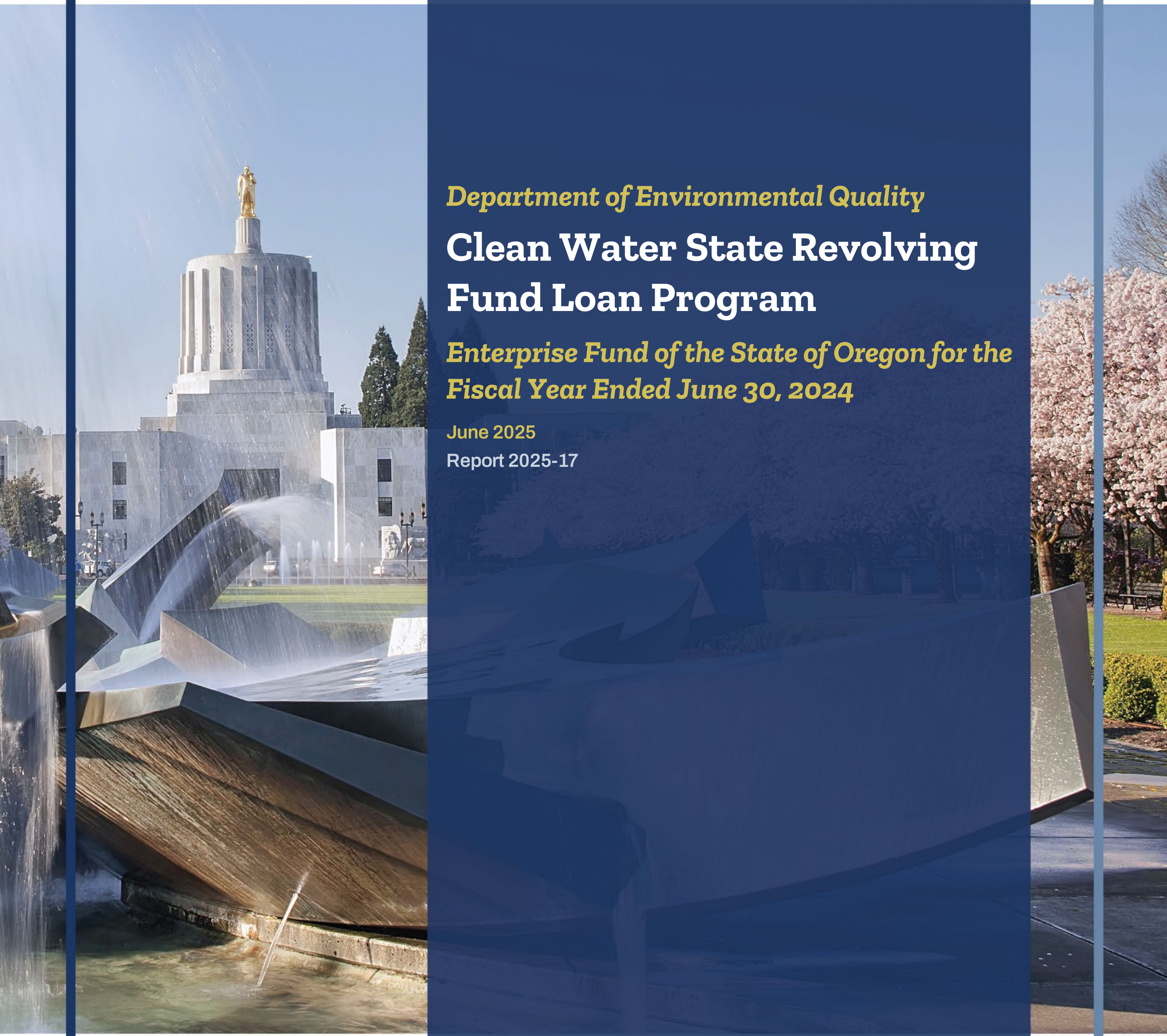

Department of Environmental Quality

Clean Water State Revolving Fund Loan Program

Enterprise Fund of the State of Oregon for the Fiscal Year Ended June 30, 2024

June 2025

Report 2025-17

Oregon Secretary *of* State

Oregon Secretary of State

Steve Bergmann
Division Director

Independent Auditor's Report

The Honorable Tina Kotek
Governor of Oregon

Leah Feldon, Director
Oregon Department of Environmental Quality

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Clean Water State Revolving Fund program, and enterprise fund of the State of Oregon, Department of Environmental Quality, as of and for the year ended June 30, 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Clean Water State Revolving Fund program, an enterprise fund of the State of Oregon, Department of Environmental Quality, as of June 30, 2024, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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. 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 Department of Environmental Quality, 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 opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Clean Water State Revolving Fund program, an enterprise fund of the State of Oregon, Department of Environmental Quality, and do not purport to, and do not, present fairly the financial position of the State of Oregon or Department of

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Tobias Read
Oregon Secretary of State

Michael Kaplan
Deputy Secretary of State

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Environmental Quality, as of June 30, 2024, the changes in its financial position or 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility 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 the 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 Department of Environmental Quality'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 June 11, 2025, on our consideration of the Department of Environmental Quality'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 of Environmental Quality'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 of Environmental Quality's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
June 11, 2025

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Net Position
June 30, 2024

	Loan Fund	Administration	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 271,130,751	$ 2,168,818	$ 273,299,570
