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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, 2018**

**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, 2018**

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## **Financial Section**



## 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, 2018, 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, 2018, 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, 2018, 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 8, 2019, 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 8, 2019

## **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, 2018**

<b>Assets</b>	<b>SPWF</b>	<b>WF</b>	<b>Total</b>
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 86,150	30,776	116,926
Investments	10,797	-	10,797
Securities Lending Collateral	2,212	710	2,922
Interest Receivable	4,162	1,428	5,590
Loans Receivable (net)	9,086	5,254	14,340
Total Current Assets	112,408	38,168	150,576
<b>Noncurrent Assets:</b>			
Cash and Cash Equivalents - Restricted	891	229	1,120
Loans Receivable (net)	142,230	77,135	219,365
Net OPEB Asset	4	2	6
Total Noncurrent Assets	143,125	77,366	220,491
<b>Total Assets</b>	<b>255,533</b>	<b>115,534</b>	<b>371,067</b>
<b>Deferred Outflows of Resources</b>			
Related to Pensions	415	178	593
Related to OPEB	10	4	14
<b>Total Deferred Outflows of Resources</b>	<b>425</b>	<b>183</b>	<b>608</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Bonds Payable	1,925	560	2,485
Accounts & Interest Payable	463	225	688
Obligations Under Securities Lending	2,212	710	2,922
Due to Other Funds	3	2	5
Compensated Absences Payable	88	37	125
Contracts, Mortgages, and Notes Payable	9	4	13
Total Current Liabilities	4,700	1,537	6,237
<b>Noncurrent Liabilities:</b>			
Bonds Payable	38,860	9,810	48,670
Compensated Absences Payable	48	20	68
Net OPEB Obligation	14	6	20
Total OPEB Liability	40	18	58
Contracts, Mortgages, and Notes Payable	138	56	194
Net Pension Liability	1,108	463	1,571
Total Noncurrent Liabilities	40,208	10,373	50,581
<b>Total Liabilities</b>	<b>44,908</b>	<b>11,910</b>	<b>56,818</b>
<b>Deferred Inflows of Resources</b>			
Related to Pensions	9	4	13
Related to OPEB	3	1	4
<b>Total Deferred Inflows of Resources</b>	<b>12</b>	<b>5</b>	<b>17</b>
<b>Net Position</b>			
Restricted for OPEB	4	2	6
Unrestricted	211,034	103,800	314,834
<b>Total Net Position</b>	<b>\$ 211,038</b>	<b>103,802</b>	<b>314,840</b>

*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, 2018**

	<b>SPWF</b>	<b>WF</b>	<b>Total</b>
<b>Operating Revenues:</b>			
Loan Interest Income	\$ 5,361	2,715	8,076
Other Revenue	326	-	326
Total Operating Revenues	<u>5,687</u>	<u>2,715</u>	<u>8,402</u>
<b>Operating Expenses:</b>			
Salaries and Wages	1,781	803	2,584
Services and Supplies	755	156	911
Distributions to Other Governments	4,130	3,157	7,287
Bond Interest	1,337	704	2,041
Total Operating Expenses	<u>8,004</u>	<u>4,820</u>	<u>12,824</u>
<b>Operating Income (Loss)</b>	<u>(2,316)</u>	<u>(2,105)</u>	<u>(4,421)</u>
<b>Nonoperating Revenue (Expense):</b>			
Investment Income (Loss)	1,505	502	2,007
Other Interest Expense	(10)	(4)	(14)
Other Nonoperating Items	(10)	(3)	(13)
Total Nonoperating Revenue	<u>1,485</u>	<u>495</u>	<u>1,980</u>
<b>Income (Loss) Before Transfers</b>	<u>(831)</u>	<u>(1,610)</u>	<u>(2,441)</u>
<b>Transfers:</b>			
Transfers from Other Funds	893	4,118	5,011
Transfers to Other Funds	(4,715)	(3,580)	(8,295)
Net Transfers	<u>(3,822)</u>	<u>538</u>	<u>(3,284)</u>
<b>Increase (Decrease) in Net Position</b>	<u>(4,654)</u>	<u>(1,073)</u>	<u>(5,727)</u>
<b>Net Position:</b>			
Beginning Net Position	215,721	104,889	320,610
Change in Accounting Principles	(29)	(14)	(43)
Beginning Net Position - Restated	<u>215,692</u>	<u>104,875</u>	<u>320,567</u>
<b>Ending Net Position</b>	<u>\$ 211,038</u>	<u>103,802</u>	<u>314,840</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, 2018**

