

The background of the cover features a photograph of the Oregon State Capitol building, a large, light-colored stone structure with a prominent central dome topped by a golden statue. In the foreground, there is a modern, multi-tiered fountain with water cascading over dark, angular stone blocks. The scene is set outdoors with a clear blue sky and some greenery visible in the distance.

Department of Environmental Quality Clean Water State Revolving Fund Loan Program

Enterprise Fund of the State of Oregon
For the Fiscal Year Ended June 30, 2022

November 2023
Report 2023-37



Secretary of State
LaVonne Griffin-Valade



Audits Director
Kip Memmott

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Independent Auditor's Report

The Honorable Tina Kotek
Governor of Oregon

Leah Feldon, Director
Oregon Department of Environmental Quality

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Clean Water State Revolving Fund program, an enterprise fund of the State of Oregon, Department of Environmental Quality, 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 Clean Water State Revolving Fund program, an enterprise fund of the State of Oregon, Department of Environmental Quality, 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 Department of Environmental Quality, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Clean Water State Revolving Fund program, an enterprise fund of the State of Oregon, Department of Environmental Quality and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of Environmental Quality, 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 Department of Environmental Quality's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2023, on our consideration of the Department of Environmental Quality's internal

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

Office of the Secretary of State, Audits Division

State of Oregon

November 30, 2023

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Net Position
June 30, 2022

	Loan Fund	Administration	TOTAL
Assets			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 280,068,631	\$ 2,355,816	\$ 282,424,446
Loans Receivable, Net	27,599,512	-	27,599,512
Loan Interest Receivable	1,831,904	-	1,831,904
Prepaid Expenses	-	670	670
Due From Other Funds		80,467	80,467
<i>Total Current Assets</i>	<u>309,500,047</u>	<u>2,436,952</u>	<u>311,936,999</u>
<i>Non-Current Assets:</i>			
Loans Receivable, Net	488,047,195	-	488,047,195
Loan Interest Receivable	2,537,599	-	2,537,599
<i>Total Non-Current Assets</i>	<u>490,584,794</u>	<u>-</u>	<u>490,584,794</u>
Total Assets	<u>\$ 800,084,840</u>	<u>\$ 2,436,952</u>	<u>\$ 802,521,793</u>
Liabilities and Net Position			
<i>Current Liabilities:</i>			
Accounts Payable	\$ -	\$ 10,228	\$ 10,228
Payroll Payable	-	139,472	139,472
Compensated Absences Payable	-	77,904	77,904
Bond Interest Payable	75,833	-	75,833
Bonds Payable	1,105,000	-	1,105,000
Due to Other Funds	321,625		321,625
<i>Total Current Liabilities</i>	<u>1,502,458</u>	<u>227,604</u>	<u>1,730,062</u>
<i>Non-Current Liabilities:</i>			
<i>Compensated Absences Payable</i>	-	7,188	7,188
<i>Bonds Payable</i>	5,119,423	-	5,119,423
<i>Total Non-Current Liabilities</i>	<u>5,119,423</u>	<u>7,188</u>	<u>5,126,610</u>
Total Liabilities	<u>6,621,881</u>	<u>234,792</u>	<u>6,856,672</u>
<i>Net Position:</i>			
Unrestricted	793,462,960	2,202,160	795,665,120
Total Net Position	<u>793,462,960</u>	<u>2,202,160</u>	<u>795,665,120</u>
Total Liabilities and Net Position	<u>\$ 800,084,840</u>	<u>\$ 2,436,952</u>	<u>\$ 802,521,793</u>

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

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2022

	Loan Fund	Administration	TOTAL
Operating Revenues			
Loan Interest Income	\$ 7,410,531	\$ -	\$ 7,410,531
Loan Fees	-	1,696,648	1,696,648
Operating Transfers	(1,108,623)	1,108,623	-
Total Operating Revenues	<u>6,301,908</u>	<u>2,805,271</u>	<u>9,107,179</u>
Operating Expenses			
Bond Interest	63,061	-	63,061
Principal Forgiveness on Loans	4,217,247	-	4,217,247
Salaries and Benefits	-	1,604,811	1,604,811
Services and Supplies	-	220,641	220,641
Indirect Costs	-	331,195	331,195
Total Operating Expenses	<u>4,280,308</u>	<u>2,156,646</u>	<u>6,436,954</u>
Operating Income (Loss)	<u>2,021,600</u>	<u>648,625</u>	<u>2,670,224</u>
Non-Operating Revenues (Expenses)			
Federal Grants	18,339,663	-	18,339,663
Interest Income on Cash and Cash Equivalents	1,595,905	11,966	1,607,871
Total Non-Operating Revenues (Expenses)	<u>19,935,568</u>	<u>11,966</u>	<u>19,947,534</u>
Change in Net Position	21,957,168	660,591	22,617,758
Net Position - Beginning	<u>772,201,811</u>	<u>1,541,570</u>	<u>773,743,380</u>
Prior Period Adjustments	(696,019)		
Restated Net Position - Beginning	771,505,792		
Net Position - Ending	<u>\$ 793,462,960</u>	<u>\$ 2,202,160</u>	<u>\$ 795,665,120</u>

