



## **Department of Environmental Quality**

# **Annual Financial Update to the Environmental Quality Commission**

**June 09, 2016**

# Executive Summary

The 2005 legislature directed the Department of Administrative Services and the Legislative Fiscal Office to develop a measure for boards and commissions having governance oversight to use in evaluating their own performance. Because the EQC is included in the Department of Environmental Quality's budget and because it hires DEQ's executive director, DAS and LFO deemed the EQC to have governance oversight and identified it as one of the boards and commissions that should have a performance measure.

On December 14, 2006, the EQC adopted the "percent of total best practices met by the commission" as the performance standard. The measure is an annual self-assessment against 15 best practices for boards and commissions, as laid out by DAS and customized to the EQC.

Three of the 15 best practices are financial management practices measures that rely on the Agency reporting to Commission on a periodic basis. This Annual Financial Update consolidates reporting into a single periodic report that covers audits, on-going compliance, and key financial indicators.

## I. Audit Highlights/Summary

The financial audits conducted by the Oregon Secretary of State's Office have concluded that the Department's selected financial accounts were fairly stated in accordance with generally accepted accounting principles in relation to the statewide financial statements. Division of Audits also completed the compliance and financial statement audit of the Clean Water State Revolving Fund (CWSRF). CWSRF is substantially in compliance with federal regulations.

## II. State Economic Forecast Summary

The [March 2016 update](#) to the Oregon state economic forecast indicates the state of Oregon continues to grow in both the economy and jobs. The growth, which original started out in the Portland Metro area has spread to other parts of the state. The expected job growth is strong at 3%, in recent history the only comparable gains are in the mid 1990's. Tax revenues continue to grow along with the growing economy. In the last 6-12 months, Lottery revenues began to show growth, however the state economist is uncertain as to whether this will continue or is a one event with the roll out of new terminals.

The ten-year projection in the growth of state revenues from General and Lottery funds is expected to face considerable downward pressure as the baby boom population cohort works and spends less. General funds revenues are expected to increase 8.2% in 2017-19, 10.1% in 2019-21, followed by 9 to 10% in subsequent biennia. That growth is based on continued economic health, without the downward impact of a recession, if one were to occur. Even at the projected rate of revenue growth, revenues are expected to only keep pace with, or be slightly outpaced by, the growth in the cost of delivering the current set of state government services.

The Commission will be continue to be briefed on the budget development process regularly in the coming months, including the completion of a more detailed briefing on the 2017-19 Agency Request Budget at the next commission meeting, so that information will not be repeated within this report.

### **III. Internal DEQ Financial Highlights**

After the 2008 recession, DEQ revenues declined and flattened out. In response DEQ reduced its legislative budgets, from 790 full time equivalent staff in the original DEQ 2009-11 legislative budget, down to 711 FTE in 2011-13 legislative budget and then to 705 FTE for 2013-15. The Legislatively Adopted Budget for 2015-17 finally reversed that trend with a rise back to 723 FTE. During the February 2016 session, additional funding for activities, including the Cleaner Air Oregon initiative, raised that number to 730 FTE.

At the start of the 2015-17 biennium, DEQ reevaluated the affordable staffing level for the biennium and, adding in the addition funding from the February 2016 session, brought the planned level down to 667 FTE in the DEQ budget execution plan, with detailed affordability levels for each of the agencies main activities, which we call operating subprograms.

The Key Financial Information indicates that the budget execution plan for DEQ is on solid ground and the Department's cautionary practices will ensure that finances will be appropriately managed during the 2015-17 biennium. That assessment doesn't translate directly to program operations, where the ongoing economic uncertainty, reduced fee receipts, and long term shortage of funding at the state level continue to impact the Department's ability to fully deliver its environmental services.

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## **I. Audits**

Detailed audit reports from the Secretary of State's office are sent directly to the Environmental Quality Commission and the DEQ Director at the time of issuance. For those reports already issued, the findings are summarized in this section.

### **A. Completed Audits**

#### **1. Secretary of State Annual Statewide Financial Audit FY2015**

The Secretary of State annual statewide financial audit report issued for the year ending June 30, 2015 concluded that for the segment of the financial accounts audited were fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements (CAFR). There were no major findings or reportable conditions.

#### **2. Secretary of State Opinion Audit of Financial Statements and Internal Controls for Capitalization Grants for the Clean Water State Revolving Fund (CWSRF) for FY2014**

The auditors concluded that CWSRF's financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America. No deficiencies were noted in internal control over financial reporting.

#### **3. EPA Program Evaluation Report for Oregon's Clean Water State Revolving Fund (FY 2012):**

EPA determined that DEQ has an effective CWSRF program and demonstrates continuing commitment to its success and improvement. Their review noted two items that needed additional attention: comparing the Davis Bacon federal wage determination with wages actually paid at one project and developing a fee account protocol to ensure proper deposits of fee payments.

#### **4. EPA Program Evaluation Report for Oregon's Clean Water State Revolving Fund (FY 2013):**

EPA determined that DEQ has an effective CWSRF program and demonstrates continuing commitment to its success and improvement. Their review noted that item from FY2012 concerning developing a fee account protocol to ensure proper deposits of fee payments had only been partially resolved and still needed attention.

### **B. Audits Currently Underway**

1.

#### **2. Secretary of State Opinion Audit of Financial Statements and Internal Controls for Capitalization Grants for the Clean Water State Revolving Fund (CWSRF) for FY2015**

**C. Audit Plan for FY2016 and Beyond**

- 1. Annual Secretary of State Financial Audits.**
- 2. Annual Secretary of State Opinion Audit of CWSRF financial statements.**

## II. Compliance and Monitoring

In the execution of its daily financial operations and on-going financial planning and control, DEQ:

- Employs adequate internal controls such as segregation of duties, signature authority processes, graduated procurement authorization, determination of affordability prior to filling positions, etc.;
- Monitors all relevant state and federal accounting requirements to ensure on-going compliance;
- Accounts at fund levels consistent with statutory limits;
- Employs detailed cost and time accounting systems to capture staff time and related costs; and
- Monitors actual costs against legislative adopted budget and operating budget plans.

The results of these efforts on an Agency wide basis are contained in the detailed audit reports sent to the EQC and summarized in the Audit section of this report. The monitoring to assess the financial management controls and health of the subprogram units is summarized in the Key Financial Information section of this report.

Because DEQ sells municipal bonds, it is required to publicly post an annual financial report that provides basic financial statements and supplemental information to meet public disclosure laws. The [DEQ FY 2015 Annual Financial Report](#) is posted on the Electronic Municipal Market Access (EMMA) website run by the Municipal Securities Rulemaking Board.

### III. Key Financial Information

As discussed in the Compliance and Monitoring section, the department uses numerous accounting and cash management tools to manage the day-to-day financial operations of the agency. For longer term financial planning, usually tied to the state biennial budget period, the department uses two principal tools for planning and executing the budgets: the Operating Budget and periodic forecasts.

The Operating Budget is DEQ's budget execution plan, prepared at the beginning of the biennium by updating the Legislatively Approved Budget with current revenue and cost estimates, assessing the planned workload in each activity, and calculating the surplus or deficit in funding balances expected at the end of the biennium. For activities that are estimated to run a deficit ending balance, or have a positive ending balance that is significantly below that required for ongoing cash management requirements, the program then adjusts the Operating Budget to try to bring ending balances back into alignment. Adjustments can include:

- Reallocating fungible general fund or federal grant funds between activities
- Shifting staff assignments out of underfunded activities and into activities with available funding
- Identifying positions that must be maintained vacant for the all or part of the biennium
- Revising/reducing planned capital outlay and contract expenditures
- In extreme cases, laying off staff

Following completion of the Operating Budget, the department develops a forecast every six months to continue monitoring execution of the budget. These forecasts combine the detailed, actual to date spending and revenues with a forecast for the remainder of the biennium. The forecast updates projected staffing levels and other spending plans, followed by another round of adjustments or mid course corrections to bring each activity into alignment with desired ending fund balances. The department prepares more frequent forecast updates (every three months) for those activities requiring corrective actions.

This schedule means that the key financial information presented in this section will vary depending on the year of the report. The first report of the biennium, delivered in even numbered years, provides a summary of the department's Operating Budget execution plan. The second report, delivered in odd numbered years, covers the forecast 18 months into the current biennium.

The Key Financial Information reports that follow provide a high level summary of the Operating Budget status, including a comparison of FTE levels from the Legislative Approved Budget (LAB), the Operating Budget, and the first nine months of the biennium. The reports also provide a stoplight chart assessment of the financial status of the Operating Budget for each subprogram unit, with the rating based principally on the projected ending balance in the plan at the end of the 2015-17 biennium:

- a. Green (good, within acceptable limits)
- b. Yellow (caution)
- c. Red (danger, requires action)

The stoplight ratings help alert management to activities requiring extra attention, and DEQ procedure is to increase monitoring frequency on red rated subprogram units, including forecasts every 3 months instead of the usual 6-month interval. While an operating subprogram forecasted to have a deficit is always cautionary, some of DEQ's activities that are funded by

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fees or other funds must maintain minimum balances for cash management purposes. In those cases, an operating subprogram that is forecast to have a positive cash balance at the end of the biennium may still be assessed as yellow (caution) or red (requires action) if that positive balance is insufficient to meet ongoing cash management needs in the 2015-17 biennium.

