


State of Oregon  
Department of Environmental Quality

Memorandum

**Date:** May 27, 2015  
**To:** Environmental Quality Commission  
**From:** Dick Pedersen, Director   
**Subject:** Agenda item F, Informational item: DEQ's Annual Financial Update  
June 10-11, 2015, EQC meeting

**Purpose of item** DEQ staff will present the agency's annual financial update, review and discuss the report with the commission.

**Background** The commission has three financial performance measures as part of its 15 best practice measures. These measures require the commission to periodically review key financial information and audit findings, appropriately account for resources and assure that DEQ adheres to accounting rules and other relevant financial controls. An additional key performance measure requires the commission to approve DEQ's biennial budget.

The annual financial update contains audit findings, information on financial monitoring and compliance, as well as additional key financial information for the agency and programs. In addition to the 2015 Financial Update to the commission, the agency also produces the detailed Annual Financial Report, which is required to be publicly posted to meet municipal bond public disclosure laws. The FY 2014 Annual Financial Report is included as an attachment.

**EQC involvement** DEQ has presented budget updates during regular commission meetings in 2015, and provides the commission with regular updates to agency operating and request budgets.

**Attachments** A. DEQ's 2015 Annual Financial Update  
B. DEQ's FY2014 Annual Financial Report

Approved:

Division:   
Kerri Nelson, Central Services Division administrator

*Report prepared by James Roys, Financial Services manager*



## **Department of Environmental Quality**

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

**June 10, 2015**

## 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) for both 2013 and 2014. CWSRF is substantially in compliance with federal regulations.

### II. State Economic Forecast Summary

The [May 2015 update](#) to the Oregon state economic forecast indicates jobs and income are increasing as fast, if not faster, than during the mid-2000s. Given demographic trends, such rates of growth are considered full throttle.

While growth rates and the trajectory of the economy have improved considerably, Oregon is not yet fully healed from the Great Recession. The state's labor market is nearly two-thirds of the way back to pre-recession levels and should reach full employment over the course of the upcoming 2015-17 biennium. After which time, net growth rates are likely to slow significantly over the longer horizon as the Baby Boomers fully age into their retirement years.

The personal income tax filing season turned out to be a big one for revenue collections due to large gains in reported business profits and investment income. Realizations of capital gains nearly doubled on the year. While the big April filing season was expected, the full impact of Oregon's rapid job gains and wage growth was not. As a result of booming labor-related income tax collections, it is now highly likely that a personal income tax kicker payment will be triggered at the end of the biennium.

Despite the expected kicker payment, the May revenue outlook now calls for a significant increase in available resources for the upcoming biennium. These increases help provide more funding and flexibility to decision makers on the state budget in terms of being able to fund some competing

demands in approving budget requests for the 2015-17 budget. On the longer term, though, the current 15-17 biennium budget process is not dealing with the recent Oregon Supreme Court ruling rolling back much of the savings from the PERS reforms of the 2013 legislative session and these concerns will need to be addressed in developing the 2017-19 budgets.

The Agency will continue to brief the Commission on the budget development process in the coming months, including a more detailed briefing on the 2015-17 Legislatively Adopted Budget at the August commission meeting, so that information will not be included in this report.

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

DEQ Fee receipts do continue to recover from the declines experienced during the recession, as does the demand for DEQ services in our activities that are sensitive to economic activity, such as the on-site sewage treatment permitting and storm water permitting. The solid waste tipping fees had dropped as consumer, construction, and manufacturing wastes all declined during the recession. In all of these cases, the timing and magnitude of recovery are uncertain, with a component of not just *when* activity will return to pre-recession levels, but also *if* activity will return to pre-recession levels.

As revenues have declined and flattened out, DEQ has 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. At the start of the 2013-15 biennium, DEQ reevaluated the affordable staffing level for the biennium and brought the planned level down to 680 FTE in the DEQ budget execution plan, with detailed affordability levels for each of the agencies main activities, which we call operating subprograms. DEQ will be performing a similar affordability exercise during the summer of 2015 to develop the DEQ budget execution plan for the 2015-17 biennium, and will share that with the Commission once completed.

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 2013-15 biennium.

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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 FY2014**

The Secretary of State annual statewide financial audit report issued for the year ending June 30, 2014 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. There were no major findings or reportable conditions

**3. 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. The auditors noted two findings: one recommending the independent review of the year-end adjustments and financial reporting by staff with an understanding of financial reporting and accounting, and a second noting that a transfer of bond proceeds was conducted to fund future bond administrative costs, whereas bond administrative costs should only be billed when they occur. DEQ is addressing the first finding and has reversed the bond proceed transfer and changed its process for funding bond administrative to correct the second finding.