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

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

	Loan Fund	Administration	TOTAL
Cash Flows From Operating Activities:			
Receipts from Loan Fees	\$ -	\$ 1,693,536	\$ 1,693,536
Payments to Vendors	-	(225,810)	(225,810)
Payments to Employees	-	(1,602,118)	(1,602,118)
Payments for Indirect Cost	-	(330,312)	(330,312)
Trf to Admin Fund	(1,076,918)	1,076,918	-
Net Cash Flows Provided (Used) in Operating Activities	(1,076,918)	612,214	(464,704)
Cash Flows From Noncapital Financing Activities:			
Receipts from Federal Grants	18,307,958	-	18,307,958
Principal Payments on Bonds	(860,000)	-	(860,000)
Interest Payments on Bonds	(143,250)	-	(143,250)
Net Cash Provided (Used) in Noncapital Financing Activities	17,304,708	-	17,304,708
Cash Flows from Investing Activities:			
Receipts from Treasury Interest Credits	1,595,905	11,966	1,607,871
Repayments from Loan Interest	8,164,250	-	8,164,250
Repayments from Loan Principal	31,516,486	-	31,516,486
Disbursements to Borrowers	(64,213,065)	-	(64,213,065)
Net Cash Provided (Used) in Investing Activities	(22,936,424)	11,966	(22,924,457)
Net Increase (Decrease) in Cash and Cash Equivalents			
	(6,708,634)	624,181	(6,084,453)
Cash and Cash Equivalents, Beginning	286,777,264	1,731,635	288,508,899
Cash and Cash Equivalents, Ending	280,068,630	2,355,816	282,424,446

(Continued on next page)

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

(Continued from previous page)

	Loan Fund	Administration	TOTAL
Reconciliation of Operating Income to Net Cash Provided (Used) in Operating Activities:			
Operating Income (Loss)	2,021,600	648,625	2,670,224
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) in Operating Activities:			
Loan Interest Receipts Reported as Operating Revenue	(6,498,079)	-	(6,498,079)
Bond Interest Payments Reported as Operating Expense	142,850	-	142,850
Bad Debt Expense Reported as Operating Expense	-	-	-
Principal Forgiveness Expense Reported as Operating Expense	4,217,247	-	4,217,247
Amortization of Bond Discount	-	-	-
Amortization of Bond Premium	(187,272)	-	(187,272)
Net Changes in Assets and Liabilities:			
Loan Interest Receivable	(753,721)	-	(753,721)
Accounts Payable	-	(1,422)	(1,422)
Payroll Payable	-	(644)	(644)
Due To Other Funds	-	(39,180)	(39,180)
Due From Other Funds			
Bond Interest Payable	(19,542)	-	(19,542)
Compensated Absences Payable	-	4,837	4,837
Total Adjustments	(3,098,517)	(36,409)	(3,134,926)
Net Cash Provided (Used) in Operating Activities:	\$ (1,076,917)	\$ 612,216	\$ (464,702)

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

Notes to the Basic Financial Statements - Enterprise Fund June 30, 2022

1 Summary of Significant Accounting Policies

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

1.1 Reporting Entity

The Oregon Clean Water State Revolving Fund (CWSRF) was established pursuant to Oregon Revised Statutes 468.423 – 468.440 and the 1987 amendments to the federal Clean Water Act. The purpose of CWSRF is to provide low interest loans to local governments for the planning, design and construction of wastewater treatment facilities, implementation of nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 30 years, and all repayments, including interest and principal, must be credited to the CWSRF.

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

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

In FY2022, Oregon DEQ used its 4% administrative allowance from the EPA Capitalization Grant. The 4% administrative allowance was used to cover costs incurred for management of the CWSRF program and for management of projects receiving financial assistance from the CWSRF. The Program will assess the need to continue using the administrative allowance in subsequent years.