In developing the Operating Budget for the 2015-17 biennium, DEQ management and financial staff completed the initial evaluation in November 2015, but noted that some funding uncertainties continued to exist regarding potential pay raise spending authority (limitation) and General Fund appropriation and a final determination as to the amount of assessment to state agencies for the creation of a Chief Information Office independent of DAS. The expectation was that these items would be addressed in the February 2016 session. Pay raise limitation and general fund was approved, and the agency received additional funding not anticipated in the operating budget for Harmful Algal Blooms, an On-Site loan program, and the new Cleaner Air Oregon initiative. The assessment for the state CIO, however, was postponed to at least the May 2016 Emergency Board.





At the agency summary level, the operating budget column represents the estimated level of affordable FTE at 667 FTE, which is 63 FTE below the Legislatively Approved Budget. Actual FTE averaged 624 for the first nine months of the biennium, impacted in part by an increase in the number of departures from the agency, many driven by retirement, coupled with some cautionary practices in certain activities that can't afford additional hiring. .

One key in understanding the stoplight assessment of each DEQ operating subprogram is that the rating *only assesses the financial health* of the Operating Budget execution plan for the 2015-17 biennium. The stoplight assessment and the affordable levels of FTE do not indicate the ability or inability of the specific operating subprograms to adequately meet program objectives, timeliness, or key performance measures.

DEQ also will not typically allow the Operating Budget execution plan to be finalized with a red summary rating, since creating a workable 2015-17 execution plan for each activity is a key goal of the process. As a result, only a very small number of operating subprograms have yellow, or cautionary, ratings and no activity is shown as red. The entirety of the agency management program was set to a yellow rating, since the Operating Budget required maintaining a fairly high level of vacancies just to attain a projected ending balance that would be marginal for good cash management practices and ensure that the program start the 2017-19 budget development process with sufficient reserves. Agency Management adopted a go slow approach to hiring and early forecast information indicates that the projected ending balancing is increasing into the green zone.

Detailed information can be provided to the Commission on any or all of the Subprogram units. The Department also welcomes any suggestion for future changes so that this report can better meet the needs of the Commission.

## A. Agency Summary Report

		Qualitative Affordability	Legislative Adopted Budget	Operating Budget	Actuals Avg. (Jul15 -Mar16)	
		FTE			NOTES	
Air Quality Total		232.21	214.54	199.38		
Water Quality Total		223.92	208.95	203.03		
Land Quality Total		187.85	167.41	152.11		
Agency Management		86.20	76.29	69.10	Operating budget ending balance is \$700K less than needed for 17-19 beginning balance	
<b>Agency Total</b>		730.18	667.19	623.62		

The operating budget column represents the estimated level of affordable FTE, which is 63 FTE below the Legislatively Approved Budget. Actual FTE averaged 624 for the first nine months of the biennium.

## B. Air Quality Operating Budget Report

	Qualitative Affordability	Legislative Adopted Budget	Operating Budget	Actuals Avg. (Jul15-Mar16)	
		FTE			NOTES
ACDP Permits	🟡	29.70	30.44	26.04	ACDP sources continue to require more work than normal - construction permits, nuisance issues, inspections of metals emitting facilities, technical support of health-based rule development and source specific air toxics work will increase FTE levels and we will likely miss the ending balance target in this program.
Title V Permits	🟢	35.64	24.58	23.90	More work associated with other programs this biennium.
Area/Mob OF	🟢	1.50	1.43	1.00	Includes OR Low Emission Vehicle program and the Tanker Certification program. Slow start to the biennium but work on both programs has increased to near operating budget levels in the past few months.
Area Mobile GF/FF/Agency-Wide Infrastructure	🟡	36.98	37.82	29.21	Work includes: air toxics planning and monitoring, clean fuels program, climate policy work, open burning and general air quality complaints and a portion of criteria pollutant monitoring, planning and technical support and agency and program administration. High costs for the response to the Portland metals crisis will require careful management of expenditures.
Asbestos	🟢	7.73	7.92	8.98	SB 705 and the associated rules have increased FTE. The program has a sufficient balance to pay for the additional FTE.
GHG Reporting	🟢	2.00	2.02	1.27	A vacant position is currently being recruited and will bring the program in line with the operating budget for the biennium.
Special Federal Grants	🟢	7.86	7.56	7.81	Includes fine particulate and air toxics monitoring grants and administration of diesel grants. Laboratory overhead charges are more than the amounts provided by the federal monitoring grants. Must subsidize this operating subprogram with GF.
Revenue Agreements	🟢	1.19	0.35	0.27	Includes agreements for Forest Service/BLM monitoring and field burning monitoring (seasonal).
Vehicle Inspection	🟢	109.61	102.42	100.90	VIP FTE running close to operating budget.
<b>Air Quality Total</b>		232.21	214.54	199.38	

### Subprogram Unit Summaries:

The Operating Budget Execution Plan for all Subprogram units is currently within acceptable financial limits for 2015-17, with implementation for the first 9 months of the biennium under planned for most units.

The discovery of high metals emissions near two Portland area glass manufacturers has had a dramatic impact on Air Quality spending for crisis response. While the Legislature provided \$2.5 million in new funding for new work, the agency is spending a portion of the new money for crisis response costs. Costs will have to be closely monitored going forward.

## C. Water Quality Operating Budget Report













		Qualitative Affordability	Legislative Adopted Budget	Operating Budget	Actuals Avg. (Jul15 - Mar16)
		FTE			NOTES
Wastewater Permitting	●	71.17	67.67	65.60	Under implementing primarily due to turnover and phasing in new positions. The program has recently filled several vacancies and is recruiting for others.
WQ Operator Certification	●	2.34	2.27	2.24	
TMDL & Oregon Plan	●	34.38	27.82	25.68	Close to fully implementing operating budget when paired with NPS Implementation.
WQ Ambient Monitoring	●	29.20	31.66	26.96	Close to fully implementing operating budget when paired with Groundwater.
WQ Program Support	●	12.00	9.27	10.46	
WQ Data Management	●	5.00	3.63	3.14	
WQ Standards & Assessments	●	8.64	6.60	5.59	
Ground Water	●	6.85	6.46	9.17	Close to fully implementing operating budget when paired with WQ Ambient Monitoring.
401 Certification-Dredge & Fill	●	5.10	5.53	5.71	Fee revenues have fallen far short of expectations. The program is endeavoring to better assign new applications to the fee tiers originally envisioned when the fee table was designed.
401 Certification - Hydro	●	3.05	1.85	2.01	
CW State Revolving Fund Administration	●	15.26	14.89	13.11	
DW Assessments & Implementation	●	5.15	4.60	4.09	
On-Site Systems Permitting	●	12.66	12.92	12.51	
Underground Injection Control	●	2.00	1.80	2.69	Actuals reflect short-term special assignment that has ended.
NPS Implementation 319 Grants	●	5.15	7.62	8.86	Close to fully implementing operating budget when paired with TMDL & Oregon Plan
DW & Laboratory Certification	●	0.65	0.31	0.55	
Receipts Authority	●	5.33	4.05	4.64	
<b>Water Quality Total</b>		223.92	208.95	203.03	

**Subprogram Unit Summaries:**

The Operating Budget Execution Plan for all Subprogram units is currently within acceptable financial limits, with implementation for the first 9 months of the biennium under planned for most units.

Fee revenues falling far below projection have resulted in the 401 Dredge and Fill activity being assigned a yellow (cautionary) rating, and the program is currently reviewing the application of a new fee structure to determine if it is being properly implemented.

## D. Land Quality Operating Budget Report

		Qualitative Affordability	Legislative Adopted Budget	Operating Budget	Actuals Avg. (Jul15 - Mar16)	
			FTE			NOTES
Materials Management		54.45	47.55	38.79		FTE is below operating budget due to slower than projected hiring for new positions.
Materials Management - e-Cycles		2.84	1.72	1.34		
Hazardous Waste		26.19	26.59	25.99		Fully staffed program will erode fund balances. Anticipate need for additional revenue by 19-21
Orphan - Cleanup		2.75	2.59	3.28		
Orphan - SW		0.20	0.14	0.12		
Cleanup - Dry Cleaners		1.95	2.06	1.93		Fund balance is healthy, however declining revenues due to decline of industry will curtail cleanups if more revenue is not generated.
Cleanup - Non-Dedicated		56.76	49.17	45.95		Operating budget continues to be implemented at a level that sustains funding through cost recovery projects.
Cleanup - Dedicated		0.55	0.00	0.00		
Spills		12.10	11.41	11.45		Most spills funds are healthy. Spills preparedness and response erodes cleanup fund balances by \$1 million per year. Two positions were vacated to preserve fund balance.
Tanks - LUST		15.57	13.49	11.15		Positions held vacant due to pending decisions about workload.
Tanks - UST		10.84	9.19	8.86		Revenue is critically low. The program is beginning to be out of compliance with EPA agreements. Without additional funding the situation will worsen and DEQ may lose federal delegation.
Tanks - Heating Oil		3.65	3.50	3.25		Revenues have recovered since recession. Program is fully staffed.
<b>Land Quality Total</b>		187.85	167.41	152.11		

### Subprogram Unit Summaries:

The Operating Budget Execution Plan for all Subprogram units is currently within acceptable financial limits for 2015-17, with implementation for the first 9 months of the biennium under planned for most units.

The primary differences between the Legislatively Adopted Budget and Operating Budget FTE are full positions in the LAB the program intends to hire on a staggered schedule and inadequate funding to fully implement the LAB due to lack of funding. In most Land Quality Subprogram units the operating budget is almost fully implemented. In Materials Management the initial hiring schedule proved unrealistic. UST is operating at a significantly reduced level because funding is inadequate to implement the operating budget.