Loans Receivable, Net	48,331,433	-	48,331,433
Loan Interest Receivable	2,055,717	-	2,055,717
Total Current Assets	321,517,901	2,168,818	323,686,719
Non-Current Assets:			
Capital Assets, Net	-	943,962	943,962
Loans Receivable, Net	528,772,497	-	528,772,497
Loan Interest Receivable	2,878,670	-	2,878,670
Total Non-Current Assets	531,651,167	943,962	532,595,128
Total Assets	$ 853,169,068	$ 3,112,780	$ 856,281,848
Liabilities and Net Position			
Current Liabilities:			
Accounts Payable	$ 895	$ 16,239	$ 17,134
Payroll Payable	-	5	5
Compensated Absences Payable	-	63,639	63,639
Bond Interest Payable	33,854	-	33,854
Bonds Payable	705,000	-	705,000
Due to Other Funds	-	15,332	15,332
Total Current Liabilities	739,750	95,216	834,965
Non-Current Liabilities:			
Compensated Absences Payable	-	7,659	7,659
Bonds Payable	2,961,656	-	2,961,656
Total Non-Current Liabilities	2,961,656	7,659	2,969,315
Total Liabilities	3,701,406	102,875	3,804,281
Net Position:			
Net Investment in Capital Assets	-	943,962	943,962
Unrestricted	849,467,662	2,065,943	851,533,605
Total Net Position	849,467,662	3,009,905	852,477,567
Total Liabilities and Net Position	$ 853,169,068	$ 3,112,780	$ 856,281,848

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

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2024

	Loan Fund	Administration	Total
Operating Revenues			
Loan Interest Income	$ 8,650,892	$ -	$ 8,650,892
Loan Fees	-	2,088,417	2,088,417
Operating Transfers	(1,992,285)	1,143,160	(849,125)
Total Operating Revenues	6,658,607	3,231,577	9,890,184
Operating Expenses			
Amortization Expense	-	122,874	122,874
Bond Interest	62,989	-	62,989
Indirect Costs	-	472,560	472,560
Principal Forgiveness on Loans	2,774,322	-	2,774,322
Salaries and Benefits	-	1,512,470	1,512,470
Services and Supplies	-	183,829	183,829
Total Operating Expenses	2,837,311	2,291,733	5,129,044
Operating Income (Loss)	3,821,296	939,844	4,761,140
Non-Operating Revenues (Expenses)			
Federal Grants	13,804,661	-	13,804,661
Investment Income	13,164,716	90,089	13,254,805
Total Non-Operating Revenues (Expenses)	26,969,377	90,089	27,059,466
Change in Net Position	30,790,673	1,029,933	31,820,606
Net Position - Beginning	817,552,762	1,979,972	819,532,734
Prior Period Adjustment	1,124,227	-	1,124,227
Net Position – Beginning – Restated	818,676,989	1,979,972	820,656,961
Net Position - Ending	$ 849,467,662	$ 3,009,905	$ 852,477,567

