

Report No. 2007-12

June 1, 2007



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

Enterprise Fund of the  
State of Oregon

**Department of Environmental Quality  
Clean Water State Revolving Fund Program**

For the Fiscal Year Ended  
June 30, 2006



**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

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811 SW 6<sup>th</sup> Avenue  
Portland, OR 97204-1390

This report presents the results of our audit of the Department of Environmental Quality (department), Clean Water State Revolving Fund (CWSRF) program.

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the fiscal year ended June 30, 2006 are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the CWSRF program's internal control and compliance with applicable laws, regulations, contracts, grant agreements and other matters. Our report on the results of those reviews is included in the Other Report section of this report. We noted no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Similarly, we did not note any material weaknesses in internal control over financial reporting.

We appreciated the cooperation and assistance of the department's management and staff during the course of our audit.

**OREGON AUDITS DIVISION**

Charles A. Hibner, CPA  
Director



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## **FINANCIAL SECTION**





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## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Clean Water State Revolving Fund (CWSRF) program, an enterprise fund of the State of Oregon, Department of Environmental Quality, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the CWSRF program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CWSRF program's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the CWSRF program, an enterprise fund of the State of Oregon, Department of Environmental Quality, are intended to present the financial position, and the changes in financial position and cash flows that are attributable to the transactions of the CWSRF program. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2006, the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CWSRF program as of June 30, 2006, and the respective changes

in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007, on our consideration of the CWSRF program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is separately presented in the Other Report section as listed in the table of contents.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Clean Water State Revolving Fund (CWSRF) program's basic financial statements. The Summary of New Loans, Loan Decreases, Loan Decreases as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

#### OREGON AUDITS DIVISION

Bill Bradbury  
Secretary of State

May 11, 2007

**STATE OF OREGON**  
**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**CLEAN WATER STATE REVOLVING FUND PROGRAM**  
**ENTERPRISE FUND**  
**BALANCE SHEET**  
**JUNE 30, 2006**

	<u>Loan Fund</u>	<u>Administration</u>	<u>TOTAL</u>
<b>Assets</b>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 87,509,254	\$ 5,670,663	\$ 93,179,917
Loan Interest Receivable	4,347,075	—	4,347,075
<i>Total Current Assets</i>	<u>91,856,329</u>	<u>5,670,663</u>	<u>97,526,992</u>
<i>Noncurrent Assets:</i>			
Loans Receivable	300,070,603	—	300,070,603
Deferred Expenses	178,733	—	178,733
<i>Total Noncurrent Assets</i>	<u>300,249,336</u>	<u>—</u>	<u>300,249,336</u>
<b>Total Assets</b>	<u>\$ 392,105,665</u>	<u>\$ 5,670,663</u>	<u>\$ 397,776,328</u>
<b>Liabilities and Net Assets</b>			
<i>Current Liabilities:</i>			
Accounts Payable	\$ —	\$ 4,065	\$ 4,065
Payroll Payable	—	62,366	62,366
Compensated Absences Payable	—	30,361	30,361
Loan Disbursements Payable	3,336,877	—	3,336,877
Due to Other Funds	—	533	533
Bond Interest Payable	192,851	—	192,851
Bonds Payable	650,000	—	650,000
<i>Total Current Liabilities</i>	<u>4,179,728</u>	<u>97,325</u>	<u>4,277,053</u>
<i>Noncurrent Liabilities:</i>			
Bonds Payable	11,760,000	—	11,760,000
<i>Total Noncurrent Liabilities</i>	<u>11,760,000</u>	<u>—</u>	<u>11,760,000</u>
<b>Total Liabilities</b>	<u>15,939,728</u>	<u>97,325</u>	<u>16,037,053</u>
<i>Net Assets:</i>	376,165,937	5,573,338	381,739,275
<i>Total Net Assets</i>	<u>376,165,937</u>	<u>5,573,338</u>	<u>381,739,275</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 392,105,665</u>	<u>\$ 5,670,663</u>	<u>\$ 397,776,328</u>