## E. Agency Management Operating Budget Report

	Qualitative Affordability	Legislative Adopted Budget	Operating Budget	Actuals Avg. (Jul15-Mar16)	
		FTE			NOTES
Office of the Director (w/ OPA)	●	8.00	6.83	7.03	OD actuals high because mgmt can chg more than 1 FTE per month. OPA on target
Administration	●	16.40	15.10	12.10	Vacancies will be filled by Sept. 2016
Financial Services	●	27.00	24.61	19.97	Operating well below OpBud levels, with five current vacancies in addition to two retirements in
Human Resources	●	6.50	7.24	6.21	Operating below OpBud levels
Information Technology	●	14.00	11.58	11.52	Operating at OpBud levels
SDI	●	13.00	9.30	10.05	SDI is under implementing OpBud by 2 FTE overall
AM All	●	1.30	1.63	2.22	Charges from people outside of AM, Union, Rules, Tribal & OCO, plus misc.
Agency Management	●	86.20	76.29	69.10	

### Subprogram Unit Summaries:

The Operating Budget Execution Plan for all Subprogram units resulted in an ending balance that was \$700K short of desired target for the start of the 2017-19 budget cycle, and hence all activities within the program were assigned a Yellow cautionary watch. Implementation for the first 9 months of the biennium is under planned levels for most units, which improves the ending balance outlook. AM will continue to closely monitor ending balance projections as it develops its 2017-19 Agency Request Budget.



# Oregon Department of Environmental Quality

*An Agency of the State of Oregon*



## Annual Financial Report

For the Fiscal Year Ended  
June 30, 2015

*Report Prepared By:*  
Central Services Division

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**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
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## FINANCIAL SECTION

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include interrelated sets of financial statements as required by the Governmental Accounting Standards Board (GASB). The sets of statements include:

- Fund Financial Statements
  - Governmental Funds
  - Proprietary Funds
  - Fiduciary Funds

The Oregon Department of Environmental Quality (Department) is an Agency of the State of Oregon and therefore is not required to present the Government-Wide Financial Statements. These statements are presented in the State of Oregon's Comprehensive Annual Financial Report (CAFR). The notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY  
FUND FINANCIAL STATEMENTS  
GOVERNMENTAL FUNDS**

**General Fund**

The General Fund accounts for all activities not accounted for by other funds of the Department. Its principal source of revenue is a legislatively approved appropriation funded from general revenues, which is used for payment of Agency expenditures.

**Environmental Management Fund**

The Environmental Management Fund accounts for revenue from licenses and fees, grants, lottery, interest, agreements and other miscellaneous sources. Certain grant revenues are passed through to sub-recipients. Other revenues are used for the payment of Agency expenditures.

**General Obligation Debt Service Fund**

The General Obligation Debt Service Fund was created to service the debt related to the Clean Water State Revolving Loan Program. The debt is backed by the State of Oregon.

REGON DEPARTMENT OF ENVIRONMENTAL QUALITY  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2015

	General	Environmental Management	General Obligation Bond	Total Governmental Funds
<b>Assets</b>				
Cash and Cash Equivalents	\$ -	\$ 286,512,511	\$ 1,838,314	\$ 288,350,825
Accounts and Interest Receivable (net)	27,874	4,008,851	-	4,036,725
Due from State of Oregon General Fund	2,050,564	-	-	2,050,564
Due from Other Funds	-	622,243	-	622,243
Due from Other Agencies	-	642,689	-	642,689
Inventories	483,532	1,644,556	-	2,128,088
Prepaid Items	13,827	55,922	-	69,749
Civil Penalties (net)	280,818	1,380,622	-	1,661,440
Loans Receivable (net)	-	406,348,430	-	406,348,430
<b>Total Assets</b>	<b>\$ 2,856,615</b>	<b>\$ 701,215,824</b>	<b>\$ 1,838,314</b>	<b>\$ 705,910,753</b>
<b>Liabilities, Deferred Inflows, and Fund Balances</b>				
Liabilities:				
Accounts Payable	\$ 1,456,195	\$ 1,671,084	\$ -	\$ 3,127,279
Due to Other Funds	622,243	-	-	622,243
Due to Other Agencies	-	4,044,979	-	4,044,979
Due to State of Oregon General Fund	280,818	-	-	280,818
Trust Funds Payable	-	618,741	-	618,741
Unearned Revenue	-	305,273	-	305,273
<b>Total Liabilities</b>	<b>2,359,256</b>	<b>6,640,077</b>	<b>-</b>	<b>8,999,333</b>
Deferred Inflows of Resources:				
Unavailable Revenue	-	1,380,622	-	1,380,622
<b>Total Deferred Inflows of Resources:</b>	<b>-</b>	<b>1,380,622</b>	<b>-</b>	<b>1,380,622</b>
Fund Balances:				
Nonspendable	497,359	1,710,478	-	2,207,837
Restricted by:				
Federal Laws and Regulations	-	574,829,790	-	574,829,790
Oregon Constitution	-	510,039	-	510,039
Enabling Legislation	-	49,208,253	-	49,208,253
Debt Covenants	-	50,913,548	1,838,314	52,751,862
Donors and Other External Parties	-	40,370	-	40,370
Committed	-	15,982,647	-	15,982,647
<b>Total Fund Balances</b>	<b>497,359</b>	<b>693,195,125</b>	<b>1,838,314</b>	<b>695,530,798</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 2,856,615</b>	<b>\$ 701,215,824</b>	<b>\$ 1,838,314</b>	<b>\$ 705,910,753</b>

## GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

	General	Environmental Management	General Obligation Bond	Total Governmental Funds
<b>Revenues:</b>				
Licenses and Fees	\$ -	\$ 42,767,659	\$ -	\$ 42,767,659
Federal Grants	-	29,226,780	-	29,226,780
State Funding	16,565,469	-	-	16,565,469
Interest on Cash & Cash Equivalents	-	1,230,790	9,516	1,240,306
Interest on Loans Receivable	-	10,538,632	-	10,538,632
Charges for Services	-	9,075,445	-	9,075,445
Other Revenue	4,737	844,323	-	849,060
Civil Penalties	-	89,588	-	89,588
<b>Total Revenues</b>	<b>16,570,206</b>	<b>93,773,217</b>	<b>9,516</b>	<b>110,352,939</b>
<b>Expenditures:</b>				
Personal Services	9,362,145	53,593,252	-	62,955,397
Services and Supplies	4,466,078	19,003,984	-	23,470,062
Special Payments	133,621	1,489,330	-	1,622,951
Capital Outlay	721,553	1,159,762	-	1,881,315
Debt Service:				
Principal - Bonds	1,464,280	-	1,405,720	2,870,000
Interest - Bonds	446,120	-	1,053,500	1,499,620
<b>Total Expenditures</b>	<b>16,593,797</b>	<b>75,246,328</b>	<b>2,459,220</b>	<b>94,299,345</b>
Excess (Deficiency) of Revenues Over Expenditures	(23,591)	18,526,889	(2,449,704)	16,053,594
<b>Other Financing Sources (Uses):</b>				
Transfers from Other Funds	-	-	2,459,220	2,459,220
Transfers to Other Funds	-	(2,459,220)	-	(2,459,220)
Long-Term Debt Issued	-	4,040,000	-	4,040,000
Debt Issuance Premium	-	779,591	-	779,591
Debt Issuance Costs	-	(67,650)	-	(67,650)
Transfers from Other Agencies	-	4,775,078	-	4,775,078
Transfers to Other Agencies	-	(1,798,094)	-	(1,798,094)
Transfers to State General Fund	(4,736)	-	-	(4,736)
<b>Total Other Financing Sources (Uses)</b>	<b>(4,736)</b>	<b>5,269,705</b>	<b>2,459,220</b>	<b>7,724,189</b>
Net Change in Fund Balances	(28,327)	23,796,594	9,516	23,777,783
<b>Fund Balances - Beginning</b>	<b>670,294</b>	<b>669,356,471</b>	<b>1,828,798</b>	<b>671,855,563</b>
Change in Inventories	(144,608)	42,060	-	(102,548)
<b>Fund Balances - Ending</b>	<b>\$ 497,359</b>	<b>\$ 693,195,125</b>	<b>\$ 1,838,314</b>	<b>\$ 695,530,798</b>

Item J 000025

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



**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY  
FUND FINANCIAL STATEMENTS  
PROPRIETARY FUNDS**

**Enterprise Fund**

The Enterprise Fund accounts for certain business-type activities of the Department's Laboratory. Principal sources of revenue are charges for services, which are used for payment of the Enterprise Fund expenditures.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2015**

	<u>Enterprise Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 482,529
Accounts and Interest Receivable, net	13,779
Inventories	<u>32,207</u>
Total Current Assets	<u>528,515</u>
Noncurrent Assets:	
Capital Assets:	
Equipment and Machinery	197,334
Less Accumulated Depreciation	<u>(197,334)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>
Total Noncurrent Assets	<u>-</u>
<b>Total Assets</b>	<u>528,515</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 10,079
Pension-Related Debt	<u>600</u>
Total Current Liabilities	<u>10,679</u>
Long-Term Liabilities:	
Pension-Related Debt	<u>14,748</u>
Total Long-Term Liabilities	<u>14,748</u>
<b>Total Liabilities</b>	<u>25,427</u>
<b>NET POSITION</b>	
Unrestricted	<u>503,088</u>
Total Net Position	<u>\$ 503,088</u>

The accompanying notes are an integral part of the financial statements. Item J 000027

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2015**

	<u>Enterprise Fund</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 450
Other Revenue	<u>142,399</u>
<b>Total Operating Revenues</b>	<u>142,849</u>
<b>Operating Expenses:</b>	
Salaries and Wages	<u>123,344</u>
<b>Total Operating Expenses</b>	<u>123,344</u>
Operating Income (Loss)	<u>19,505</u>
<b>Increase in Net Position</b>	19,505
<b>Total Net Position beginning of year</b>	499,513
<b>Prior Period Adjustment - Pension-Related Debt</b>	<u>(15,930)</u>
<b>Total Net Position end of year</b>	<u><u>\$ 503,088</u></u>