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

1.2 Basis of Presentation – Fund Accounting

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

1.3 Measurement Focus and Basis of Accounting

The basic financial statements for the Fund are presented as an Enterprise Fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual basis of accounting, in accordance with state policy (OAM 15.40.00). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flow. All revenues and expenses of the Fund are considered to be operating revenues and operating expenses, with the exception of federal grant income and interest income, which are considered to be non-operating revenue. All assets and liabilities associated with the operations of the Fund are included on the Statement of Net Position.

1.4 Cash and Cash Equivalents

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

1.5 Loans Receivable/Bonds Receivable

Loans and bonds are funded by federal capitalization grants, state matching funds, loan repayments and fund earnings. The CWSRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the project is complete, repayment begins with an interest only payment. Loans and bonds are fully amortized to assure full repayment by the loan or bond maturity date.

DEQ has been required, under the terms of several grant awards from EPA, to offer additional subsidization to certain borrowers. DEQ has chosen to offer this subsidization in the form of principal forgiveness and has implemented this in administrative rule (OAR 340-054-0065). Loans Receivable are stated net of the allowance for principal forgiveness.

1.6 Long-Term Obligations

Long term obligations of the Fund consist of bonds issued to provide the required State matching funds for the federal capitalization grants, and the non-current portion of compensated absences. Bonds issued on behalf of the CWSRF are reported on the Statement of Net Position, net of the related premium or discount. Bond premium and discount are amortized over the life of the bond issues. Bond premium and

discount are reported in the Statement of Revenues, Expenses and Changes in Fund Net Position as bond interest expense.

1.7 Compensated Absences

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

2 Cash and Cash Equivalents

On June 30, 2022, the book balance of cash and cash equivalents was \$282,424,446 and the bank balance was \$282,472,709. All cash in the Fund is deposited in demand accounts with the State Treasurer in the Oregon Short-Term Fund (OSTF), a cash and investment pool for use by all state agencies.

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

Further details of the investments and a copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 867 Hawthorne Ave. SE, Salem, Oregon 97301 or located at the following web site: <https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.aspx>

3 Loans Receivable

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate (ORS 468.440). Interest rates vary depending on the length of the loan, the type of loan, and program rules (OAR 340-054). Rates range from 25% of the bond rate for 5-year loans to 55% of the bond rate for 30-year loans. Recipients make semiannual or, in some cases, annual payments, and must begin loan principal and interest repayments within one year of the date the facility is operationally complete and ready for the purpose it was planned, designed, and built or the project is completed, as determined by DEQ. There is an allowance account for that portion of loan disbursements that will not be repaid due to principal forgiveness offered to some borrowers. Principal forgiveness is offered to some borrowers, based on criteria in administrative rule, to comply with a requirement included in DEQ's grant agreement with EPA. There is no additional allowance account, because Fund management believes all existing borrowers will pay as agreed. The detail of loans receivable as of June 30, 2022, is as follows:

Loans Receivable	\$522,138,271
Less: Allowance for Doubtful Accounts	<u>(\$6,491,564)</u>
Net Loans Receivable, 6/30/2022	<u>\$515,646,707</u>

4 Bonds Payable

In July 2003 EPA agreed to the use of the CWSRF Fund assets to pay the principal and interest on general obligation bonds that were previously issued by the State to provide the 20 percent state matching

funds as required by the Clean Water Act. The following table summarizes bonds with activity during Fiscal Year 2022:

Original Issue

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

Bonds Outstanding

Series	Balance 7/01/2021	Increases	Decreases	Balance 6/30/2022	Due Within One Year
2012A	\$ 3,015,000	\$	\$ 195,000	\$ 2,820,000	\$ 205,000
2013A	1,415,000		450,000	965,000	470,000
2015A	2,265,000		410,000	1,855,000	430,000
Total	\$ 6,695,000	-	\$ 1,055,000	\$ 5,640,000	\$ 1,105,000

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

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

Year Ending 6/30/2022	Bond Principal	Bond Interest	Total Debt Service
2023	\$ 1,105,000	\$ 215,875	\$ 1,320,875
2024	1,165,000	159,125	1,324,125
2025	705,000	112,375	817,375
2026	740,000	76,250	816,250
2027	250,000	54,000	304,000
2028-2032	1,375,000	150,525	1,525,525
2033	300,000	4,500	304,500
Totals	\$ 5,640,000	\$ 772,650	\$ 6,412,650

5 Changes in Long-Term Liabilities

The liability for compensated absences is calculated based on the vacation accrual at June 30, 2022 for each employee whose duties include CWSRF related activities. Bonds payable includes amounts payable on bonds issued to benefit the CWSRF fund and includes the unamortized amounts of bond discount or premium.