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

**STATE OF OREGON**  
**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**CLEAN WATER STATE REVOLVING FUND PROGRAM**  
**ENTERPRISE FUND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u><b>Loan Fund</b></u>	<u><b>Administration</b></u>	<u><b>TOTAL</b></u>
<b>Operating Revenues</b>			
Loan Interest Income	\$ 9,676,472	\$ —	\$ 9,676,472
Interest Income on Cash and Cash Equivalents	3,461,233	215,887	3,677,120
Loan Fees	—	1,076,173	1,076,173
EPA Grants Received	17,503,720	—	17,503,720
<b>Total Operating Revenues</b>	<u>30,641,425</u>	<u>1,292,060</u>	<u>31,933,485</u>
<b>Operating Expenses</b>			
Bond Interest	690,903	—	690,903
Other Bond Cost	45,684	—	45,684
Salaries and Benefits	—	663,400	663,400
Services and Supplies	—	100,336	100,336
Indirect Costs	—	121,543	121,543
<b>Total Operating Expenses</b>	<u>736,587</u>	<u>885,279</u>	<u>1,621,866</u>
<b>Operating Income (Loss)/Change in Net Assets</b>	29,904,838	406,781	30,311,619
<b>Net Assets – Beginning</b>	346,274,226	5,166,557	351,440,783
Prior Period Adjustment	(13,127)	—	(13,127)
<b>Net Assets – Beginning – As Restated</b>	<u>346,261,099</u>	<u>5,166,557</u>	<u>351,427,656</u>
<b>Net Assets – Ending</b>	<u>\$ 376,165,937</u>	<u>\$ 5,573,338</u>	<u>\$ 381,739,275</u>

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

**STATE OF OREGON**  
**DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**CLEAN WATER STATE REVOLVING FUND PROGRAM**  
**ENTERPRISE FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Loan Fund</u>	<u>Administration</u>	<u>TOTAL</u>
<b>Cash Flows From Operating Activities:</b>			
Loan Principal Repayments	\$ 21,554,434	\$ —	\$ 21,554,434
Loan Interest Repayments	8,672,505	—	8,672,505
Disbursed to Borrowers	(40,893,006)	—	(40,893,006)
Loan Fees	—	1,076,173	1,076,173
Treasury Interest Credits	3,461,233	215,887	3,677,120
Grants Received	17,503,720	—	17,503,720
Payments to Suppliers	—	(99,493)	(99,493)
Payments to Employees for Services	—	(618,540)	(618,540)
Other Receipts (Payments)	—	(130,746)	(130,746)
Net Cash Provided in Operating Activities	<u>10,298,886</u>	<u>443,281</u>	<u>10,742,167</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Principal Payments on Bonds	(3,945,000)	—	(3,945,000)
Interest Payments on Bonds	<u>(726,983)</u>	<u>—</u>	<u>(726,983)</u>
Net Cash Used in Noncapital Financing Activities	<u>(4,671,983)</u>	<u>—</u>	<u>(4,671,983)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 5,626,903	 443,281	 6,070,184
Cash and Cash Equivalents – Beginning	81,882,351	5,227,382	87,109,733
Cash and Cash Equivalents – Ending	<u>\$ 87,509,254</u>	<u>5,670,663</u>	<u>93,179,917</u>
 <b>Reconciliation of Operating Income to Net Cash:</b>			
Operating Income (Loss)	\$ 29,904,838	\$ 406,781	\$ 30,311,619
Interest payments reported as operating expense	726,983	—	726,983
Adjustments to Reconcile Operating Income to Net Cash			
Amortization of Bond Issuance Costs	45,684	—	45,684
Loans Receivable	(22,232,078)	—	(22,232,078)
Loan Interest Receivable	(1,003,968)	—	(1,003,968)
Loan Disbursements Payable	2,893,506	—	2,893,506
Accounts Payable	—	350	350
Interest Payable - Bonds	(36,079)	—	(36,079)
Due to Other Funds	—	(8,710)	(8,710)
Payroll Payable	—	14,499	14,499
Compensated Absences Payable	—	30,361	30,361
Total Adjustments	<u>(20,332,935)</u>	<u>36,500</u>	<u>(20,296,435)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,298,886</u>	<u>\$ 443,281</u>	<u>\$ 10,742,167</u>

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



**STATE OF OREGON**  
**DEPARTMENT of ENVIRONMENTAL QUALITY**  
**CLEAN WATER STATE REVOLVING FUND PROGRAM**  
**ENTERPRISE FUND**  
**Notes to the Financial Statements**  
**June 30, 2006**

**1. Summary of Significant Accounting Policies**

**a. Reporting Entity**

The Oregon Clean Water State Revolving Fund (CWSRF) was established pursuant to Oregon Revised Statutes 468.423 – 468.440. The purpose of the CWSRF is to provide low interest loans to local governments for constructing wastewater treatment facilities, implementing nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 20 years, and all repayments, including interest and principal, must be credited to the State Revolving Fund.

