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

**Annual Financial Report
Year Ended June 30, 2017**

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

Annual Financial Report
Year Ended June 30, 2017

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Financial Section

Office of the Secretary of State

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Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Chris Harder, Director, Oregon Business Development Department
Infrastructure Finance Authority Board

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Oregon Business Development Department, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the combined Special Public Works Fund and Water Fund, enterprise funds of the State of Oregon , Oregon Business Development Department, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the combined Special Public Works Fund and the Water Fund enterprise funds of the State of Oregon, Oregon Business Development Department (Department) and do not purport to, and do not, present fairly the financial position of the Department or the State of Oregon as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
March 5, 2018

Basic Financial Statements

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) & Water Fund (WF)
Statement of Net Position (Dollars in thousands)
June 30, 2017

Assets	SPWF	WF	Total
Current Assets:			
Cash and Cash Equivalents	\$ 86,416	34,559	120,975
Investments	10,824	-	10,824
Securities Lending Collateral	672	266	938
Interest Receivable	3,913	1,816	5,729
Accounts Receivable	25	15	40
Total Current Assets	<u>101,849</u>	<u>36,656</u>	<u>138,505</u>
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	2,150	2,203	4,353
Loans Receivable (net)	144,275	83,940	228,215
Total Noncurrent Assets	<u>146,425</u>	<u>86,143</u>	<u>232,568</u>
Deferred Outflows of Resources Related to Pensions	764	343	1,107
Total Assets and Deferred Outflows of Resources	<u>249,038</u>	<u>123,142</u>	<u>372,180</u>
Liabilities			
Current Liabilities:			
Bonds Payable	1,700	785	2,485
Interest Payable - Bonds	652	375	1,027
Accounts Payable	28	13	41
Obligations Under Securities Lending	672	266	938
Due to Other Funds	1	1	2
Due to Other Governments	-	20	20
Compensated Absences Payable	63	27	90
Contracts, Mortgages, and Notes Payable	7	3	10
Total Current Liabilities	<u>3,123</u>	<u>1,489</u>	<u>4,612</u>
Noncurrent Liabilities:			
Bonds Payable	28,533	16,028	44,561
Compensated Absences Payable	34	14	48
Net OPEB Obligation	24	9	33
Contracts, Mortgages, and Notes Payable	149	60	209
Net Pension Liability	1,443	647	2,090
Total Noncurrent Liabilities	<u>30,182</u>	<u>16,759</u>	<u>46,941</u>
Deferred Inflows of Resources Related to Pensions	14	6	20
Total Liabilities and Deferred Inflows of Resources	<u>33,319</u>	<u>18,254</u>	<u>51,573</u>
Net Position			
Restricted for Debt Service	1,498	893	2,391
Unrestricted	214,222	103,996	318,218
Total Net Position	<u>\$ 215,720</u>	<u>104,889</u>	<u>320,609</u>

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

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) & Water Fund (WF)
Statement of Revenues, Expenses, and
Changes in Fund Net Position (Dollars in thousands)
For The Year Ended June 30, 2017

	SPWF	WF	Total
Operating Revenues:			
Loan Interest Income	\$ 5,686	3,255	8,941
Other Revenue	482	1	483
Total Operating Revenues	<u>6,168</u>	<u>3,256</u>	<u>9,424</u>
Operating Expenses:			
Salaries and Wages	1,540	618	2,158
Services and Supplies	427	163	590
Distributions to Other Governments	796	2,362	3,158
Special Payments - Grants	1,723	-	1,723
Bond Interest	1,474	991	2,465
Total Operating Expenses	<u>5,960</u>	<u>4,134</u>	<u>10,094</u>
Operating Income (Loss)	<u>208</u>	<u>(879)</u>	<u>(671)</u>
Nonoperating Revenue (Expense):			
Investment Income (Loss)	1,102	294	1,396
Other Interest Expense	(11)	(5)	(16)
Other Nonoperating Items	(6)	(1)	(7)
Total Nonoperating Revenue	<u>1,085</u>	<u>289</u>	<u>1,374</u>
Income (Loss) Before Transfers & Special Items	<u>1,293</u>	<u>(590)</u>	<u>703</u>
Transfers:			
Transfers from Other Funds	18,894	5,514	24,408
Transfers to Other Funds	(6,924)	(825)	(7,749)
Net Transfers	<u>11,970</u>	<u>4,689</u>	<u>16,659</u>
Increase (Decrease) in Net Position	<u>13,263</u>	<u>4,100</u>	<u>17,363</u>
Net Position:			
Beginning Net Position	202,458	100,789	303,247
Ending Net Position	<u>\$ 215,720</u>	<u>104,889</u>	<u>320,609</u>