<b>Cash Flows from Operating Activities:</b>	<b>SPWF</b>	<b>WF</b>	<b>Total</b>
Payments to Employees for Services	\$ (1,736)	(664)	(2,400)
Payments to Suppliers	(91)	(36)	(127)
Payments to Other Funds for Services	(249)	(268)	(517)
Distributions to Other Governments	(4,130)	(3,177)	(7,307)
Net Cash Provided (Used) in Operating Activities	(6,207)	(4,144)	(10,351)
<b>Cash Flows from Noncapital</b>			
<b>Financing Activities:</b>			
Proceeds from Bond Sales	35,496	-	35,496
Bond Issuance Costs	(398)	-	(398)
Principal Payments on Bonds	(24,790)	(6,435)	(31,225)
Interest Payments on Bonds	(1,703)	(859)	(2,562)
Principal Payments for Pensions	(9)	(4)	(13)
Interest Payments for Pensions	(10)	(4)	(14)
Transfers from Other Funds	893	4,118	5,011
Transfers to Other Funds	(4,715)	(3,580)	(8,295)
Net Cash Provided (Used) in Noncapital Financing Activities	4,764	(6,764)	(2,000)
<b>Cash Flows from Investing Activities:</b>			
Loan Principal Repayments	12,606	7,394	20,000
Loan Interest Received	5,063	3,102	8,165
Loans Made	(19,271)	(5,844)	(25,115)
Interest On Investments and Cash Balances	1,518	498	2,016
Interest Income - Security Lending	13	4	17
Interest Expense - Security Lending	(10)	(3)	(13)
Net Cash Provided (Used) in Investing Activities	(81)	5,151	5,070
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,524)	(5,757)	(7,281)
Beginning Cash and Cash Equivalents	88,566	36,762	125,328
<b>Ending Cash and Cash Equivalents</b>	\$ 87,042	31,005	118,047

*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, 2018**

<b>Reconciliation of Operating Income to</b>	<b>SPWF</b>	<b>WF</b>	<b>Total</b>
<b>Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ (2,316)	(2,105)	(4,421)
Adjustments to Reconcile Operating Income to			
Net Cash Provided (Used) by Operating Activities:			
Amortization of Bond Premium and Discount	(154)	(8)	(162)
Bond Issuance Cost Reported as Operating Expense	398	-	398
Interest Receipts Reported as Operating Income	(5,063)	(3,102)	(8,165)
Interest Payments Reported as Operating Expense	1,703	859	2,562
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable (net)	(224)	403	179
Loans Receivable	(375)	-	(375)
Accounts and Interest Payable	(217)	(163)	(380)
Due to Other Funds	2	1	3
Due to Other Governments	-	(20)	(20)
Compensated Absences Payable	39	16	55
Net Pension Liability	(335)	(184)	(519)
Net OPEB Liability (Asset)	(12)	(6)	(18)
Total OPEB Liability	-	1	1
Increase (Decrease) in Deferred Outflow of Resources:			
Related to Pensions	349	165	514
Increase (Decrease) in Deferred Inflows of Resources:			
Related to Pensions	(4)	(2)	(6)
Related to OPEB	3	1	4
Total Adjustments	(3,891)	(2,039)	(5,930)
Net Cash Provided (Used) in Operating Activities	\$ (6,207)	(4,144)	(10,351)
Noncash Investing and Capital and Related Financing Activities			
Net Change in Fair Value of Investments	26	-	26

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

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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, 2018**

**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. The natural round of all amounts, including subtotals and totals, has been maintained.

**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

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accounting, revenues are recognized when earned and expenses are recorded at the time related liabilities are incurred.

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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**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 to estimate the potential loss from uncollectible loans. Actual loan losses may vary from estimated amounts.

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.

**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 or another item of monetary value that is set aside for a particular purpose, primarily to satisfy regulatory or contractual requirements.

**1.K - NET POSITION**

Net position is presented in two classifications: Restricted for OPEB and Unrestricted.

The amount restricted for OPEB is \$6 and the unrestricted portion is \$314,834.

**Note 2 - Cash and Cash Equivalents**

At June 30, 2018, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-Term Fund (OSTF)	\$ 116,926
Money market funds held by BNY Mellon, trustee	1,120
	<u>118,046</u>

Cash and cash equivalents are displayed in the financial statements as follows:

Current assets	
Cash and Cash Equivalents	\$ 116,926
Noncurrent assets	
Cash and Cash Equivalents – Restricted	1,120
	<u>118,046</u>

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**2.A - DEPOSITS**

As of June 30, 2018, the book balance of monies held in demand accounts in the OSTF was \$116,926. The bank balance was \$117,231. 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 [Treasury : Oregon Short Term Fund and LGIP : Oregon Short Term Funds : State of Oregon](#)

The balance of money market accounts held by the BNY Mellon (Oregon Bond Bank trustee) as agents for the Department totaled \$1,120. 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, 2018, the Department reported investments in SPWF of \$10,797, which includes \$797 of unrealized gains reported as investment income. Investments are with the Oregon Intermediate Term Pool (OITP).