The CWSRF program is administered by the State of Oregon's Department of Environmental Quality (DEQ). The CWSRF program consists of several funds to record loan and related activity and an administrative fund that collects loan fees and pays the operating costs of the program, and are collectively referred to as the Fund. DEQ's primary responsibilities for the CWSRF include obtaining capitalization grants from the Environmental Protection Agency (EPA), soliciting potential interested parties for loans, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, monitoring the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The DEQ charges the Fund for staff time spent on CWSRF activities, and the Fund pays those expenses from the Administration fund. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund. The rate of indirect cost is negotiated annually with the EPA. Employees charging time to the Fund are covered by the benefits available to Oregon State Employees. The Fund is also charged indirect costs through the cost allocation plan for general state expenses.

The Fund financial statements and notes are presented for the U.S. Environmental Protection Agency. The Fund is included in the Oregon basic financial statements as a special revenue fund which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the Oregon basic financial statements.

**b. Measurement Focus and Basis of Accounting**

The financial statements for the Fund are presented as an enterprise fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual basis of accounting, in accordance with State policy (OAM 15.40.00). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All revenues and expenses of the Fund are considered to be operating revenues and operating expenses. All assets and liabilities associated with the operations of the Fund are included on the balance sheet. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

**c. Cash and Cash Equivalents**

All monies of the Fund are deposited with the Office of the State Treasurer, which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash and cash equivalents. Interest earnings on these deposits are received by the Fund on a monthly basis. The Fund has no other cash deposits or investments.

**d. Loan Receivables**

The loans are funded by Federal capitalization grants, State matching funds, general obligation bonds, loan repayments and fund earnings. The SRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time, a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the final disbursement, repayment begins with an interest only payment. Full repayment must be received by the Fund within 20 years. There is no provision for uncollectible accounts, as all repayments are current, and program management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

**e. Capital Assets**

Capital assets are those assets costing \$5,000 or more and having a useful life of at least one year, under State policy (OAM 15.60.10). Capital assets must be capitalized and reported in the accounting records at historical cost, and depreciated over the useful life of the asset. The CWSRF loan program currently has no capital assets.

**f. Deferred Expenses**

Deferred Expenses shown on the Balance Sheet is the cost of issuing the State match bonds sold to raise the required matching for the federal capitalization grants. These expenses consist of both bond discount and issuance costs, and are



**Notes to the Financial Statements (continued)**  
**June 30, 2006**

amortized over the life of the bonds using the straight-line method. The \$178,733 represents the unamortized costs of the remaining two bond issues (1997A and 2000A). There is presently no related arbitrage liability.

**e. Compensated Absences**

Compensated absences are amounts paid to employees for vacation time earned. Vacation hours are earned at different rates, depending on the length of State service, and vary from 8 hours per month to 16 hours per month. Employees may generally be paid for a maximum of 250 hours accrued vacation time upon termination.

**2. Cash, Cash Equivalents, and Investments**

On June 30, 2006, the book balance of cash and cash equivalents was \$93,179,917 and the bank balance was \$92,787,257. All cash in the Fund is deposited in demand accounts with the State Treasurer who is responsible for maintaining and investing the pooled cash balances in accordance with State laws. State Treasurer demand deposit accounts and time certificates of deposit investments of the Short Term Fund held in state banks are insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with State statute. The Fund's share of the investment income is based on the average daily balance for the period and is credited to the Fund monthly. Details of the investments can be obtained from the State Treasurer's Office.

**3. Loans Receivable**

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate. Interest rates vary depending on the length of the loan, the type of loan, and program rules. Rates range from 25 percent of the bond rate for 5 year loans to 65 percent of the bond rate for 20 year loans. Recipients make semiannual or, in some cases, annual payments, generally starting six months after project completion. Details of loans receivable as of June 30, 2006 are as follows:

Total loan disbursements to-date:	\$439,420,319
Loan Disbursements Payable, 6/30/2006:	3,336,877
Total principal payments received from borrowers:	<u>(142,686,593)</u>
LOANS RECEIVABLE, 6/30/2006:	<u><u>300,070,603</u></u>

**Notes to the Financial Statements (continued)**  
**June 30, 2006**

**4. Bonds Payable and Debt Service**

In July 2003 EPA allowed the CWSRF to use Fund assets to pay the principal and interest on \$23,765,000 of general obligation bonds that were previously issued by the State to provide the 20 percent state matching funds as required by the Clean Water Act. The following table summarizes bonds outstanding as of June 30, 2006:

<b>General Obligation Pollution Control Bonds</b>									
Original Issue				Bonds Outstanding					
Series	Due Dates	Interest Range		Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
		From	To						
1995 B	1995 – 2015	4.70%	5.25%	5,000,000	3,325,000		3,325,000	-0-	-0-
1997 A	1998 – 2018	3.80%	5.00%	8,000,000	6,035,000		335,000	5,700,000	350,000
2000 A	2000 – 2021	4.15%	5.50%	8,000,000	6,995,000		285,000	6,710,000	300,000
Total				21,000,000	16,355,000		3,945,000	12,410,000	650,000

