



775 Summer St. NE, Ste. 200 • Salem, OR 97301 • 503-986-0123 • fax 503 5815115 • [biz.oregon.gov](http://biz.oregon.gov)

**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, 2022**

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, 2022

Table of Contents

	Page
Financial Section	
Independent Auditor's Report	1
Basic Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Fund Net Position	5
Statement of Cash Flows	6
Notes to the Basic Financial Statements	8
Other Report	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	21

## Financial Section

## Independent Auditor's Report

The Honorable Tina Kotek  
Governor of Oregon

Sophorn Cheang, Director  
Oregon Business Development Department

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Special Public Works Fund and the Water Fund, enterprise funds of the State or Oregon, Oregon Business Development Department, as of and for the year ended June 30, 2022, 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 Special Public Works Fund and the Water Fund, enterprise funds of the State or Oregon, Oregon Business Development Department, as of June 30, 2022, 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 Oregon Business Development Department, 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 combined Special Public Works Fund and the Water Fund, enterprise funds of the State of Oregon, Business Development Department, and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Oregon Business Development Department, as of June 30, 2022, 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 Oregon Business Development Department'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 issue our report dated May 1, 2023, on our consideration of the Oregon Business Development 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 Oregon Business Development 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 Oregon Business Development Department's internal control over financial reporting and compliance.

*Office of the Secretary of State, Audits Division*

State of Oregon

May 1, 2023

## 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, 2022**

<b>Assets</b>	<b>SPWF</b>	<b>WF</b>	<b>Total</b>
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 204,045	37,077	241,122
Investments	11,611	-	11,611
Securities Lending Collateral	1,186	215	1,401
Accounts & Interest Receivable	4,251	990	5,241
Due from Other Funds	705	4,478	5,183
Loans Receivable (net)	13,802	4,491	18,293
<b>Total Current Assets</b>	<b>235,600</b>	<b>47,251</b>	<b>282,851</b>
<b>Noncurrent Assets:</b>			
Cash and Cash Equivalents - Restricted	1,225	-	1,225
Loans Receivable (net)	169,509	50,802	220,311
Net OPEB Asset	42	18	60
<b>Total Noncurrent Assets</b>	<b>170,776</b>	<b>50,820</b>	<b>221,596</b>
<b>Total Assets</b>	<b>406,377</b>	<b>98,072</b>	<b>504,449</b>
<b>Deferred Outflows of Resources</b>			
Related to Pensions	520	234	754
Related to OPEB	6	2	8
<b>Total Deferred Outflows of Resources</b>	<b>526</b>	<b>236</b>	<b>762</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts and Interest Payable	1,341	28	1,369
Obligations Under Securities Lending	1,186	215	1,401
Due to Other Funds	4,478	417	4,895
Compensated Absences Payable	109	56	165
Contracts, Mortgages, and Notes Payable	14	6	20
Bonds Payable	2,970	-	2,970
<b>Total Current Liabilities</b>	<b>10,098</b>	<b>722</b>	<b>10,820</b>
<b>Noncurrent Liabilities:</b>			
Compensated Absences Payable	72	22	94
Contracts, Mortgages, and Notes Payable	78	32	110
Bonds Payable	61,033	-	61,033
Net Pension Liability	823	370	1,193
Total OPEB Liability	23	10	33
<b>Total Noncurrent Liabilities</b>	<b>62,029</b>	<b>434</b>	<b>62,463</b>
<b>Total Liabilities</b>	<b>72,127</b>	<b>1,156</b>	<b>73,283</b>
<b>Deferred Inflows of Resources</b>			
Related to Pensions	643	289	932
Related to OPEB	32	14	46
<b>Total Deferred Inflows of Resources</b>	<b>675</b>	<b>303</b>	<b>978</b>
<b>Net Position</b>			
Restricted for OPEB	42	18	60
Unrestricted	334,057	96,831	430,888
<b>Total Net Position</b>	<b>\$ 334,099</b>	<b>96,849</b>	<b>430,948</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, 2022**