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

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024

	Loan Fund	Administration	Total
Cash Flows From Operating Activities:			
Receipts from Loan Fees	$ -	$ 2,088,417	$ 2,088,417
Payments to Vendors	-	(282,457)	(282,457)
Payments to Employees	-	(1,733,201)	(1,733,201)
Payments for Indirect Cost	-	(473,951)	(473,951)
Transfer to Admin Fund	(1,143,160)	1,143,160	-
Net Cash Flows Provided (Used) in Operating Activities	(1,143,160)	741,966	(401,194)
Cash Flows From Noncapital Financing Activities:			
Receipts from Federal Grants	13,804,661	-	13,804,661
Principal Payments on Bonds	(1,165,000)	-	(1,165,000)
Interest Payments on Bonds	(159,125)	-	(159,125)
Net Cash Provided (Used) in Noncapital Financing Activities	12,480,536	-	12,480,536
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	-	(745,413)	(745,413)
Net Cash Provided (Used) in Capital and Related Financing Activities	-	(745,413)	(745,413)
Cash Flows from Investing Activities:			
Receipts from Treasury Interest Credits	13,164,716	90,089	13,254,805
Repayments from Loan Interest	7,438,469	-	7,438,469
Repayments from Loan Principal	31,219,782	-	31,219,782
Disbursements to Borrowers	(68,567,396)	-	(68,567,396)
Net Cash Provided (Used) in Investing Activities	(16,744,429)	90,089	(16,654,340)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,407,053)	86,642	(5,320,411)
Cash and Cash Equivalents, Beginning	276,537,805	2,082,176	278,619,981
Cash and Cash Equivalents, Ending	271,130,751	2,168,818	273,299,570

(Continued on next page)

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

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024

(Continued from previous page)

	Loan Fund	Administration	Total
Reconciliation of Operating Income to Net Cash Provided (Used) in Operating Activities:			
Operating Income (Loss)	3,821,296	939,844	4,761,140
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) in Operating Activities:			
Loan Interest Receipts Reported as Operating Revenue	(7,438,469)	-	(7,438,469)
Depreciation/Amortization	-	122,874	122,874
Bond Interest Payments Reported as Operating Expense	159,125	-	159,125
Principal Forgiveness Expense Reported as Operating Expense	2,774,322	-	2,774,322
Operating Transfers	(475,000)	-	(475,000)
Amortization of Bond Premium	(107,173)	-	(107,173)
Net Changes in Assets and Liabilities:			
Loan Interest Receivable	144,259	(166)	144,093
Capital Assets	-	(321,423)	(321,423)
Due From Other Funds	-	(346)	(346)
Accounts and Interest Payable	-	7,753	7,753
Payroll Payable	-	(16,269)	(16,269)
Due To Other Funds	-	(6,556)	(6,556)
Bond Interest Payable	(21,521)	-	(21,521)
Compensated Absences Payable	-	16,255	16,255
Total Adjustments	(4,964,457)	(197,878)	(5,162,335)
Net Cash Provided (Used) in Operating Activities:	$ (1,143,160)	$ 741,966	$ (401,195)

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

Notes to the Basic Financial Statements
Enterprise Fund
June 30, 2024

1 Summary of Significant Accounting Policies

The accompanying financial statements of the State of Oregon Department of Environmental Quality Clean Water State Revolving Fund have been prepared in conformity with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing accounting and financial reporting principles.