**Debt Service Requirements to Maturity**

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2006 for each year during the next five-year period ending June 30, 2011, and in five year increments thereafter:

<b>Years Ending June 30</b>	<b>Bond Principal</b>	<b>Bond Interest</b>	<b>Total Debt Service</b>
2007	\$ 650,000	\$ 613,716	\$ 1,263,716
2008	685,000	582,678	1,267,678
2009	720,000	549,494	1,269,494
2010	760,000	513,889	1,273,889
2011	795,000	476,059	1,271,059
2012-2016	4,695,000	1,717,513	6,412,513
2017-2021	4,105,000	475,904	4,580,904
<b>Total</b>	<b>\$12,410,000</b>	<b>\$4,929,252</b>	<b>\$17,339,252</b>

**5. Loan Fees**

In order to support administration and project management costs, loan fees are assessed on all loans originating after 1992. An annual fee of 0.5 percent is assessed on the outstanding loan principal balance and is collected annually, beginning with the second loan payment. Fees are deposited to a separate Treasury account and will be used only for administrative and project management costs. Also, fees on planning loans are not assessed, in order to encourage Oregon communities to complete more planning.

**6. Prior Period Adjustment**

A prior period adjustment in the amount of \$13,127 was processed in FY 2006 to correct an error in other bond costs in the prior year.

**7. Employee Retirement Plan**

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003 become part of OPSRP, unless membership was previously established in the Oregon Public Employee's Retirement System (PERS). The OPSRP pension plan has two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). PERS member contributions go into the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are deposited in the member's IAP account, not into the member's PERS account. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Oregon Public Employee's Retirement System (PERS)

The department's employees who were plan members before August 29, 2003 participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from several retirement benefit options. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

The department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2006 was 8.69 percent. Employer contributions for the years ending June 30, 2006, 2005, and 2004 were \$40,031, \$21,262, and \$31,103, respectively, equal to the required contributions for each year.

Oregon Public Service Retirement Plan (OPSRP)

The Pension Program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of Oregon Public Service Retirement Plan (OPSRP). The Pension Program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. The Pension Program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200, or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial

**Notes to the Financial Statements (continued)**  
**June 30, 2006**

equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2006 was 8.04 percent through February 2006 and 4.43 percent for the rest of the fiscal year. The department did not have any employees hired on or after August 29, 2003 and as such was not required to contribute to OPSRP Pension Program for fiscal years 2006, 2005 or 2004.

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. State agencies currently pay the 6.0 percent member contributions for their employees. The amount contributed by DEQ for the years ending June 30, 2006, 2005, and 2004 were \$27,639, \$27,086, and \$26,975, respectively, equal to the required contributions for each year.

**8. Risk Financing**

The Risk Management Division (division) of the Department of Administrative Services administers property and casualty insurance programs covering State government. The policy of the division is to minimize purchases of commercial insurance for most of the risks of losses to which the State is exposed, as it believes it is more economical to manage the State's risks internally. For accounting purposes, the division sets aside assets for actuarially forecasted losses in the Insurance Fund, an internal service fund. The Insurance Fund, established under Chapter 278 of the Oregon Revised Statutes, services claims for the following kinds of risks: direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; inmate injury; workers' compensation; and employees, elected officials, and members of commissions and boards for honesty and faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of \$400 million and a blanket commercial excess bond with limits of \$20 million. The division purchases commercial insurance for specific insurance needs not covered by the Insurance Fund.

All State agencies, commissions, and boards participate in the Insurance Fund. The division allocates the cost of servicing insurance claims and payments by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide assessment for each coverage is based on independent biennial actuarial forecasts and division expenses, less any available fund balance in the Insurance Fund from the prior biennium.

**Notes to the Financial Statements (continued)**  
**June 30, 2006**

The division purchases workers' compensation insurance for the State from SAIF Corporation. The Insurance Fund reimburses SAIF Corporation for the State's workers' compensation claim costs and service fees.

The CWSRF loan program participates in this risk financing program through DEQ, which, as a State agency, is a participant. Settlements have not exceeded insurance coverage in each of the past three years.

**9. Commitments**

The CWSRF loan program has executed loan agreements, since program inception, in the total amount of \$595,165,372 as of June 30, 2006, and has disbursed a total of \$439,420,319 in cash to borrowers. The amount of undisbursed loan commitments is, therefore, \$155,745,053.