<b>Operating Revenues:</b>	<b>SPWF</b>	<b>WF</b>	<b>Total</b>
Loan Interest Income	\$ 6,120	1,232	7,352
Other Revenue	72	-	72
<b>Total Operating Revenues</b>	<b>6,192</b>	<b>1,232</b>	<b>7,424</b>
<b>Operating Expenses:</b>			
Salaries and Wages	1,483	679	2,162
Services and Supplies	439	152	591
Distributions to Other Governments	816	1,904	2,720
Bond Interest	2,161	-	2,161
<b>Total Operating Expenses</b>	<b>4,898</b>	<b>2,736</b>	<b>7,634</b>
<b>Operating Income (Loss)</b>	<b>1,294</b>	<b>(1,504)</b>	<b>(210)</b>
<b>Nonoperating Revenue (Expense):</b>			
Investment Income (Loss)	(29)	214	185
Other Interest Expense	(5)	(2)	(7)
Other Nonoperating Items	(2)	-	(2)
<b>Total Nonoperating Revenue</b>	<b>(36)</b>	<b>212</b>	<b>176</b>
<b>Income (Loss) Before Transfers</b>	<b>1,256</b>	<b>(1,292)</b>	<b>(36)</b>
<b>Transfers:</b>			
Transfers from Other Funds	115,953	13	115,966
Transfers to Other Funds	(4,710)	(1,775)	(6,485)
<b>Net Transfers</b>	<b>111,243</b>	<b>(1,762)</b>	<b>109,481</b>
<b>Increase (Decrease) in Net Position</b>	<b>112,498</b>	<b>(3,054)</b>	<b>109,444</b>
<b>Beginning Net Position</b>	<b>221,601</b>	<b>99,903</b>	<b>321,504</b>
<b>Ending Net Position</b>	<b>\$ 334,099</b>	<b>96,849</b>	<b>430,948</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 Cash Flows (Dollars in thousands)**  
**For The Year Ended June 30, 2022**

<b>Cash Flows from Operating Activities:</b>	<u>SPWF</u>	<u>WF</u>	<u>Total</u>
Payments to Employees for Services	\$ (1,654)	(750)	(2,404)
Payments to Suppliers	(97)	(26)	(123)
Payments to Other Funds for Services	(248)	(124)	(372)
Distributions to Other Governments	(901)	(3,147)	(4,048)
Other Receipts	(288)	-	(288)
Net Cash Provided (Used) in Operating Activities	<u>(3,188)</u>	<u>(4,047)</u>	<u>(7,235)</u>
<b>Cash Flows from Noncapital</b>			
<b>Financing Activities:</b>			
Principal Payments on Bonds	(2,800)	-	(2,800)
Principal Payments on Pensions	(16)	(7)	(23)
Interest Payments on Bonds	(2,416)	-	(2,416)
Interest Payments on Pensions	(5)	(2)	(7)
Transfers from Other Funds	115,950	13	115,963
Transfers to Other Funds	(4,710)	(1,775)	(6,485)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>106,003</u>	<u>(1,771)</u>	<u>104,232</u>
<b>Cash Flows from Investing Activities:</b>			
Interest on Investments and Cash Balances	821	213	1,034
Interest Income from Securities Lending	3	1	4
Interest Expense from Securities Lending	(2)	-	(2)
Loan Principal Repayments	20,621	4,319	24,940
Loan Interest Received	6,079	1,635	7,714
Loans Made	(19,046)	(848)	(19,894)
Net Cash Provided (Used) in Investing Activities	<u>8,476</u>	<u>5,320</u>	<u>13,796</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	111,290	(500)	110,790
<b>Beginning Cash and Cash Equivalents</b>	93,980	37,577	131,557
<b>Ending Cash and Cash Equivalents</b>	<u>\$ 205,270</u>	<u>37,077</u>	<u>242,347</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, 2022**