**4. 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.

**5. 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 partial resolved and still needed attention.

**6. Internal Audit of Small Purchase Order Transaction System (SPOTS) card program for Fiscal Year 2013.**

Overall, Internal Audits determined DEQ's oversight of the SPOTS program meets requirements established by the Oregon Accounting Manual (OAM) 55.30.00 and SPOTS-related policies and procedures.

**B. Audits Currently Underway**

- 1. Secretary of State Opinion Audit of Financial Statements and Internal Controls for Capitalization Grants for the Clean Water State Revolving Fund (CWSRF) for FY2014 (completed 5/28/15)**

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

- 1. Secretary of State Annual Audit of Federal Programs for year ending June 30, 2015.**
- 2. Secretary of State Annual Opinion Audit of CWSRF financial statements for year ending June 30, 2015.**
3. The plan for future internal audits is being updated and is expected to include a variety of compliance audits for FY16, including:
  - a. Agency performance against the requirements from one or two of the program grants, with the specific grant yet to be identified.
  - b. Internal check on Outcome Based Management measures are accurately collected, and documented to ensure consistent and reproducible measurements.
  - c. Assess Solid Waste tipping fees to assure active municipal solid waste landfills comply with applicable rules and regulations, and to assure timeliness and accuracy of the information used to calculate tonnage and the fees owed to DEQ.

## 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 2014 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 estimate 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.

This report covers the actual performance for the 2013-15 biennium, as determined by the 6<sup>th</sup> quarter forecast (developed spring 2015), which uses actual revenue and spending compared to the Operating Budget execution plan developed earlier in the biennium. For each program unit within DEQ, the report presents the forecasted end of biennium balance and provides a stoplight chart assessment of each subprogram unit, rating the financial status of the unit:

- a. green (good)
- 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. The stoplight chart presentation also numerically assesses the impact of forecast ending balance on the Agency's ability to execute the proposed budget for the subsequent biennium, to provide a longer term assessment beyond the end of the current biennium.

While an operating subprogram forecasted to have a deficit is always cautionary, some of DEQ's activities that are fully funded by 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 to finish the 2013-15 biennium or operate in the early months of the 2015-17 biennium.

The stoplight charts represent a compromise between too much detail to be readily understood and too much summarization that could mask issues in specific subprogram units. The DEQ operating subprogram units are constructed around similar activities and funding restrictions, so they represent the largest collection of work that share funding constraints. To increase the key financial information to the program or agency wide summary level risks having one or two large funds with substantial balances giving the appearance that the entire program is healthy, but since those funds can't be used to subsidize units experience financial difficulties, the program or agency summary level presentation will not identify problem areas.

For all of the reports, variance data is presented from a financial framework, with negative variances being adverse from a financial perspective, and positive variances being financially good. The key financial information makes no attempt to assess the programmatic impacts of the financial results – having key positions vacant may create a positive financial variance in the report but may also have a negative impact on the unit's ability to deliver services.

For the 2015-17 biennium, DEQ will also be adopting a new measure under the Managing Resources process in the core work map of DEQ's Outcome Based Management. As part of our effort to improve the accuracy of biennial operating budget development and subsequent forecasts, DEQ will develop a profile of the planned number of full time equivalents (FTE) in each operating subprogram unit by month. DEQ will then measure the actual FTE levels of work each month and track the variance to the plan. We expect that implementation of this measure will help improve planning and execution of DEQ work. Since the cost of personnel represents about 70% of total operating costs, measuring FTE against the plan will also provide more frequent performance and fiscal management information between the current forecast periods. Future annual financial reports will report out on this measure. DEQ had planned to implement these new measures during the 2013-15 biennium, but the Agency reorganization effort changed plans and required to the reallocation of resources away from the project.