1.1 Reporting Entity

The Oregon Clean Water State Revolving Fund (Fund) was established pursuant to Oregon Revised Statutes (ORS) 468.423 through 468.440 and the 1987 amendments to the federal Clean Water Act. The purpose of the Fund is to provide below market rate interest loans to eligible public agencies and qualified institutions for the planning, design and construction of wastewater treatment facilities, the implementation of nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 30 years and all repayments, including interest and principal, must be credited to the Fund program.

The Fund program is administered by the State of Oregon Department of Environmental Quality (DEQ). The Fund program consists of funds to record loans and related activity, and separate administrative funds that collect annual fees to pay the operating costs of the program. All funds are collectively referred to as the Fund. DEQ's primary responsibilities for the Fund include obtaining capitalization grants from the U.S. Environmental Protection Agency (EPA), soliciting potential interested parties for loans, negotiating loan agreements with eligible public agencies, 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.

DEQ charges expenses related to the Fund for staff time and operations spent on Fund activities and the Fund pays those expenses from the administration fund. The charges for salaries and benefits of the employees, as well as indirect costs allocated to Fund. The rate of indirect cost is negotiated annually with the EPA.

For State Fiscal Year (fiscal year) 2024, the Oregon Fund program did not use federal cap grant funds for administrative expenses. The program used loan repayments and admin funds for administrative expenses as allowed by EPA.

The Annual Financial Report is prepared for the EPA as an Enterprise Fund of the State of Oregon, which uses the accrual basis of accounting. The State of Oregon's Annual Comprehensive Financial Report (ACFR) includes the Fund in the Environmental Management Fund, which is reported as a governmental special revenue fund using the modified accrual basis of accounting. Due to differences in the basis of accounting, there may be differences between the amounts reported in these financial statements and the State of Oregon's ACFR.

1.2 Basis of Presentation – Fund Accounting

DEQ programs and accounts are organized by “funds,” each of which is a separate accounting entity. Each major program utilizes a separate set of self-balancing accounts to record the assets, liabilities, net position, revenues, and expenses of their activities. DEQ’s Fund loan program is classified as a proprietary fund for the purposes of these financial statements. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. The Fund loan program is accounted for in an Enterprise Fund. Enterprise Funds account for and report any activity for which fees are charged to external users for goods and services. DEQ treats the Fund as a governmental fund for accounting purposes.

1.3 Measurement Focus and Basis of Accounting

The basic 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 (Oregon Accounting Manual (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, regardless of the timing of the related cash flow. All revenues and expenses of the Fund are considered operating revenues and operating expenses, except for federal grant income and interest income, which are non-operating revenue. All assets and liabilities associated with the operations of the Fund are included on the Statement of Net Position.

1.4 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 ORS 293.265. 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.

1.5 Loans Receivable

Loans are funded by federal capitalization grants, state matching funds, loan repayments, and fund earnings. The Fund 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 project is complete, repayment begins with an interest only payment. Loans are fully amortized to ensure full repayment by the loan maturity date.

DEQ is required, under the terms of capitalization grant awards from EPA, to offer additional subsidization to certain borrowers. DEQ has chosen to offer this subsidization in the form of principal forgiveness and has implemented this in Oregon Administrative Rule (OAR 340-054-0065) and in the program Intended Use Plan. Loans Receivable are stated net of the allowance for principal forgiveness.

1.6 Long-Term Obligations

Long-term obligations of the Fund consist of bonds issued to provide the required state matching funds for the federal capitalization grants, and the non-current portion of compensated absences. Bonds issued on behalf of the Fund are reported on the Statement of Net Position, net of the related premium. The bond premium is amortized over the life of the bond issue. The bond premium is reported in the Statement of Revenues, Expenses and Changes in Fund Net Position as bond interest expense.