	SPWF	WF	Total
<b>Reconciliation of Operating Income to</b>			
<b>Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ 1,294	(1,504)	(210)
<b>Adjustments to Reconcile Operating Income to</b>			
<b>Net Cash Provided (Used) by Operating Activities:</b>			
Amortization of Bond Premium and Discount	(354)	-	(354)
Interest Receipts Reported as Operating Income	(6,079)	(1,635)	(7,714)
Interest Payments Reported as Operating Expense	2,416	-	2,416
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable (net)	375	(15)	360
Due from Other Funds	(686)	9	(677)
Loans Receivable	(72)	-	(72)
Net OPEB Asset	(38)	(16)	(54)
Accounts and Interest Payable	84	(122)	(38)
Due to Other Funds	(1)	417	416
Due to Other Governments	(85)	(1,170)	(1,255)
Compensated Absences Payable	4	2	6
Net Pension Liability	(658)	(288)	(946)
Net OPEB Liability	(3)	(1)	(4)
Total OPEB Liability	(5)	(2)	(7)
Increase (Decrease) in Deferred Outflow of Resources:			
Related to Pensions	(15)	(9)	(24)
Related to OPEB	1	-	1
Increase (Decrease) in Deferred Inflows of Resources:			
Related to Pensions	609	274	883
Related to OPEB	25	11	36
<b>Total Adjustments</b>	<b>(4,482)</b>	<b>(2,544)</b>	<b>(7,026)</b>
<b>Net Cash Provided (Used) in Operating Activities</b>	<b>\$ (3,188)</b>	<b>(4,047)</b>	<b>(7,235)</b>
<b>Noncash Investing and Related Financing Activities</b>			
Net Change in Fair Value of Investments	(854)	-	(854)

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

**Oregon Business Development Department, State of Oregon**  
**Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**  
**Notes to the Basic Financial Statements (Dollars in thousands)**  
**Year ended June 30, 2022**

**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 Annual Comprehensive Financial Report.

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

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

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, 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.

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

**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 \$60 and the unrestricted portion is \$430,196.

**Note 2 - Cash and Cash Equivalents**

At June 30, 2022, cash and cash equivalents consist of:

Office of the State Treasurer, Oregon Short-Term Fund (OSTF)	\$	241,122
Debt service funds held by Zions Bank, trustee		1,225
		242,347
	\$	242,347

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

Current Assets:		
Cash and Cash Equivalents	\$	241,122
Noncurrent Assets:		
Cash and Cash Equivalents – Restricted		1,225
		242,347
	\$	242,347

**Oregon Business Development Department, State of Oregon**  
**Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**  
**Notes to the Basic Financial Statements (Dollars in thousands)**  
**Year ended June 30, 2022**

**2.A - DEPOSITS**

As of June 30, 2022, the book balance of monies held in demand accounts in the OSTF was \$241,122. The bank balance was \$241,248. 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, 867 Hawthorne Ave SE, Salem, OR 97301, or from the Treasury's website at:

<https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.aspx>

The balance of money market accounts held by the Zions Bank (Oregon Bond Bank trustee) as agents for the Department totaled \$1,225. 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, 2022, the Department reported investments in SPWF of \$11,611 which includes \$1,611 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:

<https://www.oregon.gov/treasury/invested-for-oregon/Pages/Oregon-Intermediate-Term-Investments.aspx>

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

The State’s investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to OST. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in OITP are further governed by guidelines approved by the Council, establishing diversification percentages and specifying the types and maturities of investments.