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. Air Quality Forecast Stoplight Chart

	2nd QTR	3rd QTR	4th QTR	5th QTR	6th QTR	7th QTR	13-15 FCST End. Bal.	2015-17 Budget Beg. Bal.	2015-17 Impact
	Current Biennium						Transition		
ACDP Permits							2,235,883	1,800,000	435,883
Title V Permits							3,236,635	2,958,315	278,320
Area/Mob OF							615,453	406,000	209,453
Area/Mobile GF/FF							0	-	0
Asbestos							1,294,781	1,300,000	(5,219)
Greenhouse Gas Reporting							1,075,555	950,000	125,555
Pass Through							-	-	-
Special Federal Grants							-	-	-
Revenue Agreements							-	2,000	(2,000)
Vehicle Inspection							5,680,355	5,000,000	680,355

### Subprogram Unit Summaries:

Slower than anticipated filling of vacancies has resulted in additional ending balances projected to be available for use during the 2015-17 biennium for the ACDP, Title V, and Greenhouse Gas Reporting activities.

The Vehicle Inspection ending balance is slightly higher than 15-17 beginning balance requirements, but DEQ recently developed new procedures that will exempt all vehicles (not just vehicles purchased new in Oregon) from inspection for the first four model years, which will result in lower future revenues. The additional balance will help to cover 15-17 expenditures and provide an adequate ending balance for next biennium.

Special federal grants subprogram includes the fine particulate (PM2.5) monitoring sites throughout the state and air toxics monitoring and analysis for sites in Portland and LaGrande. Specific federal grants support the work but the grant funding has not increased in many years. As a result, state General Fund dollars must make up the shortfalls. Subsidizing these grants comes at the expense of other monitoring and emission reduction work.

## B. Water Quality Forecast Stoplight Chart

	2nd QTR	3rd QTR	4th QTR	5th QTR	6th QTR	7th QTR	13-15 FCST End. Bal.	2015-17 Budget Beg. Bal.	2015-17 Impact
	Current Biennium						Transition		
Wastewater Permitting	●		●		●		1,507,770	1,145,034	362,736
WQ Operator Certification	●		●		●		206,598	180,000	26,598
TMDL & Oregon Plan	●		●		●		-	-	-
NPS Implementation 319 Grants	●		●		●		-	-	-
WQ Ambient Monitoring	●		●		●		-	-	-
WQ Program Support	●		●		●		-	-	-
WQ Data Management	●		●		●		-	-	-
WQ Standards & Assessments	●		●		●		-	-	-
Ground Water	●		●		●		-	-	-
401 Certification-Dredge & Fill	●		●		●		10,000	120,000	(110,000)
401 Certification - Hydro	●		●		●		321,969	550,000	(228,031)
CW State Revolving Fund Administration	●		●		●		3,620,028	3,550,000	70,028
DW Assessments & Implementation	●		●		●		214,249	-	214,249
On-Site Systems Permitting	●		●		●		91,735	5,000	86,735
Underground Injection Control	●		●		●		85,602	6,000	79,602
DW & Laboratory Certification	●		●		●		76,008	115,543	(39,535)
Receipts Authority	●		●		●		280,533	-	280,533

### Subprogram Unit Summaries:

401 Certifications – while both segments of the 401 activities will end the biennium with positive ending balance, both are significantly below the balance estimated in developing the 2015-17 Budget and will likely require close monitoring during the upcoming biennium. Actual revenues received during the biennium did not meet estimates and DEQ is currently performing a detailed evaluation of program operations to prepare the

development of the 2015-17 budget execution plan.

Onsite – While green for closing this biennium, the program continues to have revenue issues and has required subsidization with general fund at levels higher than anticipated in order to achieve an ending balance in alignment with expectations for starting off the new biennium.

### C. Land Quality Forecast Stoplight Chart

	2nd QTR	3rd QTR	4th QTR	5th QTR	6th QTR	7th QTR	13-15 FCST End. Bal.	2015-17 Budget Beg. Bal.	2015-17 Impact
	Current Biennium						Transition		
Solid Waste	●		●		●		2,800,635	2,498,604	302,031
Solid Waste - eWaste	●		●		●		1,914,484	823,341	1,091,143
Hazardous Waste	●		●		●		1,659,077	2,188,559	(529,482)
Orphans - Cleanup	●		●		●		113,901	113,898	3
Orphans - Solid Waste	●		●		●		3,928,536	3,904,223	24,313
Cleanup - Dry Cleaners	●		●		●		174,640	193,199	(18,559)
Cleanup - Non-Dedicated	●		●		●		1,399,860	3,250,000	(1,850,140)
Cleanup - Dedicated	●		●		●		12,663,528	10,450,288	2,213,240
Spills	●		●		●		417,342	690,370	(273,028)
Tanks - LUST	●		●		●		1,800,828	682,142	1,118,686
Tanks - UST	●		●		●		545,689	745,740	(200,051)
Tanks - Heating Oil	●		●		●		102,986	204,430	(101,444)

### Subprogram Unit Summaries:

The Cleanup, Non-Dedicated operating subprogram, while ending the biennium with what appears to be a substantial ending balance of \$1.4M, continues to require monitoring as the ending balance is significant short of the amount targeted to start the 2015-17 biennium.