The accompanying notes are an integral part of the financial statements. Item J 000028

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2015**

	<u>Enterprise Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers and Users	\$ 587,759
Payments to Employees	(131,175)
Payments to Suppliers	<u>(23,093)</u>
Net Cash Provided (Used) by Operating Activities	<u>433,491</u>
Net Increase (Decrease) in Cash and Cash Equivalents	433,491
Cash and Cash Equivalents - Beginning	<u>49,038</u>
<b>Cash and Cash Equivalents - Ending</b>	<b><u>\$ 482,529</u></b>
 <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating Income (Loss)	\$ 19,505
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Accounts Receivable, net	444,857
(Increase) Decrease in Inventories	(21,699)
Increase (Decrease) in Accounts Payable	<u>(9,172)</u>
Total Adjustments	<u>413,986</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 433,491</u></b>

The accompanying notes are an integral part of the financial statements. Item J 000029

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY  
FUND FINANCIAL STATEMENTS  
FIDUCIARY FUNDS**

**Agency Fund**

The Agency Fund accounts for resources held by the Department in a purely custodial capacity.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2015**

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	<u>Agency Fund</u>
<b>Assets</b>	
Cash and Securities Held in Trust	<u>\$ 403,490</u>
<b>Total Assets</b>	<u><u>\$ 403,490</u></u>
<b>Liabilities</b>	
Trust Funds Payable	<u>\$ 403,490</u>
<b>Total Liabilities</b>	<u><u>\$ 403,490</u></u>

The accompanying notes are an integral part of the financial statements. Item J 000031

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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## **1. Summary of Significant Accounting Policies**

The accompanying financial statements of the State of Oregon Department of Environmental Quality 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.

### **A. Reporting Entity**

The Department of Environmental Quality (DEQ) is an agency of the State of Oregon. Its mission is to be an active leader in restoring, maintaining and enhancing the quality of Oregon's air, water and land.

The administration of both federal and state laws is translated into action through Oregon Administrative Rules (OAR) adopted by the Environmental Quality Commission (EQC or Commissioners). The EQC is a five-member citizen commission whose members are appointed by the Governor subject to confirmation by the Senate. The Commissioners serve four-year terms but may be removed by the Governor. Commissioners may be reappointed but may not serve more than two consecutive terms. In addition to adopting rules, the Commission also establishes policy (subject to legislative mandate) and appoints a Department Director (reference ORS Chapter 468). The adopted rules for the Department are found in OAR Chapter 340, Divisions 11 - 268.

As required by GAAP, these financial statements present all the fund types of DEQ. These financial statements do not include any financial activities of any other Departments of the State of Oregon.

### **B. Basis of Presentation – Fund Accounting**

The Department's programs are organized by "funds", which are considered a separate accounting entity with a self-balancing set of accounts and presented as either major or non-major funds. The following funds are established for the purpose of accounting for specific activities or attaining certain objectives in accordance with applicable laws, regulations, restrictions or limitations:

#### **Governmental Fund Types**

- (1) The **General Fund** (Major Fund) accounts for all financial resources and transactions not accounted for in another fund. It accounts for general governmental operations that are financed by legislatively approved appropriations funded from general revenues. It includes debt service provided by General Fund appropriation.

#### **Special Revenue Fund**

- (2) The **Environmental Management Fund** (Major Fund) accounts for the proceeds of specific revenue from permits, fees and other sources that finance specified activities as required by law or administrative regulations.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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**Debt Service Fund**

- (3) The **General Obligation Bond Fund** (Major Fund) accounts for the accumulation of resources for and the payment of interest and principal on general governmental obligations.

**Proprietary Fund Types**

- (4) The **Enterprise Fund** (Major Fund) accounts for certain business-type activities of the Laboratory of the Department.

**Fiduciary Funds Types**

- (5) The **Agency Fund** is used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

As an agency of the State of Oregon, the Department is not obligated to prepare the Management Discussion and Analysis and Government-Wide Financial Statements, as it is not a stand-alone entity. Capital assets, related accumulated depreciation and long term liabilities, which are required to be reported in Government-Wide Financial Statements but not Governmental Funds, are disclosed in the Notes to the Basic Financial Statements.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. (Basis of accounting refers to when revenues and expenditures/expenses are recognized in the financial statements.) Under the modified accrual basis, revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the Department considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Expenditures are recorded when a liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Federal grant revenue is not recognized until the expenditure is recognized.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise fund is laboratory charges to external customers.

Operating expense for the enterprise fund consists of administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.



**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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Fiduciary fund financial statements are reported on the accrual basis of accounting but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which DEQ receives value without giving equal value in exchange, are forms of financial assurance provided by individuals and companies as required by statute and administrative rules.

#### **D. Budgetary Data**

The Oregon Legislature approves budgets for a biennial period, with the biennium beginning July 1 and ending June 30 of each odd-numbered year. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Expenditures are subject to limitation and limitation lapse at the end of the biennium. Budgets are adopted on the budgetary basis, which differs from generally accepted accounting principles in the treatment of long term debt, receivables, payables, capital assets, and accumulated depreciation. The budgetary schedules are presented as part of the Required Supplementary Information with the necessary reconciliations to generally accepted accounting principles.

#### **E. Cash and Investments**

Cash and cash equivalents includes: cash on hand, short term investments with original maturities of three months or less from the date of acquisition, and, other cash equivalents such as change funds and receipts held prior to deposits in the hands of an official or a designated agent. All monies of the Department are deposited with the Office of the State Treasurer, which is responsible for maintaining these deposits in accordance with Oregon law. Interest earnings on these deposits are received on a monthly basis.

Designated investments are made and held by the Oregon State Treasurer and are considered short term in nature. As such, they are reported at cost.

#### **F. Receivables**

Receivables are stated net of an allowance for uncollectible amounts. Receivables included are amounts due that represent revenues earned or accrued in the current period. Receivables included in this classification are related to clean water state revolving fund loans, cost recovery projects, interest, civil penalties, amounts due from the federal government or other governments and other miscellaneous receivables.

#### **G. Inventories and Prepaid Expenses**

Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental fund types, the purchases method of accounting for inventories is followed, whereby inventories are recorded as expenditures when purchased. At year end, the inventory balance is adjusted to actual and a direct adjustment is made to fund balance.

Reported inventories in governmental funds are equally offset by a non-spendable fund balance because inventory, by its nature, cannot be spent.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements. In the governmental funds, prepaid items are accounted for using the consumption method.

## **H. Capital Assets**

Capital assets and depreciation expense used in governmental fund type operations are not reported in the Governmental Funds Balance Sheet under the modified accrual basis of accounting. However, capital assets acquired or constructed by the Department are recorded as expenditures in the appropriate governmental fund and then capitalized at cost in the Department's Government-Wide Reporting Fund, for the purpose of tracking and reporting the assets for the State of Oregon Comprehensive Annual Financial Report (CAFR).

Capital assets are reported at historical cost. Donated capital assets are reported at estimated fair market value at the date of donation. Assets costing less than \$5,000 or having a useful life of less than one year are not capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or significantly extend assets lives are expensed rather than capitalized.

In determining the estimated useful life of assets, the Department considers how the asset will be used and how long it is expected to meet service and technology demands. The Department uses the Internal Revenue Service's table of Estimated Useful Life of Assets as a guide. Property, plant, and equipment of the Department are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20
Buildings	10-20
Furniture & Equipment	5-10
Motor Vehicles	5-18
Data Processing Software	3
Data Processing Hardware	5
Leasehold Improvements	10-20

## **I. Accounts Payable**

Accounts payable consist mainly of amounts owed to vendors, state agencies or local entities. During the course of operations, transactions occur between funds for various reasons. Outstanding balances between funds are reported as "due to/from other funds".

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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**J. Compensated Absences**

State policy allows employees to accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management and classified employee. Employees can be paid up to a maximum of 250 hours of accrued vacation leave at termination. Compensated absences liabilities are normally liquidated with expendable available resources and a governmental fund liability. Expenditures are recognized as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements.

**K. Rebatable Arbitrage**

Internal Revenue Code Section 148(f) requires issuers of tax exempt bonds to rebate investment income earned from bond proceeds that exceed limits established for each bond issue. These limits are based on the bond yield as calculated for federal tax purposes for each bond issue and are subject to certain exceptions. Arbitrage rebate payments are due not later than 60 days after the end of the fifth anniversary of each bond issue (or other date in compliance with IRC Section 148(f)) and every five years thereafter in an amount at least equal to 90 percent of the calculated arbitrage liability. Final arbitrage rebate payments are due not later than 60 days after the final retirement of all bonds in an issue in an amount equal to 100 percent of the calculated liability. The Department records rebatable arbitrage as an expenditure and a liability is reported in the Department's Government-Wide Reporting Fund for use in the State of Oregon Comprehensive Annual Financial Report.

**L. Long-term Obligations**

Long-term debt and other long-term obligations used in governmental fund type operations are not reported on the Department's Governmental Funds Balance Sheet under the modified accrual basis of accounting. However, the Department's long-term debt and other long-term obligations are recorded as long term debt in the Department's Government-Wide Reporting Fund, for the purpose of tracking and reporting the debt for the State of Oregon Comprehensive Annual Financial Report. Premiums and discounts are amortized over the life of the bond.