**3.A - CREDIT RISK**

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

At June 30, 2022, 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, 2022, 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 was 3.66 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**

In accordance with State of Oregon investment policies, state agencies may participate in securities lending. Neither SPWF or WF have any of its own securities lending activity but were allocated a share related to the OSTF securities lending activity. As of June 30, 2022, there were no securities lending activities to disclose for the OITP. Additional information about OSTF and OITP securities lending can be found in the audited financial statements. See links previously provided above. Securities lending information is provided in the following table:

<b>Oregon Short-Term Fund (OSTF)</b>	<b>Total</b>
	<hr style="width: 100%;"/>
Securities Lending Cash Collateral	\$ 1,401
Total cash and noncash collateral	1,750
Securities on loan	1,717
Investments purchased with cash collateral	1,401



**Oregon Business Development Department, State of Oregon**  
**Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**  
**Notes to the Basic Financial Statements (Dollars in thousands)**  
**Year ended June 30, 2022**

The securities on loan from the OSTF in total included:	<u>Percent</u>
U.S. Treasury Securities	00.95
U.S. Agency Securities	26.17
Domestic Fixed Income Securities	<u>72.88</u>
	<u>100.00</u>

**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, 2022:

	July 1, 2021	Increase	Decrease	June 30, 2022	Due in one year
Bonds payable					
Principal	\$ 57,320	-	(2,800)	54,520	2,616
Premium	9,837	-	(354)	9,483	354
Total bonds payable	67,157	-	(3,154)	64,003	2,970
Compensated absences	252	5	-	257	165
Contracts, Mortgages, and Notes Payable	152	-	(24)	128	20
	<u>\$ 67,561</u>	<u>5</u>	<u>(3,178)</u>	<u>64,388</u>	<u>3,155</u>

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

Future maturities of principal and interest as of June 31, 2022:

Year(s) ending 30-Jun	Principal	Interest	Total
2023	\$ 2,970	2,451	5,421
2024	3,100	2,314	5,414
2025	3,225	2,171	5,396
2026	3,395	2,021	5,416
2027	3,545	1,862	5,407
2028-2032	17,670	6,717	24,387
2033-2037	9,790	3,286	13,076
2038-2042	5,420	1,459	6,879
2043-2047	4,445	507	4,952
2048-2052	960	71	1,031
Total	<u>\$54,520</u>	<u>22,857</u>	<u>77,377</u>

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

**Note 6 - BONDS ISSUED AND OUTSTANDING**

As of June 30, 2022, Oregon Bond Bank bonds totaling \$54,520 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 \$9,483 and bond discounts of \$0 are included in Bonds Payable as of June 30, 2022.

The following table summarizes the changes in bonds outstanding during the fiscal year ended June 30, 2022:

Series	Period	Interest	Original Issue	July 1, 2021	June 30, 2022	Increase	Decrease	Due in one year
2018A	2018-48	3.50-5.00	31,275	26,695	25,095	-	1,600	1,685
2021A	2021-51	3.00-5.00	26,260	26,260	25,285	-	975	1,030
2021B	2021-41	0.27-2.57	4,365	4,365	4,140	-	225	255
			\$61,900	57,320	\$54,520	\$ -	\$2,800	\$2,970

**Note 7 - Employee Retirement Plans**

**7.A - PLAN DESCRIPTION**

The Oregon Public Employees Retirement System (PERS) provides retirement plans for Department employees. PERS is administered by the Public Employees Retirement Board (Board), as required by ORS chapters 238 and 238A. Copies of the PERS annual financial reports may be obtained at:

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

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

The Department's employees who were plan members before August 29, 2003, participate in 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 is capped at 2.0 percent for all benefit recipients.

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

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

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

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

**7.D - PLAN RATES**

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

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

Year ended June 30	PERS	OPSRP	IAP
2022	21.03%	17.12%	6.00%
2021	20.76%	14.48%	6.00%
2020	20.76%	14.48%	6.00%

**7.E - ANNUAL PENSION COST**

The annual pension cost is the actual contribution to PERS (which equals the required contribution) plus the 6% employee contribution. The annual pension cost for the year ended June 30, 2022 and the two preceding years are:

Year ended June 30	PERS	OPSRP	IAP
2022	\$ 119	\$ 96	\$ 34
2021	117	82	34
2020	112	78	33