1.7 Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the state does not pay any amounts when employees separate from state service. A liability for vacation leave (compensated absences) is accrued when incurred as employees may be paid for up to a maximum of 300 hours of accrued vacation leave upon separation from state service.

1.8 Capital Assets

Capital Assets are recorded at cost. Depreciation is calculated using the straight-line method. Gain or loss on the sale of an asset is determined by taking the difference between the carrying value (cost less deprecations) and the sale price. The data processing hardware and software costing $5,000 or more are capitalized and then depreciated over a useful life of five years.

2 Cash and Cash Equivalents

On June 30, 2024, the book balance of cash and cash equivalents was $273,299,570 and the bank balance was $272,769,554. All cash in the Fund is deposited in demand accounts with the State Treasurer in the Oregon Short-Term Fund (OSTF), a cash and investment pool for use by all state agencies.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and the Oregon law.

Further details of the investments and a copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 867 Hawthorne Ave. SE, Salem, Oregon 97301 or located at the following website: Treasury: Oregon Short Term Fund : Oregon Short Term Funds : State of Oregon

3 Loans Receivable

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate (ORS 468.440). Interest rates vary depending on the length of the loan, the type of loan, and program rules (OAR 340-054). Rates range from 25% of the bond rate for 5-year loans to 55% of the bond rate for 30-year loans. Recipients make semiannual or, in some cases, annual payments, and must begin loan principal and interest repayments within one year of the date the facility is operationally complete and ready for the purpose it was planned, designed, and built for, or when DEQ determines that the project is completed. There is an allowance account for that portion of loan disbursements that will not be repaid due to principal forgiveness offered to eligible borrowers. Principal forgiveness is offered to borrowers based on criteria in the administrative rule (OAR 340-054-0065), to comply with a requirement included in DEQ's grant agreement with EPA. There is no additional allowance account, as Fund management believes all existing borrowers will pay as agreed.

The detail of loans receivable as of June 30, 2024, is as follows:

Loans Receivable	$584,161,546
Less: Allowance for Doubtful Accounts	($7,057,616)
Net Loans Receivable, 6/30/2024	$577,103,930

4 Bonds Payable

In July 2003, EPA agreed to the use of the Fund assets to pay the principal and interest on 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 with activity during fiscal year 2024:

Original Issue

Series	Due Dates	Interest Range	Original Amount
2012A	2014-2033	1.5% - 5%	$ 4,235,000
2013A	2014-2024	2% - 5%	4,015,000
2015A	2016-2026	5%	4,040,000
		Total:	$ 12,290,000

Bonds Outstanding

Series	Balance 7/01/2023	Increases	Decreases	Balance 6/30/2024	Due Within One Year
2012A	$ 2,615,000	$ -	$ 220,000	$ 2,395,000	$ 230,000
2013A	495,000	-	495,000	-	-
2015A	1,425,000	-	450,000	975,000	475,000
Total	$ 4,535,000	$ -	$ 1,165,000	$ 3,370,000	$ 705,000

The bond interest rates noted above differ depending on the term of the individual security. Securities with the longest term yield the highest interest rate.

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements for each year during the next five-year period, and in five-year increments thereafter.

Year Ending 6/30/2024	Bond Principal	Bond Interest	Total Debt Service
2025	$ 705,000	$ 112,375	$ 817,375
2026	740,000	76,250	816,250
2027	250,000	54,000	304,000
2028	260,000	46,350	306,350
2029	265,000	38,475	303,475
2030-2033	1,150,000	70,200	1,220,200
Totals	$ 3,370,000	$ 397,650	$ 3,767,650

5 Changes in Long-Term Liabilities

The liability for compensated absences is calculated based on the vacation accrual on June 30, 2024, for each employee whose duties include Fund related activities. Bonds payable includes amounts payable on bonds issued to benefit the Fund and includes the unamortized amounts of bond premium.