In the fund financial statements, governmental funds recognize bond premiums and discounts in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

**M. Fund Balance**

The difference between assets and liabilities is labeled as "Net Position" on the proprietary fund and fiduciary fund financial statements and as "Fund Balance" on the governmental fund financial statements.

In governmental funds, fund balance is reported in five components: (1) nonspendable, (2) restricted, (3) committed, (4) assigned, and (5) unassigned.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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*Nonspendable fund balances* include amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

*Restricted fund balances* result from constraints imposed on assets by law through constitutional provisions or enabling legislation, or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments.

*Committed fund balance* results from constraints imposed by bills (passed by the Legislature and signed into law by the Governor) that are separate from the authorization to raise the underlying revenue.

*Assigned fund balance* is the residual amount in governmental funds other than the General Fund. It represents amounts that are constrained by the Department's intent to be used for a specific purpose, but which are neither restricted nor committed.

*Unassigned fund balance* is the residual amount in the General Fund not included in the previous four categories. Deficit fund balances in other governmental funds are reported as unassigned.

The order of spending of fund balance categories is as follows: Restricted resources are spent first when both restricted and unrestricted (committed, assigned, or unassigned) resources are available for expenditure. When unrestricted resources are spent, the order of spending authority is committed (if applicable), assigned (if applicable) and unassigned.

#### **N. Restricted Assets**

Certain proceeds of the Department's bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets because these resources are segregated and their use is limited by applicable bond covenants. Generally, this includes cash and investments set aside for current and future debt service payments. Other restrictions on asset use may change the nature and availability of an asset. Various grant moneys, customer deposits and trust funds are also classified as restricted assets. As of June 30, 2015, cash and cash equivalents restricted totaled \$286,512,511 in the Environmental Management Fund, \$1,838,314 in the General Obligation Bond Fund, \$482,529 in the Enterprise Fund, and \$403,490 in the Agency Fund.

#### **O. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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## **P. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has only one type of item that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: civil penalties. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## **2. Deposits and Investments**

On June 30, 2015, the book balance and bank balance of cash and cash equivalents were both \$288,833,354. Cash in the Department is deposited in demand accounts with the State Treasurer, who is responsible for maintaining and investing the pooled cash balances in accordance with State laws, and invested with the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool that is available for use by all state funds and eligible local governments. State Treasurer demand deposit accounts and time certificates of deposit investments of the Short Term Fund held in state banks are insured or collateralized in excess of Federal Deposit Insurance Corporation (FDIC) coverage for a minimum of 25 percent in accordance with State statute. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the Balance Sheet as Cash and Cash Equivalents.

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

Earnings on the OSTF are allocated based on the average daily balance and a variable interest rate periodically determined by the State Treasurer. The earnings are credited to the Fund monthly. 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, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896 or from their website at <http://www.ost.state.or.us/divisions/investment/index.htm#fund>.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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### 3. Loans Receivable

The Department is part of the Clean Water State Revolving Loan Fund program. This program makes loans to qualified entities at interest rates ranging from zero percent to the market rate (see ORS 468.440). Interest rates vary depending on the length of the loan, the type of loan, and program rules (at OAR 340-054). Rates range from 25% of the bond rate for 5 year loans to 65% of the bond rate for 20 year loans. Recipients make semiannual or, in some cases, annual payments, generally starting six months after project completion. Loans Receivable are long-term and are not expected to be collected within one year of the date of the financial statements.

The balance of loans receivable as of June 30, 2015 is as follows:

Loans Receivable	\$ 407,403,860
Less: Allowance for Principal Forgiveness	<u>(1,055,430)</u>
Total Loans Receivable, net	<u>\$ 406,348,430</u>

DEQ is required, under the terms of its grant award 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 provision in administrative rule (OAR 340-054-0065). Loans/Bonds Receivable are stated net of the allowance for principal forgiveness. Loan forgiveness expense for the fiscal year ended June 30, 2015 was \$217,636.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

#### 4. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital Assets, Non-depreciable:				
Land	\$ 22,348	\$ -	\$ -	22,348
Total Capital Assets, Non-depreciable:	22,348	-	-	22,348
Capital Assets, Depreciable:				
Land Improvements	106,966	-	-	106,966
Buildings	69,466	-	-	69,466
Furniture & Equipment	7,477,439	1,270,499	-	8,747,938
Motor Vehicles	498,900	-	-	498,900
Data Processing Software	8,078,271	1,387,197	-	9,465,468
Data Processing Hardware	3,034,368	316,750	-	3,351,118
Leasehold Improvements	2,889,570	18,382	-	2,907,952
Total Capital Assets, Depreciable	22,154,980	2,992,828	-	25,147,808
Less Accumulated Depreciation for:				
Land Improvements	(68,532)	(4,841)	-	(73,373)
Buildings	(49,716)	(1,339)	-	(51,055)
Furniture and Equipment	(6,978,666)	(225,637)	-	(7,204,303)
Motor Vehicles	(471,518)	(6,158)	-	(477,676)
Data Processing Software	(7,803,339)	(743,923)	-	(8,547,262)
Data Processing Hardware	(2,127,460)	(78,030)	-	(2,205,490)
Leasehold Improvements	(2,422,486)	(58,078)	-	(2,480,564)
Total Accumulated Depreciation	(19,921,717)	(1,118,006)	-	(21,039,723)
Total Capital Assets, Depreciable, Net	2,233,263	1,874,822	-	4,108,085
Governmental Activities Capital Assets, Net	\$ 2,255,611	\$ 1,874,822	\$ -	\$ 4,130,433

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

#### 4. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Proprietary Activities:</b>				
Capital Assets, Depreciable:				
Technical Equipment	\$ 197,334	\$ -	\$ -	\$ 197,334
Total Capital Assets, Depreciable	<u>197,334</u>	<u>-</u>	<u>-</u>	<u>197,334</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	(197,334)	-	-	(197,334)
Total Accumulated Depreciation	<u>(197,334)</u>	<u>-</u>	<u>-</u>	<u>(197,334)</u>
Total Capital Assets, Depreciable, Net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Proprietary Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

#### 5. Leases

The Department has entered into various leases for real property and personal property. As the Legislature could disallow necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a biennium. Lease obligations decrease each year because of lease expirations. It is expected these leases will be replaced with leases that have higher rental rates due to inflation. Total current year operating lease expense for the year ended June 30, 2015 was \$5,049,633.

The following schedule summarizes the minimum lease payments for operating leases as of June 30, 2015:

<u>Year Ending 30-Jun</u>	<u>Operating Leases</u>
2016	\$ 4,225,484
2017	4,037,788
2018	3,500,090
2019	3,241,824
2020	3,171,279
2021-2025	16,355,507
2026-2030	17,445,645
2031-2035	<u>5,091,564</u>
Total Future Minimum Lease Payments	<u>\$ 57,069,181</u>



**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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## 6. Long-Term Debt

### General Obligation Bonds

Article XI-H of the State's Constitution authorizes DEQ to issue general obligation bonds. General obligation bonds are secured by the full faith and credit of the State and are not deemed to be the obligation of any specific fund. General obligation pollution control bonds were issued for cleanup projects and to finance the match portion of the Federal Assistance for the Clean Water State Revolving Fund.

The following schedule shows the debt service requirements for general obligation bonds as of June 30, 2015:

<b>Year Ending</b> <b>30-Jun</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$3,165,000	\$1,571,191	\$4,736,191
2017	3,060,000	1,467,720	4,527,720
2018	3,115,000	1,345,395	4,460,395
2019	3,400,000	1,211,220	4,611,220
2020	3,210,000	1,067,020	4,277,020
2021-2025	13,425,000	3,377,081	16,802,081
2026-2030	8,135,000	1,012,700	9,147,700
2031-2035	2,305,000	105,075	2,410,075
<b>Totals</b>	<b>\$39,815,000</b>	<b>\$11,157,402</b>	<b>\$50,972,402</b>

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
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## 6. Long-Term Debt (Continued)

### Changes in Long-term Liabilities

The following table summarizes the long-term liabilities activities that are presented in the governmental reporting fund for purposes of the State CAFR for the year ending June 30, 2015:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Bonds and Certificates Payable:					
General Obligation Bonds	\$ 38,645,000	\$ 4,040,000	\$ (2,870,000)	\$ 39,815,000	\$ 3,165,000
Less Deferred Amounts:					
Issuance Discount	(22,861)	-	1,483	(21,378)	-
Issuance Premium	2,765,671	779,591	(250,483)	3,294,779	-
Loss on Refunding	(592,861)	-	78,863	(513,998)	-
Total Bonds and Certificates Payable	\$ 40,794,949	\$ 4,819,591	\$ (3,040,137)	\$ 42,574,403	\$ 3,165,000
Compensated Absences	4,197,713	126,369	-	4,324,082	2,853,894
Pollution Remediation Obligations	9,493,838	3,693,532	-	13,187,370	1,621,129
Total Long-term Liabilities	<u>\$ 54,486,500</u>	<u>\$ 8,639,492</u>	<u>\$ (3,040,137)</u>	<u>\$ 60,085,855</u>	<u>\$ 7,640,023</u>

### Arbitrage Rebate Liability

The Tax Reform Act of 1986 places restrictions on the non-purpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the non-purpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Non-purpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. As of June 30, 2015, the Department's total calculated arbitrage rebate liability was \$0.

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## **7. Pollution Remediation Obligation**

Obligating Event C: The agency is named, or evidence indicates it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.

DEQ has pollution remediation obligations for three sites on the National Priorities List (Superfund), not as a responsible party or PRP but rather as “a government responsible for sharing costs.” The three sites are the former McCormick & Baxter Creosoting Co. (Portland), the former Taylor Lumber & Treating Inc. (Sheridan) and North Ridge Estates (Klamath Falls).