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: [Treasury : Intermediate Term Investments : Invested for Oregon : State of Oregon](#) 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

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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, 2018, 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 OITP.

At June 30, 2018, 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, 2018 was 3.12 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, 2018.

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, 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

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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, 2018, is effectively one day. On June 30, 2018, 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:

<b>Oregon Short-Term Fund (OSTF)</b>	<b>Total</b>
OSTF securities lending cash collateral	\$ 2,697
OSTF total securities lending (includes cash and noncash)	12,553
Securities on loan from the OSTF	12,298
Investments purchased with cash collateral from OSTF	2,697
Cash collateral received for the securities on loan	569,650
Fair value of all securities on loan	558,106
Fair value of all investments made with cash collateral received	122,404

The securities on loan from the OSTF in total included:	<b>Percent</b>
U.S. Treasury Securities	71.35
U.S. Agency Securities	15.32
Domestic Fixed Income Securities	13.33
	<u>100.00</u>

<b>Oregon Intermediate Term Pool (OITP)</b>	<b>Total</b>
OITP securities lending cash collateral	\$ 225
Securities on loan from the OITP	286
Investments purchased with cash collateral from OITP	225
Cash collateral received for the securities on loan	884
Fair value of all securities on loan	866
Fair value of all investments made with cash collateral received	681



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**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, 2018:

	July 1, 2017	Increase	Decrease	June 30, 2018	Due in one year
Bonds payable					
Principal	\$ 47,025	31,275	(31,225)	47,075	2,485
Premium	21	4,221	(162)	4,080	-
Total bonds payable	47,046	35,496	(31,387)	51,155	2,485
Compensated absences	139	54	-	193	125
Contracts, Mortgages, and Notes Payable	219	-	(12)	207	13
	<u>\$ 47,404</u>	<u>35,550</u>	<u>(31,399)</u>	<u>51,555</u>	<u>2,623</u>

**Note 5 - DEBT SERVICE REQUIREMENTS TO MATURITY**

Future maturities of principal and interest as of June 30, 2018:

Year(s) ending June 30	Principal	Interest	Total
2019	\$ 2,485	1,759	4,244
2020	2,390	2,085	4,475
2021	2,445	1,996	4,441
2022	2,565	1,886	4,451
2023	2,680	1,767	4,447
2024-2028	15,160	6,859	22,019
2029-2033	13,615	3,090	16,705
2034-2038	5,065	744	5,809
2039-2043	360	93	453
2044-2048	310	33	343
Total	<u>\$ 47,075</u>	<u>20,312</u>	<u>67,387</u>

**Note 6 - BONDS ISSUED AND OUTSTANDING**

As of June 30, 2018, Oregon Bond Bank bonds totaling \$47,075 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 \$4,080 and bond discounts of \$0 are included in Bonds Payable as of June 30, 2018.

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The following table summarizes the changes in bonds outstanding during fiscal year 2018:

Series	Period	Interest	Original Issue	July 1, 2017	June 30, 2018	Increase	Decrease	Due in one year
2007A	2008-32	4.00-4.38	\$ 26,905	12,575	-	-	12,575	-
2009A	2010-34	3.00-5.25	32,830	17,780	-	-	17,780	-
2010A	2011-35	2.00-5.71	21,555	16,670	15,800	-	870	895
2018A	2018-48	3.50-5.00	31,275	-	31,275	31,275	-	1,590
			<u>\$ 112,565</u>	<u>47,025</u>	<u>47,075</u>	<u>31,275</u>	<u>31,225</u>	<u>2,485</u>

**Note 7 - DEBT REFUNDING**

When favorable market conditions arise, the Department may issue new long-term debt to extinguish the obligation of previously issued bonds in order to take advantage of lower interest rates. On April 4, 2018, the Department refunded the 2007A and 2009A series with proceeds from the 2018A series.

**Note 8 - Employee Retirement Plans**

**8.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>.

**8.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.

**8.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

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

**8.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
2018	17.84%	10.78%	6.00%
2017	12.31%	6.51%	6.00%
2016	12.31%	6.51%	6.00%

**8.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, 2018 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2018	\$ 100	\$ 60	\$ 33
2017	18	13	9
2016	40	21	20

**8.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

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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.