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

**7.F - PENSIONS**

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

**7.G - NET PENSION LIABILITY**

At June 30, 2022, the State reported a liability of \$2.9 billion for its proportionate share of the net pension liability. The Department's portion for SPWF and WF is \$1,193. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. 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. At June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual earnings on investments	\$ 112	\$ -
Changes in assumptions	299	3
Net difference between projected and actual earnings on investments	-	884
Changes in proportion and differences between contributions and proportionate share of contributions	95	45
Total (prior to post- measurement date contributions)	505	931
Net deferred outflow (inflow) of resources before contributions subsequent to measurement date	-	(427)
Contributions subsequent to measurement date	249	-
Net deferred outflow (inflow) of resources		\$ (178)

The \$249 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, 2022. 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
1st Fiscal Year	\$ (64)
2nd Fiscal Year	(73)
3rd Fiscal Year	(115)

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

4th Fiscal Year	(205)
5th Fiscal Year	30
Thereafter	-
Total	\$ (427)

**Note 8 - Other Postemployment Benefit Plans**

**8.A - PLAN DESCRIPTION**

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

**8.B - RETIREMENT HEALTH INSURANCE ACCOUNT**

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer OPEB plan which provides a payment of up to \$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 0.05% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIA benefits. The Department also contributed 0.00% 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.

**8.C - RETIREE HEALTH INSURANCE PREMIUM ACCOUNT**

The Retiree Health Insurance Premium Account (RHIPA) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension

---

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

**Oregon Business Development Department, State of Oregon**  
**Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**  
**Notes to the Basic Financial Statements (Dollars in thousands)**  
**Year ended June 30, 2022**

calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. The plan was closed to new entrants hired on or after August 29, 2003.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. The Department contributed 0.11% of PERS-covered salary for Tier One and Tier Two members to fund the normal cost portion of RHIPA benefits, respectively. The Department also contributed 0.17% 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.

**8.D - PUBLIC EMPLOYEES BENEFIT BOARD PLAN**

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

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

**8.E - NET OPEB ASSET & NET OPEB LIABILITY**

At June 30, 2022, the Department reported an asset of \$60 for its proportionate share of the net OPEB asset and net OPEB liability of \$-. The net OPEB asset and liability were measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019.

**8.F - TOTAL OPEB LIABILITY**

At June 30, 2022, the Department reported a total OPEB liability of \$33. The total OPEB liability was measured as of June 30, 2022, and was determined by an actuarial valuation as of July 1, 2021.

**Oregon Business Development Department, State of Oregon  
Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds  
Notes to the Basic Financial Statements (Dollars in thousands)  
Year ended June 30, 2022**

**Note 9 - RISK FINANCING**

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

The monies set aside by Risk Management under Chapter 278.405 of the Oregon Revised Statutes are used to service the following risks: direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees or agents; workers’ compensation; employee dishonesty; and faithful performance coverage for certain positions required by law to be covered and other key positions.

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

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

**Note 10 - COMMITMENTS**

The Department has signed contracts to fund various SPWF and WF projects. The amount of money committed but not disbursed at June 30, 2022 is:

SPWF	WF	Total
\$92,220	\$14,032	\$106,253

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

**Note 11 - LOANS 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).

<b>Current:</b>	SPWF	WF	Total
Loans and Forgivable Loans	\$ 13,802	4,491	18,293
Allowance for Forgivable Loans	-	-	-
<b>Total Current</b>	\$ 13,802	4,491	18,293

**Oregon Business Development Department, State of Oregon**  
**Special Public Works Fund (SPWF) and Water Fund (WF), Enterprise Funds**  
**Notes to the Basic Financial Statements (Dollars in thousands)**  
**Year ended June 30, 2022**

**Noncurrent:**

Loans and Forgivable Loans	\$ 169,692	50,802	220,493
Allowance for Forgivable Loans	(183)	-	(183)
Allowance for Loan Loss	-	-	-
Total Noncurrent	<u>\$ 169,509</u>	<u>50,802</u>	<u>220,310</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 Tina Kotek, Governor of Oregon  
Sophorn Cheang, Director, Oregon Business Development Department

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, Oregon Business Development Department (department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated May 1, 2023.