The long-term liability activity for the year ended June 30, 2022, was as follows:

	Beginning Balance 07/01/2021	Increases	Decreases	Ending Balance 06/30/2022	Due Within One Year
Bonds Payable	\$ 6,695,000	\$ -	\$ 1,055,000	\$ 5,640,000	\$ 1,105,000
Issuance Premium	771,695		\$ 187,272	\$ 584,423	
Issuance Discount	-			\$ -	
<i>Total Bonds Payable</i>	7,466,695		1,242,272	6,224,423	1,105,000
Compensation Absences	80,255	4,836		85,091	77,903
Total Long Term Liabilities	\$ 7,546,950	\$ 4,836	\$ 1,242,272	\$ 6,309,514	\$ 1,182,903

6 Loan Fees

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

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

7 Employee Retirement Plan

Plan Description

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

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

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2022, for state agencies general service members were: 21.03% for Tier One/Tier Two and 17.12% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by members.

Employer contributions for the fiscal year ended June 30, 2022, were \$19,543 for Tier One/Tier Two and \$186,084 for OPSRP. Member contributions for the fiscal year ended June 30, 2022, were \$70,792.

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

At June 30, 2022, the State reported a liability of \$2.9 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset 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. Certain component units are considered by the pension plan to be part of the State. The State determined those component units' proportionate share of the net pension liability and allocated it to them. At the June 30, 2021, measurement date (MD), the State's proportionate share, excluding those component units, was 24.2% which is 1.2% higher than the proportion of 23% at the prior measurement date of June 30, 2020. Each governmental fund, excluding the debt service funds, is responsible for liquidating the liability not reported in the proprietary funds.

The Fund's portion of the net pension liability was not specifically identified. See Note 14. Employee Retirement Plans, in the State of Oregon Annual Comprehensive Financial Report (ACFR), for more detail.

8 Other Postemployment Benefit Plans

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

Retirement Health Insurance Account

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple employer OPEB plan which provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: 1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more creditable service in PERS, 2) receive both Medicare Parts A and B coverage, and 3) enroll in a PERS-sponsored health insurance plan.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year end June 30, 2022, was 0.05% for Tier One and Tier Two, 0% for OPSRP General Service Members. Combined employer contributions for the years ended June 30, 2022, 2021 and 2020, was approximately \$708, \$504, and \$5,470 respectively, equal to the required contributions each year.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (RHIPA) is a single employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and the health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy

if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service but are not eligible for federal Medicare coverage.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each employee's covered salary for the fiscal year ended June 30, 2022, was 0.28% for Tier One and Tier Two and 0.17% for OPSRP General Service. The Fund's actual contribution for the year ended June 30, 2022, 2021 and 2020 was approximately \$7,787, \$5,544 and \$4,999, respectively, which was equal to the actuarial required contribution.

Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is a single-employer plan which offers medical, dental and vision benefits to eligible retired employees. Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

The State of Oregon's liability for the primary government was \$92.8 million for the fiscal year ended June 30, 2022, and was determined by an actuarial valuation as of June 30, 2021. The Fund's portion of this liability was not specifically identified.

9 Commitments

As of June 30, 2022, the CWSRF has active loan agreements in the amount of \$260,589,006 and has disbursed a total of \$122,517,860 in cash to these borrowers. The amount of undisbursed loan commitments is \$138,071,146.

10 Risk Financing

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible. The monies set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty

- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

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

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

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

11 Prior Period Adjustments

Principal forgiveness expense and allowance was not recognized at the time of initial disbursement on two loans made in a prior period. Adjustments were made to move the related expenses and recognize forgiveness expense and allowances for all disbursements in fiscal year 2022.

12 Subsequent Events

Potential financial and economic impact of the COVID-19 pandemic are still being continually assessed during fiscal year 2023.

On September 6, 2022, the federal fiscal year 2022 capitalization grant from EPA was awarded in the amount of \$13,071,000. This amount provides additional capital funding for the CWSRF program.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable Tina Kotek, Governor of Oregon
Leah Feldon, Director, Oregon Department of Environmental Quality

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Clean Water State Revolving Fund program, an enterprise fund of the State of Oregon, Department of Environmental Quality (department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Clean Water State Revolving Fund program's basic financial statements, and have issued our report thereon dated November 30, 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. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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
November 30, 2023

About the Audit

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

Audit team

Teresa Furnish, CISA, Deputy Director

Michelle Searfus, CPA, Audit Manager

Tyler Folska-Fung, CPA, Lead Auditor

Joshua Ebert, Staff Auditor

About the Secretary of State Audits Division

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



Secretary of State
LaVonne Griffin-Valade



Audits Director
Kip Memmott

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