**8.G - NET PENSION LIABILITY**

At June 30, 2018, the State reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. 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	\$ 76	\$ -
Changes in assumptions	286	-
Net difference between projected and actual earnings on investments	16	-
Changes in proportion and differences between contributions and proportionate share of contributions	48	13
Total (prior to post- measurement date contributions)	426	13
Net deferred outflow (inflow) of resources before contributions subsequent to measurement date	-	414
Contributions subsequent to measurement date	167	-
Net deferred outflow (inflow) of resources		<u>\$ 580</u>

The \$167 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
2019	\$ 84
2020	211
2021	146
2022	(32)
2023	5
Total	<u>\$ 414</u>

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**Note 9 - Other Postemployment Benefit Plans**

**9.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 Retirement System annual financial reports may be obtained at:

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

**9.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 \$60<sup>1</sup> 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 0.07% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIA benefits. The Department also contributed 0.43% 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 contribution equaled the annual required contribution. The Oregon Legislature has sole authority to amend the benefit provisions and funding policy for the RHIA plan.

**9.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.

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<sup>1</sup>This amount represents actual dollars and is not rounded to thousands

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The Department is required by statute to contribute actuarially computed amounts as determined by PERS. The Department contributed 0.11% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIPA benefits. The Department also contributed 0.38% 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 contribution equaled the annual required contribution. The Oregon Legislature has sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

**9.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.

**9.E - NET OPEB ASSET & TOTAL OPEB LIABILITY**

At June 30, 2018, the Department reported an asset of \$6 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2015.

**Note 10 - 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;

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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.

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

**Note 11 - COMMITMENTS**

The Department has signed contracts to fund various SPWF and WF projects. The amount of money committed but not disbursed at June 30, 2018 is:

<u>SPWF</u>	<u>WF</u>	<u>Total</u>
\$46,378	\$15,892	\$62,270

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 12 - LOANS AND FORGIVABLE LOANS RECEIVABLE**

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

	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Loans and Forgivable Loans Current	\$ 9,104	5,254	14,358
Allowance for Forgivable Loans Current	(18)	-	(18)
Total Current	<u>\$ 9,086</u>	<u>5,254</u>	<u>14,340</u>
Loans and Forgivable Loans Noncurrent	\$ 142,876	77,135	220,011
Allowance for Forgivable Loans Noncurrent	(300)	-	(300)
Allowance for Loans Noncurrent	(346)	-	(346)
Total Noncurrent	<u>\$ 142,230</u>	<u>77,135</u>	<u>219,365</u>

## Other Report





**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 of the Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Business Development Department (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated March 8, 2019.

**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 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*.

**Business Development Department's Response to Finding**

The Department management's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The 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 8, 2019

## **Schedule of Finding and Response**

### **2018 – 1 Strengthen the Financial Reporting Review Process**

Management is responsible for establishing and maintaining internal control. Effective internal controls are designed to provide reasonable assurance regarding the achievement of management's objectives, including reliability of financial reporting.

During our review of the fiscal year 2018 draft financial statements for the Special Public Works Fund and Water Fund, we noted a misclassification of \$18.9 million shown as a prior period adjustment when it should have been included in beginning net position. As a result, beginning net position did not agree with fiscal year 2017 ending net position.

Management indicated a review of the financial statements was performed, but the review was not documented. A documented review can serve as a control and help ensure accurate financial statements.

**We recommend** department management develop a documented review process to help ensure accurate financial statements.

### **Management Response**

Business Oregon agrees that management is responsible for establishing and maintaining internal controls to assure the reliability and accuracy of financial reporting.

The department concurs that initial financial statement review controls did not catch the error made on the draft financial statements reporting a prior period adjustment. Governmental Accounting Standards Board (GASB) requires that prior-period adjustments are to be excluded from the change in net position in the financial statements for the current period. Department management does thoroughly review financial statements for accuracy and completeness in accordance with GASB and internal controls. This was merely an oversight on the part of the department including the prior period adjustment on the financial statements thus not agreeing with the prior fiscal year 2017 ending net position. This error, however, did not change the overall ending net position on the financial statements for fiscal year 2018.

Business Oregon is proposing the following change to current process to ensure errors such as this do not occur in the future:

The department has begun developing and will implement a written process not only to define what our internal control process and procedure is for reviewing financial statements, moreover creating a check list of items to review and sign off on in order to ensure financial statements are in accordance with GASB.

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 taking the feedback and recommendations that were provided and implementing them to improve our processes and the overall success of OBDD.