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

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) & Water Fund (WF)
Statement of Cash Flows (Dollars in thousands)
For The Year Ended June 30, 2017

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Payments to Employees for Services	\$ (1,376)	(584)	(1,960)
Payments to Suppliers	(116)	(34)	(150)
Payments to Other Funds for Services	(257)	(128)	(385)
Distributions to Other Governments	(2,747)	(3,186)	(5,933)
Other Receipts	1	1	2
Net Cash Provided (Used) in Operating Activities	<u>(4,494)</u>	<u>(3,933)</u>	<u>(8,427)</u>
Cash Flows from Noncapital			
Financing Activities:			
Bond Issuance Costs	(72)	-	(72)
Principal Payments on Bonds	(4,710)	(4,735)	(9,445)
Interest Payments on Bonds	(1,561)	(1,086)	(2,647)
Principal Payments on Loans	(7)	(3)	(10)
Interest on Loans	(11)	(5)	(16)
Transfers from Other Funds	18,894	5,514	24,408
Transfers to Other Funds	(6,924)	(825)	(7,749)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>5,608</u>	<u>(1,138)</u>	<u>4,470</u>
Cash Flows from Investing Activities:			
Loan Principal Repayments	18,655	10,646	29,301
Loan Interest Received	5,422	3,377	8,799
Loans Made	(20,739)	(4,759)	(25,498)
Interest On Investments and Cash Balances	997	293	1,290
Interest Income - Security Lending	9	1	10
Interest Expense - Security Lending	(6)	(1)	(7)
Net Cash Provided (Used) in Investing Activities	<u>4,337</u>	<u>9,557</u>	<u>13,894</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,451	4,486	9,937
Beginning Cash and Cash Equivalents	83,115	32,276	115,391
Ending Cash and Cash Equivalents	<u>\$ 88,566</u>	<u>36,762</u>	<u>125,328</u>

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

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) & Water Fund (WF)
Statement of Cash Flows (Dollars in thousands)
For The Year Ended June 30, 2017

Reconciliation of Operating Income to	SPWF	WF	Total
Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 208	(879)	(671)
Adjustments to Reconcile Operating Income to			
Net Cash Provided (Used) by Operating Activities:			
Amortization of Bond Premium and Discount	13	10	23
Bond Issuance Cost Reported as Operating Expense	72	-	72
Interest Receipts Reported as Operating Income	(5,422)	(3,377)	(8,799)
Interest Payments Reported as Operating Expense	1,561	1,086	2,647
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable (net)	142	122	264
Loans Receivable	(887)	-	(887)
Accounts and Interest Payable	(125)	(352)	(477)
Due to Other Funds	-	1	1
Due to Other Governments	(227)	(580)	(807)
Net Pension Liability	906	369	1,275
Compensated Absences Payable	6	1	7
Net OPEB Obligation	1	-	1
Increase (Decrease) in Deferred Outflow of Resources:	(626)	(271)	(897)
Increase (Decrease) in Deferred Inflows of Resources:	(117)	(61)	(178)
Total Adjustments	<u>(4,702)</u>	<u>(3,054)</u>	<u>(7,756)</u>
Net Cash Provided (Used) in Operating Activities	\$ <u>(4,494)</u>	<u>(3,933)</u>	<u>(8,427)</u>
Noncash Investing and Capital and Related Financing Activities			
Net Change in Fair Value of Investments	(97)	-	(97)

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

**Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (Dollars in thousands)
Year ended June 30, 2017**

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the Oregon Business Development Department's Special Public Works Fund (SPWF) and Water Fund (WF) have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). All applicable GASB pronouncements have been applied.