### 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 weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness.

### 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*.

### 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

May 1, 2023

## Schedule of Findings and Responses

### Continue to Strengthen Financial Reporting Controls

Prior to the close of the fiscal year 2022, the department experienced a significant turnover in its accounting staff, including the accounting manager. This turnover resulted in the loss of some knowledge related to the agency and its year-end closing financial reporting process and entries made. In addition, the department did not have written policies and procedures to support the year-end closing process. This turnover impacted the fiscal year 2021 audit and resulted in us reporting a significant deficiency related to the department's financial reporting process. The department has taken actions to address the 2021 finding but actions were taken after the close of fiscal year 2022.

During the current year financial audit, we identified the following errors made by the department related to its year-end close accounting processes.

- Did not record an entry to reclassify loan principal expected to be received in the next year as current loans receivable, resulting in a classification misstatement of \$18 million.
- Did not record a year-end entry to reclassify bonds payable to be paid in the next year as current, resulting in a classification misstatement of \$3 million and also did not record the bond premium amortization for the year.
- Did not record bond interest payable resulting in a \$1.2 million misstatement.
- A clearing account used for loans receivable that should have a \$0 balance at year-end had a balance. The balances were due to the department accidentally recording correcting entries for a non-SPWF or WF program in the incorrect fund.

We also identified one instance where a decision was made to record a \$287,796 grant distribution not related to SPWF in the SPWF program with the intent to correct it later. However, it was not corrected until our inquiry in March 2023.

In addition, due to the Covid pandemic the department approved loan principal and interest payment deferrals for some loans based on review of Covid payment relief request form. For two municipalities with multiple outstanding loans, the department approved via memos in 2021 requests to restructure the deferred loans by forgiving interest and reducing interest rates to 0%. The department did not timely amend the loan agreements to reflect the changes approved and were working on the amendments as of April 2023.

**We recommend** management develop and implement procedures to identify and ensure all year end closing entries are recorded in the accounting records and continue to develop written policies and procedures for financial reporting and other key accounting processes. We also recommend management timely amend loan agreements when it approves loan restructurings.



May 5, 2023

Kelly L. Olson, CPA  
Financial Audit Manager  
Secretary of State Audits Division  
255 Capitol St NE #180  
Salem, OR 97310

RE: FINDINGS RELATED TO FY2022 YEAR-END CLOSING AND FINANCIAL REPORTING,

We generally agree with the auditors' comments and would further note that in addition to the turnover in the accounting staff, the Chief Financial Officer position was also vacant for a portion of the closing period and the Accounting Manager position was vacant throughout most of Fiscal Year 2022. While vacancies do not excuse the lack of policies and documentation, substantial turnover in the last two years has made progress slow.

As of May 1, 2023, the Deputy Chief Financial Officer/Accounting Manager position has been filled by a candidate with State government experience and experience working in the Department of Administrative Services (DAS), Statewide Accounting and Reporting Services Unit. Further, all the permanent accounting positions are filled and each accounting staff member will take the year-end reporting trainings provided by DAS.

Efforts to document and cross-train key accounting functions are already underway and will be the primary focal points for the Deputy Chief Financial Officer throughout calendar year 2023. Also, Business Oregon is reviewing options to augment staffing capacity through the year to assist in documentation and financial statement reporting and may outsource the financial statement preparation for Fiscal Year 2023. Business Oregon will target a "soft close" for financial statement preparation by September 30, 2023, and utilized the financial statement preparation checklist developed by DAS as well as the notes and finding from Fiscal Years 2021 and 2022 to improve the overall process.

The process to address loan agreement modification effects multiple work units within Business Oregon. The need to enhance tracking, communication, and documentation of loan modifications will be sent to the Policy Committee for review, improvement, and implementation during calendar year 2023.

Thank you for the diligent review of Business Oregon's financial statements and practices. Please let us know if you have additional questions or concerns.

Thank you,

Monica Brown  
Chief Financial Officer