### Nature or Type of Pollution:

At both McCormick & Baxter and Taylor Lumber the sites are contaminated with chemicals used in the wood-treating industry. At both sites, contamination was found in soil, groundwater and sediments of adjacent rivers. North Ridge Estates has asbestos contamination in the soil from demolition of approximately eighty 1940s-era military barracks buildings.

### Source of the remediation obligation:

As a condition of the Environmental Protection Agency’s (EPA) funding of Superfund cleanups, states are required to enter into a contract with EPA to provide a 10% share of remedial action costs and to fund long-term operations and maintenance after completion of the remedy. Oregon completed match payments for the Taylor Lumber site in September 2012 and the expected match for the McCormick & Baxter site is already exceeded by state expenditures at the site. Oregon is currently obligated for long-term monitoring and maintenance and operation of the remedy at Taylor Lumber and for the soil and sediment cap components of the McCormick & Baxter remedy. DEQ is currently not legally obligated for O&M for the McCormick & Baxter groundwater treatment because EPA has not yet made an “operational and functional” determination for that remedy. However, because DEQ is performing other O&M at the site, and because it is deemed very likely that DEQ will be performing groundwater O&M in the future, these costs are also included in the pollution remediation cost projections for that site. A remedy was identified for North Ridge Estates and an agreement signed with EPA in May 2014. This agreement obligates Oregon for 10% of the cost, but allows an offset of that share from soil from state owned land that is to be used in the remedy.

### Methods & assumptions used for the estimates:

McCormick & Baxter: EPA has decided to postpone the “operational and functional” determination for the groundwater remedy until the Record of Decision for the related Portland Harbor site is complete. As a result, DEQ expects that EPA’s funding of groundwater monitoring and reporting will continue until that decision is made. DEQ expects to meet the 10% cost share for the additional federal funding by utilizing approximately \$25,000 of the excess match of \$408,760 that DEQ has accumulated through prior expenditures at the site. The reported pollution remediation obligations consist of the project manager’s professional estimate of monitoring, operations and maintenance of the three operable units – soil, groundwater and sediments. Soil cap costs are based on the current budget to maintain the remedy.

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Groundwater and sediment cap operable unit costs allow for on-going performance monitoring, periodic sampling and projected repair of sediment cap armoring. All cost estimates are for a 30 year period and were increased by 15% to allow for unforeseen operations and maintenance costs.

Taylor Lumber: Monitoring and operations and maintenance costs are based on recent incurrences. The estimate assumes that a site owner will continue performing most of the operations and maintenance activities, in accordance with an agreement between DEQ and the owner. The period of monitoring and operations and maintenance is 30 years.

North Ridge Estates: Remediation costs are based on the expected remedy agreed to with the EPA. The estimate is as complete and accurate as possible, however, uncertainties exist in large cleanup projects. Oregon expects to be responsible for operations and maintenance costs once the project is deemed complete. Based on DEQ's experience with large projects and the expected remedy, operations and maintenance costs have been estimated. These costs have significant uncertainties.

Potential for changes in the estimated liability:

The potential for changes in the estimates for McCormick & Baxter is reduced compared to previous estimates based on the results of additional monitoring. However, uncertainties remain surrounding the timing of the groundwater "Operational and Functional" determination, the type of monitoring and operations and maintenance to be agreed upon by DEQ and EPA, lack of experience in the field with the remedies chosen and the potential for sale of the property and terms of that sale. These changes could increase or decrease the estimates used. The potential for significant changes in the Taylor Lumber estimated costs are deemed to be relatively low. The potential for changes for North Ridge Estates is significant, but not reasonably estimable at this time.

Below is a summary of obligating event C pollution remediation obligations:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year	Liquidating Fund
\$7,348,926	\$1,770,042	\$-	\$9,118,968	\$616,655	Environmental Management Fund

Expected recoveries:

Not yet realized/realizable: \$0

Realized/realizable: As of June 30, 2015, DEQ has \$110,439 in recoveries of previous expenditures from the Industrial Orphan Site Account, which is available for expenditure on the pollution remediation obligations of the three Superfund sites. (The recoveries are also available for use on industrial orphan sites, which are included as "obligations where the agency has voluntarily commenced remediation efforts."). Costs will also be funded by the \$3,448,558 balance of orphan site bond funds.

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Portion of pollution remediation liability that is not reasonably estimable:

In addition to these three sites, there are three other Superfund sites –Northwest Pipe and Casing (Clackamas County), Formosa Mine (Douglas County) and Black Butte Mine (Lane County) – where there is a possibility of a future pollution remediation cost share obligation. However, in each of these cases, DEQ has not entered into a contract with EPA, nor have DEQ and EPA discussions of project costs and Oregon's contribution progressed far enough to make a reasonable estimate of potential obligations. Portland Harbor (Portland) is an Oregon Superfund site, however, the EPA expects the cost of cleanup to be paid by responsible parties. DEQ expects to fund long term O&M for this site.

Remedial action was completed on the Northwest Pipe and Casing site, but the groundwater remedy at the site is not functioning as intended and additional contamination has been found. This contamination was addressed by EPA's removal program, which does not require matching funds. Until EPA selects a new groundwater remedy to replace the original remedy for the site, there will be insufficient information to determine whether any additional match will be required or to estimate future operations and maintenance costs.

EPA continues to investigate and develop remedies for the two mine sites.

Obligating Event E: The agency voluntarily begins, or legally obligates itself to begin, pollution remediation efforts.

Nature or type of pollution & Source of the remediation obligation:

DEQ is voluntarily performing pollution remediation on five site types, only one of which does not result in net obligations recognized in DEQ's balance sheet.

Dedicated fund sites. DEQ is managing investigation and cleanup activities on behalf of responsible parties at several sites, with varying types of pollution. In these cases, the cleanups are financed with responsible party funds paid to DEQ through settlement or other agreements. The State has no legal obligation, other than that included in the agreements, to perform remediation. DEQ's obligation to remediate is equal to, or less than, the value of the assets provided to perform remediation.

Alkali Lake. The State of Oregon owns the Alkali Lake site and DEQ has voluntarily completed cleanup of pesticide manufacturing waste disposed by the previous owner before the State of Oregon had a property interest in the site. Despite the large quantity of toxic materials disposed at the site, DEQ has concluded that it does not present a significant risk to human health or the environment because the waste has been buried and fenced, and the site is remote. Because the remedy chosen leaves a large quantity of contamination at the site, DEQ has obligated itself to maintain fencing and other security measures.

Industrial orphan sites. DEQ voluntarily cleans up industrial orphan sites with proceeds of bonds sales and recoveries of those expenditures. These orphans are former industrial sites, with varying types of contamination. No state or federal law requires cleanup.

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Solid waste orphan sites. DEQ voluntarily cleans up orphan sites with fee revenues dedicated to this purpose, plus interest accrued. These orphans are solid waste landfills. No state or federal law requires cleanup.

Dry cleaner sites. DEQ cleans up qualifying sites – former or current dry cleaner operations, contaminated with dry cleaning solvents – with revenues from fees on the dry cleaner industry. There is no state or federal law requiring DEQ cleanup of these sites and the State's obligation to clean up can be no greater than revenues realized in the dry cleaner fund.

There are approximately 24 dry cleaner and industrial orphan sites where DEQ has access agreements to do monitoring to determine either the extent of contamination or the effectiveness of a remedy. These access agreements require DEQ to remove monitoring wells and equipment. DEQ has discretion when to incur these costs. DEQ has estimated the costs of continued monitoring and equipment removal for these sites.

Methods & assumptions used for the estimates:

DEQ's cleanup costs for dedicated sites will not exceed cash available from responsible parties, plus earned interest, so no cost estimate is made for balance sheet purposes. Monitoring and operations and maintenance costs for the Alkali Lake site are based on environmental consulting firm estimates, adjusted for recent experience, and include a contingency allowance. For other sites in this category – industrial and solid waste orphans and dry cleaner fund financed cleanups – DEQ's obligation is to complete the work currently under contract with environmental services firms. In addition, DEQ also has obligations to reimburse owners or operators of two dry cleaner sites for valid expenditures made to clean up the site. The costs for the sites DEQ is responsible for monitoring and well removal were estimated based on DEQ's experience with the specific sites and other similar sites. The cost shown on DEQ's balance sheet is the balance remaining on contract task orders and agreements with owners.

Potential for changes in the estimated liability:

Because DEQ's remedy for the Alkali Lake site is low technology monitoring, maintenance and operations, the potential for changes in the estimated liability are low. In connection with a 2009 public comment process about a proposed settlement with the potentially responsible party, DEQ requested an independent examination of the site by EPA. In response to our request, EPA conducted site sampling in 2010 and provided the results in a report dated March 2011. Based on this report, EPA stated in a June 22, 2011 letter that some issues should be studied further and that, pending the results of that further study, DEQ should consider possible additional remedial activities. In a July 12, 2011 response letter to EPA, DEQ addressed EPA's questions, based on past information and additional groundwater sampling conducted in May 2011. DEQ does not believe the data collected by EPA in 2010 or our more recent groundwater sampling in 2011 alter the conclusions of the 2005 risk assessment, which was the basis for the remedy selected.

For the other sites, there is only a potential for decrease in the costs actually incurred on contract task orders or in the agreements worked out with owners.