1.A - THE REPORTING ENTITY

A major focus of the Oregon Business Development Department (the Department) is to help communities plan, design and construct municipally-owned infrastructure such as safe drinking water systems, wastewater systems, and community facilities; and to enhance livability and economic prosperity for Oregon. The Department achieves these goals, in part, through the SPWF and the WF programs. These financial statements report the financial activity of the SPWF and WF programs. SPWF and WF are part of the State of Oregon reporting entity and are incorporated in Oregon's Comprehensive Annual Financial Report (CAFR).

SPWF was created on July 1, 1985, as a program of the Intergovernmental Relations Division of the then Executive Department. The program was subsequently transferred to the Department on July 1, 1987. The SPWF program operates under the provisions of sections 285B.410 through 285B.482 of the Oregon Revised Statutes (ORS). The SPWF program makes loans and grants to municipalities for the design and construction of municipally-owned infrastructure needed to support industrial and commercial development.

WF was created in 1993 as a program within the Department. The WF program operates under the provisions of ORS sections 285B.560 through 285B.599. The program is primarily intended to provide funding to municipalities to assist in the compliance with the Safe Drinking Water Act and the Clean Water Act. As a result, the WF program makes loans and grants to municipalities for the construction and improvement of water and wastewater collection systems in order to provide Oregon residents with safe drinking water and appropriate wastewater disposal.

1.B - BASIS OF PRESENTATION

SPWF and WF programs are accounted for as Enterprise Funds, a GASB proprietary fund type. Enterprise Funds account for operations financed and operated in a manner similar to private business enterprises.

The Department has chosen to report its basic financial statements in amounts that round to the nearest one thousand dollars.

1.C - MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

All proprietary funds are accounted for on a flow of economic resources measurement focus, and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time related liabilities are incurred.

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

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

Operating revenues and expenses generally result from providing services to municipalities. Significant operating income includes loan interest received. Operating expenses include salaries and wages, services and supplies, distributions to other governments, special payments (infrastructure grants) and interest paid on bonds outstanding. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. The SPWF and WF are accounted for as separate programs; therefore, there is no internal activity.

1.D - BUDGETARY ACCOUNTING

The Oregon Legislature approves the State of Oregon's budget on a biennial basis. SPWF and WF program expenditures are monitored against approved budgets, quarterly allotments, and cash balances. Limitations lapse at the end of the biennium. The Emergency Board of the Legislature approves any necessary increases in budgets when the Legislature is not in session. The SPWF and WF have continuous spending authority under ORS 285B.455 and 285B.563.

1.E - OREGON BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

Bond discounts and premiums are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts are presented as a reduction to the face amount of bonds payable; premiums are presented as an addition to the face amount of bonds payable; issuance costs are expensed in the period incurred. SPWF and WF do not have any liability for bond arbitrage. The governmental units to which SPWF and WF provide financing are responsible for any arbitrage liability incurred on the bonds.

1.F - CASH EQUIVALENTS, AND INVESTMENTS (INCLUDING RESTRICTED)

Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents consist of: cash and investments held by the Office of the State Treasurer in the Oregon Short-term Fund; and moneys held in money market funds held by a trustee.

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

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Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (Dollars in thousands)
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1.G - RECEIVABLES

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

1.H - INTRAFUND TRANSACTIONS

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

1.I - COMPENSATED ABSENCES

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

1.J - RESTRICTED ASSETS

Restricted assets consist of cash and investments held by trustees as security for, or payment of, SPWF and WF Oregon Bond Bank revenue bonds.

1.K - NET POSITION

Net position is presented in two classifications: Restricted for Debt Service, and Unrestricted.

Restricted for Debt Service is the total of all debt service reserve funds for outstanding Oregon Bond Bank issues held by the bond trustee until the bond issues are paid in full.

In the event both restricted and unrestricted assets are available for expenditure, restricted assets would be expended first.