## **OTHER SUPPLEMENTAL SECTION**





### Summary of New Loans, Loan Increases, Loan Decreases

The following schedule lists all new loans executed and all loan increases and decreases processed during the fiscal year by calendar quarter. Included is the project's priority ranking from the Project Priority List for new loans, as well as an indication of whether new loans will be required to comply with the federal "cross-cutter" laws, and an indication of whether the project was issued a Categorical Exclusion (CE) or was required to complete an Environmental Review (ER) or an Environmental Assessment (EA).

Loan No.	Borrower	Action	Rank	Amount	Cross-Cutters	CE/ER/EA
<i>1<sup>st</sup> Quarter (July 2005 – September 2005)</i>						
10512	City of Albany	Increase	N/A	2,191,129		
32241	Farmers Irrigation District	Increase	N/A	800,000		
68681	Netarts-Oceanside Sanitary District	New	75	3,000,000	YES	CE
78281	City of Rockaway Beach	Increase	N/A	200,000		
80211	City of Salem	New	129	8,850,000	YES	N/A
91566	City of Tillamook	New	4	268,000	YES	CE
96240	Westport Sewer Service District	New	125	112,250	YES	CE
<b>Subtotal</b>				<u>15,421,379</u>		
<i>2<sup>nd</sup> Quarter (October 2005 – December 2005):</i>						
11790	City of Astoria	Increase	N/A	880,000		
19151	Bunker Hill Sanitary District	New	78	133,362	YES	ER
23042	City of Coburg	New	56	2,710,690	YES	EA
66100	City of Molalla	New	113	2,670,000	YES	CE
93641	City of Vernonia	Increase	N/A	235,640		
97640	Winchester Bay Sanitary District	New	12	2,324,005	YES	ER
<b>Subtotal</b>				<u>8,953,697</u>		
<i>3<sup>rd</sup> Quarter (January 2006 – March 2006):</i>						
23040	City of Coburg	Increase	N/A	100,000		
29521	City of Dufur	Increase	N/A	4,421		
56200	City of Lebanon	New	125	3,442,000	YES	ER
74420	City of Prairie City	Increase	N/A	11,720		
77400	City of Riddle	New	128	788,500	YES	N/A
80212	City of Salem	New	114	6,881,608	YES	N/A
93642	City of Vernonia	New	47	7,307,991	YES	ER
<b>Subtotal</b>				<u>18,536,240</u>		
<i>4<sup>th</sup> Quarter (April 2006 – June 2006):</i>						
10512	City of Albany	Increase	N/A	8,622,045		
23041	City of Coburg	Decrease	N/A	(2,710,690)		
46610	City of Hubbard	Decrease	N/A	(123,877)		
67170	City of Mosier	New	120	1,200,000	YES	CE
68681	Netarts-Oceanside Sanitary District	Increase	N/A	750,000		
75262	City of Rainier	New	6	800,000	NO	N/A
78495	Rogue Valley Sewer Services	New	58	3,000,000	YES	N/A
78495	Rogue Valley Sewer Services	Increase	N/A	2,200,000		
83120	City of Shady Cove	Decrease	N/A	(2,497)		
91567	City of Tillamook	New	4	8,000,000	YES	ER
94943	City of Warrenton	Increase	N/A	1,500,000		
94943	City of Warrenton	Increase	N/A	1,000,000		
<b>Subtotal</b>				<u>24,234,981</u>		
<b>Annual Total</b>				<u><u>67,146,297</u></u>		



## **OTHER REPORT**



**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

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The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

Stephanie Hallock, Director  
Department of Environmental Quality  
811 SW 6<sup>th</sup> Avenue  
Portland, Oregon 97204-1390

**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**

We have audited the financial statements of the Clean Water State Revolving Fund (CWSRF) program, an enterprise fund of the State of Oregon, Department of Environmental Quality, as of and for the year ended June 30, 2006, and have issued our report thereon dated May 11, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CWSRF program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CWSRF program's financial statements are free of 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*.

This report is intended solely for the information and use of the Department of Environmental Quality's management, the governor of the State of Oregon, the Oregon Legislative Assembly, and the Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

## OREGON AUDITS DIVISION

Bill Bradbury  
Secretary of State

May 11, 2007

# **ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

## **Directory of Key Officials**

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

## **Audit Team**

Kelly L. Olson, CPA, Audit Manager  
Margaret Wert, CPA  
Brian Nava  
Ed Angle, MBA

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

The courtesies and cooperation extended by officials and employees of the Department of Environmental Quality during the course of this audit were commendable and sincerely appreciated.

**Auditing to Protect the Public Interest and Improve Oregon Government**