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Below is a summary of obligating event E pollution remediation obligations:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year	Liquidating Fund
\$2,144,912	\$1,923,490	\$-	\$4,068,402	\$1,004,474	Environmental Management Fund

Expected recoveries:

Not yet realized/realizable: Settlement discussions with a potentially responsible party at the Alkali Lake site have not been fruitful. There is no basis for estimating a potential cost recovery amount at this time. DEQ holds payments, referred to as deductibles, from dry cleaners whose sites are being cleaned up with revenues in the dry cleaner fund. These payments are typically treated as deposit liabilities, but are netted against dry cleaner remediation obligations of \$526,708.

Realized/realizable: As of June 30, 2015, DEQ has \$110,439 in recoveries of previous expenditures from the Industrial Orphan Site Account and \$3,448,558, which are available for expenditure on the pollution remediation obligations of the industrial orphan sites, as well as the three Superfund sites for which DEQ has cost share obligations. As of June 30, 2015, DEQ has \$5,853,551 in the Solid Waste Orphan Site Account, which is available for expenditure on obligations related to pollution remediation for solid waste orphans. As of June 30, 2015, DEQ has a \$1,207,652 dry cleaner fund balance, which is available for remediation costs, but is also needed to fund regulatory program costs.

Is there a portion of pollution remediation liability that is not reasonably estimable:

As described above, there is a possibility that EPA will require additional work at the Alkali Lake site, but that cannot be estimated until EPA issues its report.

## 8. Interfund Transactions

Interfund balances result from the time lag between dates that interfund goods or services are provided and reimbursable expenditures occur, transactions are recorded in the accounting system, or payments between funds are made. The following schedule summarizes Due To and Due From interfund transactions in the financial statements as of June 30, 2015:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 622,243
Environmental Management Fund	622,243	-
	<u>\$ 622,243</u>	<u>\$ 622,243</u>

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Transfers are used to move revenues from the fund that budget requires to collect them to the fund that budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the appropriate funds, and move unrestricted revenues collected to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

The following schedule summarizes Transfers To and From Other Funds in the financial statements as of June 30, 2015:

	<b>Transfers From Other Funds</b>	<b>Transfers To Other Funds</b>
Environmental Management Fund	\$ -	\$ 2,459,220
General Obligation Bond Fund	2,459,220	-
	<u>\$ 2,459,220</u>	<u>\$ 2,459,220</u>

## 9. Employee Retirement Plans

The Oregon Public Employees Retirement System (PERS) provides retirement plans for the Fund's employees. PERS is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, as required by ORS chapter 238 and 238A. PERS issues a separate, publicly available, audited annual financial report that may be obtained from the Fiscal Services Division, Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

### PERS Pension

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

Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in the Oregon Public Employees Retirement System (PERS). PERS member contributions go into the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are deposited in the member's IAP account, not into the member's PERS account.



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### Oregon Public Service Retirement Plan (OPSRP)

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer defined benefit pension plan. The Pension Program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. The OPSRP pension plan has two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Employees hired after August 28, 2003, participate in OPSRP after completing six months of service.

The Pension Program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200, or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The required State employee contributions and the required state employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans are as follows: the Employee rate is 6.00%; the PERS Pension Employer rate is 10.96%; and the OPSRP rate is 8.14%. Combined employer contributions for the years ended June 30, 2015, 2014, and 2013 were \$3,816,598, \$3,584,176, and \$3,403,346, respectively, equal to the required contributions each year.

Beginning January 1, 2004, PERS members became part of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the member's IAP account, not into the member's PERS account. All covered employees are required by State statute to contribute 6% of their salary to the plan. Current law permits State agencies to pay the 6% member contributions for their employees. The amount contributed by DEQ, on behalf of employees, for the years ending June 30, 2015, 2014, and 2013 were \$2,406,940, \$2,280,597, and \$2,206,548, respectively, equal to the required contributions for each year.

In addition to the retirement contributions discussed above, DEQ also contributes to pay for its share of a statewide debt service payment on Pension Obligation Bonds. These payments are treated as part of payroll benefits. Contributions are calculated based on a percentage of subject payroll. The current rate, in place since November 1, 2011, is 6.33% of subject payroll. Employer pension obligation bond contributions for the years ended June 30, 2015, 2014, and 2013 were \$2,688,219, \$2,509,491, and \$2,321,586, respectively, equal to the required contributions each year.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
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## **10. Other Post Employment Benefit Plans**

The Department'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, P.O. 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, 2015 was 0.59%, which is embedded within the total PERS contribution rate. The Department's contributions for the years ended June 30, 2015, 2014, and 2013 were approximately \$236,682, \$224,259, and \$216,979, respectively, equal to the actuarial required contribution each year.

The Oregon Legislature has the sole authority to amend the benefit provisions and funding policy for the RHIA plan.

### 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, 2015 was 0.27%, which is embedded within the total PERS contribution rate. The Department's contributions for the years ended June 30, 2015, 2014, and 2013 were approximately \$108,312, \$102,627, and \$61,306, respectively, equal to the actuarial required contribution each year.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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The Oregon Legislature has the sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

#### Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is an agent multiple-employer plan 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 activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

### **11. Deferred Compensation**

A deferred compensation program was authorized under Internal Revenue Code 457 and Oregon Revised Statute 243.400 to 243.507 established and provided for PERS to administer the Deferred Compensation funds with the Oregon Savings Growth Plan (State Plan). The State Plan is a benefit available to all state employees wherein they may execute an individual agreement with the State for amounts earned by them to be paid at a future date. Participants in the program are not required to pay federal and state income taxes on the deferred earnings until these earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances is met: termination by reason of death/disability, resignation, retirement or unforeseeable emergency. Payments may be made over a period not to exceed the life expectancy of the participant and/or alternate payee.

Monies accumulated by the State Plan have been invested with various financial institutions and insurance companies. Activity of the State Plan is accounted for in a pension trust fund. DEQ incurs no liability associated with this program.

### **12. Risk Financing**

The Enterprise Goods and Services Division (division) of the Department of Administrative Services administers property and casualty insurance programs covering State government. It is the policy of the division to minimize purchases of commercial insurance for most of the risks of losses to which the State is exposed, as it believes it is more economical to manage the State's risks internally. For accounting purposes, the division sets aside assets for actuarially forecasted losses in the Insurance Fund, an internal service fund.

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The Insurance Fund, established under Chapter 278 of the Oregon Revised Statutes, services claims for the following kinds of risks: direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; inmate injury; workers' compensation; and employees, elected officials, and members of commissions and boards for honesty and faithful performance. The Insurance Fund is backed by an excess property policy with limits of \$400 million and a blanket commercial crime policy with a limit of \$20 million. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years. The division purchases commercial insurance for specific insurance needs not covered by the Insurance Fund.

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

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

### 13. Commitments

The Department has made commitments that are to be funded with general funds, federal funds, or lottery funds. These commitments may take the form of grants, loans, or contracts for services. Commitments, in effect as of June 30, 2015, and the anticipated sources of funding, are summarized in the following table:

<b>Purpose</b>	<b>General</b>	<b>Federal</b>	<b>Lottery</b>	<b>Other</b>	<b>Total</b>
Personal Service Contracts	\$ 106,776	\$ 54,815	\$ -	\$ 1,846,056	\$ 2,007,647
Grant and Loan Commitments	-	1,100,750	-	40,000	1,140,750
Systems Development	-	110,132	-	-	110,132
State Revolving Fund Loan Commitments	-	30,862,000	-	51,124,519	81,986,519
<b>Total Commitments</b>	<b>\$ 106,776</b>	<b>\$32,127,697</b>	<b>\$ -</b>	<b>\$53,010,575</b>	<b>\$ 85,245,048</b>

### 14. Contingencies

#### Unemployment Benefits

State departments are subject to the Department of Employment Act. State employees who qualify are entitled to benefit payments during periods of unemployment.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
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Each State department is required to reimburse the Department of Employment for benefit payments made to their former employees. There appears to be no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2015 totaled \$27,201, while for the period ending June 30, 2014, benefits totaled \$66,418.

#### Federal Grants

Significant financial assistance is received from the federal government. Entitlement to these resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund that receives the grant. The amount, if any, of expenditures which may be disallowed cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

## **REQUIRED SUPPLEMENTARY INFORMATION**

The required supplementary information includes financial information and disclosures that are required by the GASB but are not consider part of the basic financial statements.

- Budgetary Comparison Schedules
  - General Fund
  - Environmental Management Fund

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGETARY BASIS  
For the Year Ended June 30, 2015**