Note 2 - Cash and Cash Equivalents

At June 30, 2017, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-Term Fund (OSTF)	\$	120,975
Money market funds held by BNY Mellon, trustee		4,353
		125,328
		125,328

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Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
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Cash and cash equivalents are displayed in the financial statements as follows:

Current assets		
Cash and Cash Equivalents	\$	120,975
Noncurrent assets		
Cash and Cash Equivalents – Restricted		4,353
		<u>125,328</u>

2.A - DEPOSITS

As of June 30, 2017, the book balance of monies held in demand accounts in the OSTF was \$120,975. The bank balance was \$121,316. The Oregon State Treasurer maintains the OSTF, a cash and investment pool that is available for use by the Department.

2.B - CUSTODIAL CREDIT RISK

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Department will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Department does not have a formal policy regarding custodial credit risk for deposits. However, banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report may be obtained from the Oregon State Treasury, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896, or from the Treasury's website at [http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

The balance of money market accounts held by the BNY Mellon (Oregon Bond Bank trustee) as agents for the Department totaled \$4,353. The funds held by the Bond Trustee are not held in the Department's name, but are held in bondholders' names. Each bondholder is insured by FDIC up to \$250. The remaining funds are neither insured, nor collateralized and are thus exposed to custodial credit risk.

Note 3 - Investments

The Bond Indentures authorize the Department to invest in direct obligations of, or obligations guaranteed by, the United States of America: bonds, debentures, notes, participation certificates, or other similar obligations issued by specified Federal Agencies; and direct and general obligations of, or guaranteed by, the State: investments agreements, secured or unsecured, with any institution whose debt securities are rated at least equal to the then existing rating on the bonds by the rating agencies; and deposit on interest-bearing demand deposits, or certificates of deposit secured by obligations described above. These are permissible investments under State statute ORS 285B.455 which allows moneys in the SPWF to be invested as provided by ORS 293.701 to 293.857. Investment Standards for the State of Oregon are set in ORS 293.726 and require funds to be managed as a prudent investor would do. At June 30, 2017, the Department reported investments in SPWF of \$10,824, which includes \$824 of unrealized gains reported as investment income. Investments are with the Oregon Intermediate Term Pool (OITP).

Oregon Business Development Department, State of Oregon
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
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OITP is not registered with the U.S. Securities and Exchange Commission as an investment company.

Additional information about OITP, including its audited financial statements, can be found at: <https://www.oregon.gov/treasury/Divisions/Investment/Pages/OITP.aspx>. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to OST. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in OITP are further governed by guidelines approved by the Council, establishing diversification percentages and specifying the types and maturities of investments.

3.A - CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a policy concerning credit risk. Investments are with the Oregon Intermediate Term Pool (OITP).

At June 30, 2017, Oregon Intermediate Term Pool (OITP) guidelines require that all investments meet minimum ratings requirements at the time of purchase. Minimum required ratings are subject to investment type as dictated by the guidelines.

3.B - INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have a policy concerning interest rate risk. Investments are with the Oregon Intermediate Term Pool (OITP).

At June 30, 2017, Oregon Intermediate Term Pool (OITP) portfolio guidelines require that the portfolio's modified duration, a measure of interest rate risk, shall not exceed three years. The weighted average duration for the OITP at June 30, 2017 was 3.02 years. The maximum maturity for any single investment should not be greater than 10.25 years from settlement date, with exceptions for asset-backed securities, mortgage-backed securities, and commercial mortgage-backed securities. These securities use weighted average life (WAL) as a proxy for maturity and are limited to a WAL of five years, or less, at the time of purchase.

3.C - SECURITIES LENDING

The State of Oregon (State) participates in securities lending transactions in accordance with State investment policies. Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2017.

During the year, State Street had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned U.S. securities,

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international fixed income securities, or 105 percent in the case of international equity. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and the State did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. The State is fully indemnified against losses due to borrower default by its custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of the OSTF and Oregon state agencies other than PERS. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at \$1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the statement of net position.

The 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, 2017, is effectively one day. On June 30, 2017, the State had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State.

