839	2,814,925
	A	11,486,322	5,533,807	7,289,784	6,105,638	30,415,551
	BBB	12,316,752	14,777,155	13,273,900	11,506,559	51,874,366
	BB	911,384	2,969,642	1,376,591	1,466,131	6,723,748
Total corporate bonds		26,315,887	24,508,160	22,757,897	20,299,195	93,881,140
Non-U.S. government debt	A	-	-	168,598	-	168,598
	BBB	1,579,114	1,261,716	-	8,392,471	11,233,301
	BB	-	-	-	481,757	481,757
Total non-U.S. government debt		1,579,114	1,261,716	168,598	8,874,228	11,883,656
Asset-backed securities	AAA	1,146,649	547,183	336,895	553,006	2,583,733
	AA	367,964	-	-	340,640	708,604
	A	1,068,312	-	420,561	276,228	1,765,101
	BBB	710,818	202,732	-	400,402	1,313,952
	BB	25,170	-	-	-	25,170
	CC	82,419	-	-	-	82,419
Total asset-backed securities		3,401,333	749,915	757,456	1,570,277	6,478,981

continued on next page

continued from previous page

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 obligations	AAA	6,548,142	-	-	-	6,548,142
	AA	1,641,531	-	-	-	1,641,531
	A	366,697	-	-	-	366,697
	BBB	3,579,434	-	-	-	3,579,434
	BB	361,795	-	-	-	361,795
	B	502,130	-	-	-	502,130
	CCC	47,746	-	-	-	47,746
	Not Rated	25,764	-	-	-	25,764
Total collateralized mortgage obligations		13,073,240	-	-	-	13,073,240
Collateralized mortgage-backed securities	AAA	7,306,233	-	-	1,954,229	9,260,462
	AA	2,095,608	-	-	943,018	3,038,626
	A	718,010	-	-	-	718,010
	BBB	428,067	-	-	-	428,067
Total collateralized mortgage-backed securities		10,547,918	-	-	2,897,247	13,445,164
Domestic fixed income funds	Not Rated	-	-	-	290,843,873	290,843,873
Total debt investments		$ 79,544,867	$ 27,147,791	$ 62,188,796	$405,959,584	574,841,037
Domestic equity securities						120,670,477
International equity securities						168,168,927
Domestic equity funds						532,687,891
International equity funds						439,331,322
Private equity holdings						171,009,028
International real estate investment trusts						1,303,376
Real estate LP						10,677,196
Real estate open ended funds						181,922,398
Alternative diversifying strategies						96,033,908
Alternative real assets						59,903,382
Total investments held at Treasury						$2,356,548,942

[1] Investments of $62,627,962 in U.S. Treasury securities, $701,078 in U.S. Treasury Inflation Protected Securities (TIPS), $113,364 in Federal Agency STRIPS, $6,754,916 in Federal Agency TBA, and $19,663,208 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, 2024.

		Investment Maturities (in years)				
Investment Type	Credit Rating	Less than 1	1 to 5	6 to 10	More than 10 years	Total Market Value
U.S. Treasury Securities	Exempt	$ -	$ -	$ 29	$ 36,500	$ 36,529
GNMA	Exempt	-	-	-	429	429
Municipal Bonds	Not Rated	-	-	14,744	102,754	117,498
International Debt Securities	Not Rated	-	6	-	-	6
Corporate Bonds	A	-	4,934	23,852	-	28,786
Corporate Bonds	Baa	-	-	13,161	-	13,161
Corporate Bonds	Ba	-	-	10,774	-	10,774
Corporate Bonds	Not Rated	2	1	26,577	15	26,595
Debt Investments		$ 2	$ 4,941	$ 89,136	$ 139,699	233,778
Mutual Funds						44,554,383
Domestic Equity Securities						78,748,658
International Equity Securities						174,274
Real Estate Investment Trust						30,481
Real Estate						2,905,000
Total Investments Held Outside Treasury						$126,646,574

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, 2024, follow:

	Deposits and Investments (U.S. Dollars)					
Foreign Currency Denominations	Deposits	Corporate Bonds	International Equity Securities	Non-US Government Debt	International Real Estate	Total
Argentine Peso	$ 770	$ -	$ -	$ -	$ -	$ 770
Australian Dollar	-	-	5,704,072	-	-	5,704,072
Brazilian Real	-	-	842,901	-	-	842,901
Canadian Dollar	705,061	-	5,825,612	-	-	6,530,673
Swiss Franc	-	-	14,821,537	-	-	14,821,537
Chilean Peso	-	-	62,855	-	-	62,855
Chinese Yuan	-	-	2,473,064	-	-	2,473,064
Danish Krone	66,833	-	5,900,441	-	-	5,967,274
Euro	11,498	-	54,298,875	-	-	54,310,373
British Pound	4,027	-	41,727,689	-	-	41,731,716
Hong Kong Dollar	-	-	9,748,251	-	-	9,748,251
Hungarian Forint	-	-	21,349	-	-	21,349
Indonesian Rupiah	-	-	55,745	-	-	55,745
Indian Rupee	-	1,601,429	-	-	-	1,601,429
Israeli New Shekel	2,504	-	-	-	-	2,504
Japanese Yen	-	-	25,243,971	-	-	25,243,971
Korean Won	-	-	3,096,272	-	-	3,096,272
Mexican Peso	285,085	-	-	9,197,528	-	9,482,613
Norwegian Krone	-	-	1,778,828	-	-	1,778,828
Polish Zloty	-	-	868,191	-	-	868,191
Swedish Krona	-	-	3,816,846	-	-	3,816,846
Singapore Dollar	-	-	3,221,928	-	1,303,376	4,525,304
Thai Baht	-	-	1,938,763	-	-	1,938,763
Turkish Lira	-	-	228,435	-	-	228,435
New Taiwan Dollar	-	-	7,748,455	-	-	7,748,455
South African Rand	-	-	896,689	-	-	896,689
Total	$1,075,778	$1,601,429	$190,320,769	$ 9,197,528	$1,303,376	$ 203,498,880

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 18 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 19 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 9 of the 19 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, 2024:

Investments by Fair Value Level	**Fair Value Classification Heirarchy**			**Total**
	Level 1	**Level 2**	**Level 3**	**Investments**
Investments Held at Treasury				
U.S. Treasury	$ -	$ 62,627,962	$ -	$ 62,627,962
U.S. Treasury TIPS	-	701,078	-	701,078
U.S. Federal Agency Strips	-	113,363	-	113,363
U.S. Federal Agency TBA	-	6,754,916	-	6,754,916
U.S. Federal Agency Mortgages	-	75,037,665	-	75,037,665
Corporate Bonds	-	93,881,140	-	93,881,140
Non-US Government Debt	-	11,883,656	-	11,883,656
Asset-backed Securities	-	6,478,981	-	6,478,981
Collateralized Mortgage Obligations	-	13,073,239	-	13,073,239
Collateralized Mortgage-backed Securities	-	13,445,164	-	13,445,164
Total debt securities	-	283,997,164	-	283,997,164
Domestic equity securities	288,838,784	-	620	288,839,404
International equity funds	35,564,633	-	-	35,564,633
Real Estate Investment Trust	1,303,376	-	-	1,303,376
Investments measured at fair value	325,706,793	283,997,164	620	609,704,577
Investments Measured at Net Asset Value (NAV):				
Domestic equity funds				532,687,891
International equity funds				403,766,689
Domestic Fixed Income funds				290,843,873
Private equity				171,009,028
Real estate LP				10,677,196
Real estate open ended funds				181,922,398
Alternative diversifying strategies				96,033,908
Alternative real assets				59,903,382
Total investments measured at NAV				1,746,844,365
Total Investments Held at Treasury				2,356,548,942
Investments Held Outside Treasury				
U.S. agency securities	-	36,529	-	36,529
GNMA	-	429	-	429
Municipal bonds	-	117,498	-	117,498
Corporate bonds	-	79,316	-	79,316
Domestic equity securities	78,738,098	10,560	-	78,748,658
International equity securities	174,274	-	-	174,274
Real Estate Investment Trust	30,481	-	-	30,481
Real Estate	-	-	2,905,000	2,905,000
International debt securities	-	6	-	6
Mutual funds	44,554,383	-	-	44,554,383
Total Investments Held Outside Treasury	123,497,236	244,338	2,905,000	126,646,574
Total Investments by fair value level	$449,204,029	$ 284,241,502	$2,905,620	$ 2,483,195,516

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, 2024.

Investments Measured at Net Asset Value (NAV)	Fair Value	Unfunded Commitments[1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic fixed income funds	$ 290,843,873	$ -	Daily	5 days
Domestic equity funds	532,687,891	-	Daily	2 days
International equity funds	403,766,689	-	Daily, Quarterly	2 - 120 days
Real estate LP	10,677,196	18,601,083	NA	NA
Real estate open-ended funds	181,922,398	802,548	Monthly, Quarterly	15 days
Alternative real assets	59,903,382	75,833,054	NA	NA
Alternative diversifying strategies	96,033,908	-	Monthly, Quarterly	2 - 65 days
Private equity	171,009,028	71,021,340	NA	NA
Total Investments at fair value	$ 1,746,844,365	$166,258,025		

[1] Excludes new commitments not yet funded at June 30, 2024.

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, 2024.

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, 2024, the fair value of cash and non-cash collateral received was $17.6 million and invested cash collateral was $15.4 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, 2024, Common School Fund's allocated portion of cash collateral received and invested cash collateral were $152 thousand and $152 thousand respectively. Securities on loan from OSTF in total included U.S. Agency securities (87.39%), and domestic fixed income securities (12.61%).