The long-term liability activity for the year ended June 30, 2024, was as follows:

	Beginning Balance 07/01/2023	Increases	Decreases	Ending Balance 06/30/2024	Due Within One Year
Bonds Payable	$ 4,535,000	$ -	$ 1,165,000	$ 3,370,000	$ 705,000
Issuance Premium	403,829	-	107,173	296,656	-
Total Bonds Payable	4,938,829	-	1,272,173	3,666,656	705,000
Compensation Absences	55,044	16,255	-	71,299	63,639
Total Long-Term Liabilities	$ 4,993,873	$ 16,255	$ 1,272,173	$ 3,737,955	$ 768,639

6 Loan Fees

To support administration and project management costs, annual fees are assessed on loans originating after 1992. A fee of 0.50 percent is assessed on the outstanding loan principal balance and is collected annually, beginning with the second loan payment.

Fees are deposited into a separate Treasury account and are used only for administrative and project management costs. Planning loans are not assessed annual fees to encourage Oregon communities to complete more planning.

7 Employee Retirement Plan

Plan Description

As part of the State of Oregon, the Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans to the Fund's employees. PERS is a cost- sharing multiple-employer defined benefit pension plan. All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. The Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238 is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the members IAP account. The pension plans provide pension benefits, death benefits, and disability benefits.

PERS issues a separate, publicly available, audited financial report that may be obtained from the Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2024, for state agencies general service members were: 21.78% for Tier One/Tier Two and 18.28% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by members.

Employer contributions for the fiscal year ended June 30, 2024, were $7,143 for Tier One and Tier Two and $162,030 for OPSRP. Member contributions for the fiscal year ended June 30, 2024, were $55,151.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

On June 30, 2024, the State reported a liability of $5.4 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2021. 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. Certain component units are considered by the pension plan to be part of the State. The State determined those component units' proportionate share of the net pension liability and allocated it to them. At the June 30, 2023, measurement date, the State's proportionate share, excluding those component units, was 28.56%, which is 2.36% higher than the proportion of 26.2% at the prior measurement date of June 30, 2022. Each governmental fund, excluding the debt service funds, is responsible for liquidating the liability not reported in the proprietary funds.

The Fund's portion of the net pension liability was not specifically identified. See the related note in the financial statements. Employee Retirement Plans, in the State of Oregon Annual Comprehensive Financial Report, for more detail.

8 Other Postemployment Benefit Plans

The Fund's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through PERS as established by ORS 238 and the Public Employees Benefit Board as established by ORS 243. A copy of the audited annual financial report may be obtained from Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

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 $60 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 creditable service in PERS, 2) receive both Medicare Parts A and B coverage, and 3) enroll in a PERS-sponsored health insurance plan.

DEQ is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change because of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year end June 30, 2024, was 0.00% for Tier One and Tier Two and 0.00% for OPSRP General Service Members. Combined employer contributions for the years ended June 30, 2024, 2023, and 2022, was approximately $0, $96, and $708 respectively, equal to the required contributions each year.

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 by the PERS Board, and the 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.

DEQ is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change because of subsequent actuarial valuations. The rate of each employee's covered salary for the fiscal year ended June 30, 2024, was 0.00% for Tier One and Tier Two and 0.00% for OPSRP General Service. The Fund's actual contribution for the year ended June 30, 2024, 2023 and 2022 was approximately $0, $2,106, and $7,787 respectively, which was equal to the actuarial required contribution.

Public Employees Benefit Board Plan

The Public Employees Benefit Board plan is a multiple-employer plan which offers medical, dental and vision benefits to eligible retired employees. Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. 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 activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

The State of Oregon's liability for the primary government was $80.6 million for the fiscal year ended June 30, 2024, and was determined by an actuarial valuation as of July 1, 2022. The Fund's portion of this liability was not specifically identified.