Collateral received, securities on loan, and investments of cash collateral are:

Oregon Short-Term Fund (OSTF)	<u>Total</u>
OSTF securities lending cash collateral	\$ 938
Securities on loan from the OSTF	3,413
Investments purchased with cash collateral from OSTF	938
Cash collateral received for the securities on loan	139,688
Fair value of all securities on loan	136,833
Fair value of all investments made with cash collateral received	37,637
 The securities on loan from the OSTF in total included:	 <u>Percent</u>
U.S. Treasury Securities	60.01
U.S. Agency Securities	10.09
Domestic Fixed Income Securities	29.90
	<u>100.00</u>

As of June 30, 2017, the OITP did not have any securities on loan and there was no cash collateral from the OITP invested. Accordingly, there is no fair value of securities on loan from cash collateral.

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Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds
Notes to the Basic Financial Statements (Dollars in thousands)
Year ended June 30, 2017**

Note 4 - CHANGES IN LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for activities for the fiscal year ended June 30, 2017:

	July 1, 2017	Increase	Decrease	June 30, 2017	Due in one year
Bonds payable					
Principal	\$ 56,470	-	(9,445)	47,025	2,485
Premium	22	-	(1)	21	-
Discount	(25)	-	25	-	-
Total bonds payable	56,467	-	(9,421)	47,046	2,485
Compensated absences	132	7	-	139	90
Net obligation for post-employment benefits	31	2	-	33	-
Net Pension Liability	815	1,275	-	2,090	
Contracts, Mortgages, and Notes Payable	230	-	(11)	219	10
	<u>\$ 57,675</u>	<u>1,284</u>	<u>(9,432)</u>	<u>49,527</u>	<u>2,585</u>

Note 5 - DEBT SERVICE REQUIREMENTS TO MATURITY

Future maturities of principal and interest as of June 30, 2017:

Year(s) ending 30-Jun	Principal	Interest	Total
2018	\$ 2,485	2,054	4,539
2019	2,565	1,964	4,529
2020	2,645	1,866	4,511
2021	2,755	1,761	4,516
2022	2,850	1,652	4,502
2023-2027	16,180	6,274	22,454
2028-2032	14,400	2,518	16,918
2033-2037	3,145	239	3,384
Total	<u>\$ 47,025</u>	<u>18,328</u>	<u>65,353</u>

Note 6 - BONDS ISSUED AND OUTSTANDING

As of June 30, 2017, Oregon Bond Bank bonds totaling \$47,025 are outstanding. Bond proceeds are lent to Oregon local governments (borrowers) to fund eligible SPWF and WF projects. Security for bond payment is primarily from repayment of these loans made to the Department by the borrowers. These bonds are not general obligations of the State of Oregon. Bonds payable reported on the statement of net position are recorded net of original issue premiums and discounts. Bond premiums of \$21 and bond discounts of \$0 are included in Bonds Payable as of June 30, 2017. The following table summarizes the changes in bonds outstanding during fiscal year 2017:

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Series	Period	Interest	Original Issue	June 30, 2016	June 30, 2017	Increase	Decrease	Due in one Year
2007 A	2008-32	4.00-4.38	26,905	13,275	12,575	-	700	725
2009 A	2010-34	3.00-5.25	32,830	25,665	17,780	-	7,885	890
2010 A	2011-35	2.00-5.71	21,555	17,530	16,670	-	860	870
			\$81,290	56,470	47,025	-	9,445	2,485

Note 7 - Employee Retirement Plans

7.A - PLAN DESCRIPTION

The Oregon Public Employees Retirement System (PERS) provides retirement plans for Department employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Oregon Revised Statutes (ORS) chapters 238 and 238A. Copies of the Oregon Public Employees Retirement System annual financial reports may be obtained at: <http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

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

The Department's employees who were plan members before August 29, 2003, participate in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The PERS has two tiers of benefits. Employees hired before January 1, 1996 are in Tier One. Tier One employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. Tier Two does not have the Tier One assumed earnings rate guarantee. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options as established by ORS chapter 238. Options include survivorship benefits and lump sum distributions. The PERS also provides death and disability benefits. Monthly benefits are adjusted annually through cost-of-living (COLA) changes. The COLA in fiscal year 2015 was capped at 1.5 percent for all benefit recipients.