	2014-2015 Biennial Budget		Actual		Biennial	Variance
	Original	Final	FY 2014	FY 2015		
<b>Revenues:</b>						
Civil Penalties	\$ 1,000,000	\$ 1,000,000	\$ 696,953	\$ -	\$ 696,953	\$ (303,047)
Other Revenue	-	-	295	4,737	5,032	5,032
State Funding	29,936,112	30,961,259	14,395,790	16,565,469	30,961,259	-
<b>Total Revenues</b>	<b>30,936,112</b>	<b>31,961,259</b>	<b>15,093,038</b>	<b>16,570,206</b>	<b>31,663,244</b>	<b>(298,015)</b>
<b>Expenditures:</b>						
Personal Services	16,201,829	16,953,246	7,678,251	9,362,145	17,040,396	(87,150)
Services & Supplies	8,531,366	8,728,732	3,940,593	4,437,747	8,378,340	350,392
Special Payments	249,868	249,868	147,157	133,621	280,778	(30,910)
Capital Outlay	429,256	505,620	62,895	721,553	784,448	(278,828)
Debt Service						
Principal-Bonds	3,500,162	3,500,162	1,701,452	1,464,280	3,165,732	334,430
Interest - Bonds	1,023,631	1,023,631	911,941	446,120	1,358,061	(334,430)
<b>Total Expenditures</b>	<b>29,936,112</b>	<b>30,961,259</b>	<b>14,442,289</b>	<b>16,565,466</b>	<b>31,007,755</b>	<b>(46,496)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,000,000	1,000,000	650,749	4,740	655,489	(344,511)
<b>Other Financing Sources (Uses):</b>						
Transfers Out (State General Fund)	(1,000,000)	(1,000,000)	(697,249)	(4,738)	(701,987)	298,013
<b>Total Other Financing Sources (Uses)</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>	<b>(697,249)</b>	<b>(4,738)</b>	<b>(701,987)</b>	<b>298,013</b>
Net Change in Fund Balance	-	-	(46,500)	2	(46,498)	(46,498)
<b>Fund Balance Beginning, GAAP Basis</b>	<b>-</b>	<b>-</b>	<b>518,747</b>	<b>670,294</b>	<b>1,189,041</b>	<b>1,189,041</b>
<b>Fund Balance Ending, Budgetary Basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>472,247</b>	<b>670,296</b>	<b>\$ 1,142,543</b>	<b>\$ 1,142,543</b>
Encumbrances for equipment and supplies ordered but not received are reported in the same year the orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP purposes.						
			89,229	-		
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements. On the budgetary basis, these payments are expended. This is the change in the prepaid expense balance from the prior year.						
			(21,365)	(28,329)		
While inventory purchases are expended on both the gaap basis and budgetary basis, a direct adjustment to fund balance is made on the gaap basis in order to adjust the inventory balance to actual at year end. This adjustment is not made on the budgetary basis, resulting in a difference between these two bases of accounting. This is the change in the inventory balance from the prior year.						
			130,183	(144,608)		
<b>Fund Balance Ending, GAAP Basis</b>			<b>\$ 670,294</b>	<b>\$ 497,359</b>		

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**ENVIRONMENTAL MANAGEMENT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - BUDGETARY BASIS**  
**For the Year Ended June 30, 2015**

	2014-2015 Biennial Budget		Actual		Biennial	Variance
	Original	Final	FY 2014	FY 2015		
<b>Revenues:</b>						
Licenses and Fees	\$ 89,070,520	\$ 89,070,520	\$ 42,609,854	\$ 42,767,659	\$ 85,377,513	\$ (3,693,007)
Federal Grants	61,426,904	61,486,465	31,647,841	29,226,780	60,874,621	(611,844)
Interest	32,483,060	32,483,060	10,407,419	11,769,422	22,176,841	(10,306,219)
Charges for Services	24,428,801	24,440,941	13,186,163	9,609,065	22,795,228	(1,645,713)
Other Revenues	873,157	873,157	701,204	844,323	1,545,527	672,370
Civil Penalties	190,000	190,000	152,353	89,588	241,941	51,941
<b>Total Revenues</b>	<b>208,472,442</b>	<b>208,544,143</b>	<b>98,704,834</b>	<b>94,306,837</b>	<b>193,011,671</b>	<b>(15,532,472)</b>
<b>Expenditures:</b>						
Personal Services	117,729,183	121,007,673	52,898,438	53,593,252	106,491,690	14,515,983
Services & Supplies	46,741,109	46,750,644	18,394,034	18,962,097	37,356,131	9,394,513
Special Payments	115,302,693	115,302,693	43,579,577	48,737,206	92,316,783	22,985,910
Capital Outlay	1,721,658	1,834,758	245,148	1,159,762	1,404,910	429,848
<b>Total Expenditures</b>	<b>281,494,643</b>	<b>284,895,768</b>	<b>115,117,197</b>	<b>122,452,317</b>	<b>237,569,514</b>	<b>47,326,254</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(73,022,201)	(76,351,625)	(16,412,363)	(28,145,480)	(44,557,843)	31,793,782
<b>Other Financing Sources (Uses):</b>						
Transfers In (Operating)	24,736,387	25,261,235	23,942,413	13,104,120	37,046,533	11,785,298
Transfers Out (Operating)	(41,876,665)	(42,401,513)	(35,344,948)	(15,543,701)	(50,888,649)	(8,487,136)
Transfers In (Other Agencies)	10,806,085	10,806,085	5,244,490	4,775,078	10,019,568	(786,517)
Transfers out (Other Agencies)	(259,000)	(259,000)	(127,468)	(1,798,094)	(1,925,562)	(1,666,562)
Transfers Out (State General Fund)	(1,655,000)	(1,655,000)	-	-	-	1,655,000
Debt Issuance Costs	-	-	-	(67,650)	(67,650)	(67,650)
Long Term Debt Issued	10,000,000	10,000,000	-	4,040,000	4,040,000	(5,960,000)
Debt Issuance Premium	-	-	-	779,591	779,591	779,591
Loan Repayments	62,000,000	62,000,000	25,580,420	32,302,354	57,882,774	(4,117,226)
<b>Total Other Financing Sources (Uses)</b>	<b>63,751,807</b>	<b>63,751,807</b>	<b>19,294,907</b>	<b>37,591,698</b>	<b>56,886,605</b>	<b>(6,865,202)</b>
Net Change in Fund Balance	(9,270,394)	(12,599,818)	2,882,544	9,446,218	12,328,762	24,928,580
<b>Fund Balance Beginning, GAAP Basis</b>	<b>-</b>	<b>-</b>	<b>647,550,130</b>	<b>669,356,471</b>	<b>1,316,906,601</b>	<b>1,316,906,601</b>
<b>Fund Balance Ending, Budgetary Basis</b>	<b>\$ (9,270,394)</b>	<b>\$ (12,599,818)</b>	<b>650,432,674</b>	<b>678,802,689</b>	<b>\$ 1,329,235,363</b>	<b>\$ 1,341,835,181</b>
Encumbrances for equipment and supplies ordered but not received are reported in the same year the orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP purposes.			1,539,580	-		
Loan disbursements are considered expenditures for budgetary purposes, but not for GAAP purposes, where they are considered an increase in the loans receivable balance.			42,325,248	47,465,512		
Loan repayments are considered other financing sources for budgetary purposes but not for GAAP purposes, where they are considered a reduction of the loans receivable balance.			(25,580,420)	(32,447,354)		
Loan forgiveness is considered an expenditure for GAAP purposes but it is not recorded for budgetary purposes.			(778,785)	(217,636)		
Payments are recognized as revenue when received under the budgetary basis. Under the GAAP basis, some payments are received prior to being earned or are not received within 90 days of year end and are recorded as unearned revenue or unavailable revenue, accordingly.			1,380,346	(553,259)		
While inventory purchases are expended on both the gaap basis and budgetary basis, a direct adjustment to fund balance is made on the gaap basis in order to adjust the inventory balance to actual at year end. This adjustment is not made on the budgetary basis, resulting in a difference between these two bases of accounting. This is the change in the inventory balance from the prior year.			10,810	42,060		
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements. On the budgetary basis, these payments are expended. This is the change in the prepaid balance from the prior year.			(32,982)	(41,887)		
Interfund loan repayments are expended on the budgetary basis, but reduce the loan balance for GAAP purposes			60,000	145,000		
<b>Fund Balance Ending, GAAP Basis</b>			<b>\$ 669,356,471</b>	<b>\$ 693,195,125</b>		



## **1. Stewardship, Compliance, and Accountability**

The State's budget is approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. The Governor is required to submit budget recommendations to the Legislature no later than December 1 preceding the biennium. The Governor establishes priorities for the State based on function and the budget is summarized by these functions. Expenditures are budgeted based on the following revenue sources: General, Federal, Lottery, and Other.

The Oregon Legislature approves budgets for a biennial period, with the biennium beginning July 1 and ending June 30 of each odd-numbered year. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Provision is made for interim funding through the Legislature's Emergency Board. The Emergency Board authorizes and allocates all increases in funding and takes other actions to meet emergency needs when the Legislature is not in session.

Appropriated budgets include expenditure authority created by appropriation bills and related estimated revenues. All funds are subject to legislative approval. Also included in the Agency's budget are legally authorized, non-appropriated budget items that are not legislatively limited by an appropriation bill. Non-appropriated budgets and some non-limited financial activities are also subject to allotment control by the Department of Administrative Services.

During the biennium, the Department of Administrative Services approves spending limits for each quarter, and the agency's actual expenditures are monitored against approved budgets, quarterly allotments, and cash balances.

The budgetary basis of accounting is materially consistent with the GAAP basis of accounting, except for transactions related to long-term receivables and payables, debt service, the acquisition and depreciation of capital assets, and other differences as noted below. For budgetary purposes, these transactions may or may not be treated as revenues and expenditures.

The budget is prepared on the cash basis utilizing encumbrance accounting. Encumbrances are commitments related to unperformed contracts for goods or services and are not considered expenditures under GAAP. Services or supplies must be received prior to June 30 of the biennium end to be charged to the current budget.

The major differences between Budgetary (Non-GAAP) basis and GAAP basis are:

1. Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
2. Revenues are recognized when received in cash (budgetary) as opposed to when they are susceptible to accrual (GAAP)
3. Expenditures are recognized when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
4. Additional differences are explained on the budgetary schedules on pages 35 & 36.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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Reconciliation is included on the Budgetary Comparison Schedules for both the General Fund and Environmental Management Fund. These schedules present both the original and final budgets for the reporting period as well as actual inflows, outflows, and balances, stated on the budgetary basis. The budgetary comparison schedules are presented as part of the required supplementary information.

These budgetary comparison schedules are not presented at the legal level of budgetary control. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2013-2015 biennium as of June 30, 2015. A copy of this report is available at the Department of Administrative Services, Chief Financial Office, 155 Cottage Street NE, Salem, Oregon 97301-3969.