9 Commitments

As of June 30, 2024, the Fund has active loan agreements in the amount of $279,833,316 and has disbursed a total of $151,524,813 in cash to these borrowers. The amount of undisbursed loan commitments is $128,308,503.

10 Risk Financing

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is 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
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. For example, the self-insured property and liability program is backed by an excess property policy with a limit of $425 million and a blanket commercial crime policy with a limit of $5 million. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions, and boards participate in the self-insured property and liability program. Risk Management allocates the cost of claims and claim administration by charging an assessment to each State agency, 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.

The Fund 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.

11 Subsequent Events

On July 31, 2024, EPA awarded the Fund the Bipartisan Infrastructure Law (BIL) Supplemental federal fiscal year 2023 capitalization grant in the amount of $23,546,000. On September 19, 2024, EPA awarded the Fund the BIL Emerging Contaminants federal fiscal year 2023 capitalization grant in the amount of $2,402,000. These EPA BIL related capitalization grants were received after the end of fiscal year 2024. DEQ Fund staff will meet with EPA region 10 staff at least monthly for program coordination, updates and guidance to ensure program requirements are met during fiscal year 2025.

12 Capital Assets

The net capital assets for the year ended June 30, 2024, was as follows.

	Beginning Balance 07/01/2023	Additions	Deletions	Ending Balance 06/30/2024
Capital Assets Being Depreciated:				
Internally Developed Software	$ -	$ 1,066,836	$ -	$ 1,066,836
Total Capital Assets Being Depreciated	-	1,066,836	-	1,066,836
Less Accumulated Amortization:				
Internally Developed Software	-	122,874	-	122,874
Total Accumulated Amortization		122,874		122,874
Total Capital Assets (Net)	**$ -**	**$ 943,962**	**$ -**	**$ 943,962**

13 Accounting Changes and Error Corrections

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.

There is a prior period error correction included in the working trial balance for $1,124,227 due to the incorrect capitalization of interest on the City of Newport loan in prior years, and guidance from SARS to report as current period activity. Per GASBS 100, error corrections should be reported retroactively by restating beginning net position (GASBS 100 paragraph 25).

The Net Position Beginning of period 7/1/2023 was as follows:

Net Position Beginning	(817,552,762)
Prior Period Adjustment	(1,124,227)
Net Position – Beginning – As Restated	(818,676,989)

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Oregon Secretary of State

Steve Bergmann
Division Director

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 Tina Kotek
Governor of Oregon

Leah Feldon, Director
Oregon Department of Environmental Quality

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 (*Government Auditing Standards*), the financial statements of the Clean Water State Revolving Fund (CWSRF) program, an enterprise fund of the State of Oregon, Department of Environmental Quality (department), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the CWSRF program's basic financial statements, and have issued our report thereon dated June 11, 2025.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

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weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department'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*.

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the department's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Secretary of State, Audits Division

State of Oregon
June 11, 2025

Schedule of Findings and Responses

Improve review of transactions

Criteria: OAM 10.15.00.PO.103

State accounting policy requires management develop procedures to ensure transactions are correctly recorded in the state's accounting system for financial reporting purposes. During our testing we noted an error resulting in an understatement of current loans receivable and an overstatement of non-current loans receivable totaling $16,247,110. This error was not identified during the department's review process and management indicated it was due to a data entry error.

We recommend department management improve review procedures to ensure transactions are properly recorded.

Management Response

The Oregon Department of Environmental Quality (DEQ) agrees with the audit finding and appreciates the auditor's work to understand and evaluate our accounting processes. We acknowledge that an error was made in reviewing a transaction reclassifying amounts from non-current loans receivable to current loans receivable for fiscal year 2024. The Department of Administrative Services determines post-close entries for all agencies. DEQ will communicate with DAS to determine the entries that may need to be made to post the transaction.