7.C - OREGON PUBLIC SERVICE RETIREMENT PLAN (OPSRP)

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is part of PERS and is administered by the PERS Board. OPSRP is a hybrid pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Department employees hired after August 28, 2003 participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits as established by ORS chapter 238A.

Beginning January 1, 2004, PERS members became members of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute a percentage

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of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Department does.

7.D - PLAN RATES

For the PERS Pension and the OPSRP Pension, the Department must contribute actuarially computed amounts as determined by the Board. The funding policies provide for monthly employer contributions. Rates are subject to change as a result of subsequent actuarial valuations.

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

Year ended June 30	PERS	OPSRP	IAP
2017	12.31%	6.51%	6.00%
2016	12.31%	6.51%	6.00%
2015	9.00%	7.45%	6.00%

7.E - ANNUAL PENSION COST

The annual pension cost is the actual contribution to PERS (which equals the required contribution) plus the 6% employee contribution which the Department has agreed to pay. The annual pension cost for the year ended June 30, 2017 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2017	\$ 18	\$ 13	\$ 9
2016	40	21	20
2015	73	60	49

7.F - PENSIONS

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

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7.G - NET PENSION LIABILITY

At June 30, 2017, the State reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. As part of the State of Oregon, SPWF and WF were allocated a percentage of the State's proportionate share in the plan as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual earnings on investments	\$ 69	\$ -
Changes in assumptions	446	-
Net difference between projected and actual earnings on investments	413	-
Changes in proportion and differences between contributions and proportionate share of contributions	53	20
Total (prior to post- measurement date contributions)	<u>981</u>	<u>20</u>
Net deferred outflow (inflow) of resources before contributions subsequent to measurement date	-	961
Contributions subsequent to measurement date	126	-
Net deferred outflow (inflow) of resources		<u>\$ 1,087</u>

The \$126 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fund subsequent fiscal years	Deferred Outflow (inflow) of Resources
2018	\$ 175
2019	175
2020	327
2021	249
2022	35
Total	<u>\$ 961</u>

Note 8 - Other Postemployment Benefit Plans

8.A - PLAN DESCRIPTION

Department employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) and the Public Employees Benefit Board (PEBB). Copies of the Oregon Public Employees

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Retirement System annual financial reports may be obtained at:

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

8.B - RETIREMENT HEALTH INSURANCE ACCOUNT

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer OPEB plan which provides a payment of up to \$60¹ toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS sponsored health insurance plan. The plan was closed to new entrants hired on or after August 29, 2003.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. The Department contributed 0.08% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIA benefits. The Department also contributed 0.45% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. These rates are embedded within the total PERS and OPSRP Pension Employer Rates.

The Department's contributions for the years ended June 30, 2017, 2016, and 2015 did not exceed \$5 per year in each fiscal year. The actual contribution equaled the annual required contribution. The Oregon Legislature has sole authority to amend the benefit provisions and funding policy for the RHIA plan.

8.C - RETIREE HEALTH INSURANCE PREMIUM ACCOUNT

The Retiree Health Insurance Premium Account (RHIPA) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. The plan was closed to new entrants hired on or after August 29, 2003.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. The Department contributed 0.09% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIPA benefits. The Department also contributed 0.35% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. These rates are embedded within the total PERS and OPSRP pension employer rates.

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

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The Department's contributions for the years ended June 30, 2017, 2016, and 2015 did not exceed \$5 per year in each fiscal year. The actual contribution equaled the annual required contribution. The Oregon Legislature has sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

8.D - PUBLIC EMPLOYEES BENEFIT BOARD PLAN

The Public Employees Benefit Board (PEBB) plan is a single-employer plan for financial reporting purposes, which offers medical, dental and vision benefits to eligible retired employees. Retired employees not eligible for Medicare are eligible for PEBB coverage if the retiree is receiving a service or disability benefit from PERS or another state system, is eligible to receive a retirement allowance from PERS and has reached the earliest retirement age under ORS Chapter 238, or is eligible to receive a service allowance or pension under any system offered by the state and has attained the earliest retirement age under that system. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB does not issue a separate, publicly available financial report.

Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB plan. As the administrator of the PEBB plan, PEBB has the authority to determine postretirement benefit increases and decreases.

8.E - OPEB OBLIGATION

The Department's liability for OPEB expenses in SPWF and WF for fiscal year 2017 was \$24 and \$9, respectively.

Note 9 - RISK FINANCING

The State of Oregon's Department of Administrative Services Risk Management Section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible.

The monies set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following risks: direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain positions required by law to be covered and other key positions.

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

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

Note 10 - COMMITMENTS

The Department has signed contracts to fund various SPWF and WF projects. The amount of money committed but not disbursed at June 30, 2017 is:

SPWF	WF	Total
\$58,388	\$23,008	\$81,396

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

Note 11 - LOANS RECEIVABLE & ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	SPWF	WF	Total
Loans Receivable	\$ 144,966	83,940	228,906
Forgivable Loans Receivable	300	-	300
	145,266	83,940	229,206
Allowance for Doubtful Loan Accounts	(691)	-	(691)
Allowance for Forgivable Loans	(300)	-	(300)
	\$ 144,275	83,940	228,215

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

Other Report

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State



Audits Division

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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*

The Honorable Kate Brown, Governor of Oregon
Chris Harder, Director, Oregon Business Development Department
Infrastructure Finance Authority Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements consisting of the Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Oregon Business Development Department (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated March 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) for the above statements to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of finding and response that we consider to be a material weakness.

Compliance and Other Matters

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

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of finding and response. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Office of the Secretary of State, Audits Division

State of Oregon
March 5, 2018

Schedule of Finding and Response

Strengthen Financial Reporting

Bonds and other long-term liabilities should only be recorded in a fund if the liability is directly related to and expected to be paid from resources of the fund per governmental accounting standards. During fiscal year 2017, the State issued lottery revenue bonds with a portion of the bond proceeds to be used for Special Public Works Fund (SPWF) projects as outlined in legislation. The Department incorrectly recorded the bond liability associated with the bond proceeds in the SPWF, resulting in an \$18 million overstatement of SPWF's liabilities.

Although it does not occur every fiscal year, it is not unusual for either the SPWF or the Water Fund to receive lottery bond proceeds to benefit various projects. While, in prior years, the associated liability has not been recorded within these funds, Department management stated it does not have any procedures or processes to ensure correct recording of lottery bond liabilities.

We recommend Department management develop procedures and processes to ensure future bond and other long-term liabilities are not recorded in a fund if the fund's resources will not be used to repay the liability.

Management Response

We would like to acknowledge our general agreement with the audit finding. OBDD agrees that bonds and other long-term liabilities should only be recorded in a fund if the liability is directly related to and is paid from resources of that fund. In this instance, OBDD inadvertently recorded the bond liability associated with the bond proceeds totaling a little over \$18 million. This accounting error created an overstatement of SPWF's liabilities with the financial statements for the 2017 fiscal year.

The department agrees that the accounting entry was in error and acknowledges no agency-specific written processes or procedures existed to ensure correct recording of this type of entry. However, we would note that the department follows the Oregon Accounting Manual (OAM) regarding all financial transactions.

OBDD is proposing the following change to current processes to ensure errors such as this do not occur in the future:

OBDD has begun developing and will implement a written process to review entries made within the accounting system for future bond sales where the proceeds are to be distributed from a proprietary fund and the debt service is to be paid from a governmental fund.

This process involves recording the proceeds in a governmental fund and the debt service within the Government Wide Reporting Fund (GWRG), then transferring the proceeds to the respective proprietary fund. This will ensure the liability and proceeds are recorded in the same fund type and will offset correctly within the financial statements. The transferred proceeds can then be used as intended with the proprietary fund.

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