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, 2024, is effectively one day. On June 30, 2024, 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, 2024 Investment Type	Cash and Securities Collateral Received	Securities on Loan at Fair Value	Investments of Cash Collateral at Fair Value
U.S. Agency securities	$ 230,350	$ 223,570	$ -
Domestic equity securities	7,527,947	7,357,939	6,431,558
Domestic debt securities	7,464,878	7,279,343	6,554,973
International equity securities	2,396,114	2,289,250	2,396,416
	17,619,289	17,150,102	15,382,947
Allocation from Oregon Short-Term Fund	1,197,465	1,173,510	151,564
Total	$ 18,816,754	$ 18,323,612	$ 15,534,511

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, 2024:

		Currency Forward Contracts		
Currency	Options	Net Receivables	Net Payables	Total Exposure
Canadian Dollar	$ -	$ 6,967	$ 2,507	$ 9,474
Mexican Peso	-	(42,224)	433,969	391,745
Total	$ -	$ (35,257)	$ 436,476	$ 401,219

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, 2024:

Investment Derivatives	Net Appreciation/ (Depreciation) in Fair Value [1,4]	Classification	Fair Value [2]	Notional Value [3]
Foreign Exchange Forwards	$ 205,965	Long Term Instruments	$ 401,219	$ 13,415,166
Total	$ 205,965		$ 401,219	$ 13,415,166

[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, 2024:

Accounts and Interest Receivables	Total
General accounts	$ 74,748
Due from federal government	571,646
Interest	2,800,835
Investment broker receivable	52,172,801
Accounts and Interest Receivable, net	$ 55,620,030

Net Contracts, Notes, and Other Receivables	Total
Contracts, Notes, and Other Receivables	$ 112,440
Allowance for doubtful accounts	(99,003)
Net Contracts, Notes, and Other Receivables	$ 13,437

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, 2024:

Accounts Payable	Total
General accounts payable	$ 2,774,597
Investment broker payable	133,761,687
Total payables	$ 136,536,284

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 51% 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, 2024, was $1.1 billion. The accumulated annual adjustment as of June 30, 2024, was $837.8 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, 2024, the principal and interest payments are reported as debt service payments in the amount of $179 thousand and $102 thousand, respectively. Lease liabilities and assets are recorded in the State of Oregon's Annual Comprehensive Financial Report for the year ended June 30, 2024, Statement of Net Position but not at the fund level. 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, 2024:

Year ending June 30,	Principal	Interest
2025	$ 198,592	$ 94,027
2026	223,064	90,666
2027	244,523	86,220
2028	260,984	81,402
2029	176,714	76,627
2030-2034	1,016,411	312,028
2035-2039	1,256,181	166,901
2040-2044	804,221	25,232
Total	$ 4,180,689	$ 933,104

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 $3.6 million has been committed for the year ending June 30, 2024, 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. For the year ended June 30, 2024, the principal and interest payments are reported as debt service payments in the amount of $233 thousand and $48 thousand, respectively. SBITA liabilities and assets are recorded in the State of Oregon's Annual Comprehensive Financial Report for the year ended June 30, 2024, Statement of Net Position. The following table shows future minimum SBITA payments and the related net present value as of June 30, 2024:

Year ending June 30,	Principal	Interest
2025	$ 248,255	$ 41,564
2026	264,273	34,240
2027	281,024	26,444
2028	298,539	18,154
2029	316,846	9,347
Total	$ 1,408,937	$ 129,749

C – LEASE RECEIVABLES

The Department receives rental income from land and property leased to non-state entities. For the year ended June 30, 2024, the Department received rental income of $63 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, 2024:

Year ending June 30,	Amount
2025	$ 65,095
2026	67,048
2027	69,060
2028	71,132
2029	54,540
Total future minimum rental revenues	$ 326,875

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, 2024, the Department has remaining contracts for Portland Harbor cleanup activities estimated at $314 thousand. The pollution remediation obligation of $314 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, 2024, Statement of Net Position.

NOTE 7 – INTERFUND TRANSACTIONS

Interfund balances reported in the financial statements as of June 30, 2024:

	Due from Other Funds			
Due to Other Funds	**General**	**Environmental Management**	**Internal Service**	**Common School**
Environmental Management	$ -	$ -	$ -	$ 307,004
Common School	35	140,147	1,500	-
Internal Service	-	-	-	141,935
Total	$ 35	$ 140,147	$ 1,500	$ 448,939

	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, 2024, the Common School Fund paid Treasury $659 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, 2024, the Common School fund balance of $2.3 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, 2024, the Department had the following personal services contract commitments in effect:

Funding Source	Total
Other Funds	$ 11,612,364

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, 2024, the Common School Fund had approximately $259.8 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

This page intentionally left blank.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

State Land Board
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, 2024, 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 13, 2024.

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 Common School Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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.*

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 13, 2024