To address DEQ's improvements to transaction review procedures related to entries made directly into the Statewide Financial Management Application (SFMA) or interfaced with Oregon Buys, or interfaced through other applications:

a. A written standard operating procedure will be created, documenting review practices for direct entry and all interfaced applications.
    - Verification of transaction code and appropriate debit and credit.
    - The procedure will identify all fields that need to be verified (i.e., vendor name, vendor number, mail code, fund codes, effective dates, and invoice description).

b. Provide annual training of the review process to accounting staff.

c. Provide annual training of transaction codes.

d. Reconcile SFMA monthly to the Clean Water State Revolving Fund software system that was implemented August 2024.

DEQ strives to ensure that its accounting is accurate and complete and is creating additional processes to ensure that errors are identified and corrected timely.

Anticipated Completion Date: July 15, 2025
Contact Person Responsible for Corrective Actions: Anne Marie Murphy

Knowledge, skills, and abilities necessary to prepare financial statements that are compliant with GAAP require improvement

During the audit of the fiscal year 2024 Clean Water State Revolving Fund program financial statements, auditors noted concerns regarding the department's preparation of the program's financial statements and note disclosures in compliance with generally accepted accounting standards, primarily due to significant turnover of accounting staff over the past year.

In our review of the initial draft of the financial statements and note disclosures, we noted several errors:

- Net Position on the Statement of Net Position did not include a line for Net Investment in Capital Assets.
- Incorrect terminology (expenditures vs. expenses) was used on the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- The required Reconciliation of Operating Income to Net Cash Provided (Used) in Operating Activities was missing from the Statement of Cash Flows.
- Totals presented on the statements did not always foot or cross foot.
- Note disclosures related to capital assets were missing.
- Amounts included in the note disclosures did not always tie back to the financial statements.

The subsequent draft financial statements and note disclosures contained additional errors:

- The Net Investment in Capital Assets line was added to the Statement of Net Position; however, the Capital Assets (Net) line was removed.
- Proposed and agreed-upon audit adjustments were not accurately reflected in the statements.
- Totals presented on the statements did not always foot or cross foot.
- The newly drafted Capital Assets note disclosures did not include all required information.
- The Reconciliation of Operating Income to Net Cash Provided (Used) in Operating Activities did not present correct totals that reconciled to the Cash Flows from Operating Activities section.

We recommend department management dedicate resources to train staff to ensure they possess the knowledge, skills, and abilities necessary to accurately prepare the financial statements and accompanying note disclosures.

Management Response

The Oregon Department of Environmental Quality (DEQ) agrees with the finding. During the last three years, DEQ has experienced extensive turnover in its accounting department across all staffing levels, including the lead accountant role responsible for preparing financial statements. We have brought in new staff and are working hard on training while staff are getting the experience to work tasks, including the complex financial reporting of the CWSRF financials. The state enterprise is working to modernize systems and processes; this requires dedicated training time, reworking current processes to access the data required to comply with expectations, and training to address the added work these systems have added to staff workload. As of July 1, 2024, DEQ has implemented a new software system to manage the CWSRF program prioritizing efficiency and accuracy of the information needed to comply with reporting expectations and GAAP.

To address the issues of training, DEQ will assign training related to governmental accounting and financial statements for accounting staff with responsibilities for financial statements to be completed by September 30th. DEQ has brought in additional staff to assist with year-end close and training for Fiscal Year 2025

Anticipated Completion Date: September 30, 2025
Contact Person Responsible for Corrective Actions: Anne Marie Murphy

About the Audit

We sincerely appreciate the courtesies and cooperation extended by officials and employees of the Oregon Department of Environmental Quality during the course of this audit.

Audit team

Michelle Searfus, CPA, Audit Manager
Alan Bell, MBA, CFE, Principal Auditor
Will Boxx, MPA, Staff Auditor

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The Secretary of State has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

Oregon Secretary *of* State

Secretary of State **Tobias Read**
Audits Director **Steve Bergmann**

This report is intended to promote the best possible management of public resources.

Copies may be obtained from:

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