Spills is also on the watch list for similar reasons.

Hazardous Waste, Tanks – UST, and Heating Oil are rated as green for the biennium, but also share ending balances that do not meet the target for starting the 2015-17 biennium.



All of these operating subprograms will be reviewed as part of developing the DEQ budget execution plan during the summer of 2015.

## D. Agency Management Forecast Stoplight Chart


	2nd QTR	3rd QTR	4th QTR	5th QTR	6th QTR	7th QTR	13-15 FCST End. Bal.	2015-17 Budget Beg. Bal.	2015-17 Impact
	Current Biennium						Transition		
AM Summary							2,731,360	3,195,447	(464,087)

### Subprogram Unit Summaries:

Agency Management, which comprises Office of the Director and Central Services Division, is shown to have lower balances than were estimated in the 2015-17 budget beginning balance, but that large level of balance is not required to fully implement the 2015-17 budget.

## IV. Annual Financial Statements

Because DEQ issues debt for use in its Clean Water State Revolving Fund and Orphan Site Cleanup activities, the agency must file annual financial statements as part of meeting the requirements for continuing disclosure on the outstanding bonds. The [DEQ FY 2014 Annual Financial Report](#) is posted on the Electronic Municipal Market Access (EMMA) website run by the Municipal Securities Rulemaking Board.



# Oregon Department of Environmental Quality

*An Agency of the State of Oregon*



## Annual Financial Report

For the Fiscal Year Ended  
June 30, 2014

*Report Prepared By:*  
Central Services Division

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
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**For the Year ended June 30, 2014**

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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.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

	<b>General</b>	<b>Environmental Management</b>	<b>General Obligation Bond</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and Cash Equivalents	\$ -	\$ 277,955,912	\$ 1,828,798	\$ 279,784,710
Accounts and Interest Receivable (net)	24,756	3,432,828	-	3,457,584
Due from State of Oregon General Fund	804,236	-	-	804,236
Due from Other Funds	-	1,680,593	-	1,680,593
Due from Other Agencies	-	636,821	-	636,821
Inventories	628,140	1,602,496	-	2,230,636
Prepaid Items	42,155	97,809	-	139,964
Civil Penalties (net)	353,921	605,299	-	959,220
Loans Receivable (net)	-	391,265,272	-	391,265,272
<b>Total Assets</b>	<b>\$ 1,853,208</b>	<b>\$ 677,277,030</b>	<b>\$ 1,828,798</b>	<b>\$ 680,959,036</b>
<b>Liabilities, Deferred Inflows, and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 810,116	\$ 1,092,245	\$ -	\$ 1,902,361
Due to Other Funds	17,540	1,663,053	-	1,680,593
Due to Other Agencies	1,337	3,385,193	-	3,386,530
Due to State of Oregon General Fund	353,921	-	-	353,921
Trust Funds Payable	-	647,432	-	647,432
Unearned Revenue	-	527,337	-	527,337
<b>Total Liabilities</b>	<b>1,182,914</b>	<b>7,315,260</b>	<b>-</b>	<b>8,498,174</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable Revenue	-	605,299	-	605,299
<b>Total Deferred Inflows of Resources:</b>	<b>-</b>	<b>605,299</b>	<b>-</b>	<b>605,299</b>
<b>Fund Balances:</b>				
Nonspendable	670,294	1,710,305	-	2,380,599
Restricted by:				
Federal Laws and Regulations	-	547,198,923	-	547,198,923
Oregon Constitution	-	1,072,394	-	1,072,394
Enabling Legislation	-	52,595,725	-	52,595,725
Debt Covenants	-	49,650,949	1,828,798	51,479,747
Donors and Other External Parties	-	40,373	-	40,373
Committed	-	17,087,802	-	17,087,802
<b>Total Fund Balances</b>	<b>670,294</b>	<b>669,356,471</b>	<b>1,828,798</b>	<b>671,855,563</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 1,853,208</b>	<b>\$ 677,277,030</b>	<b>\$ 1,828,798</b>	<b>\$ 680,959,036</b>

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



GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General	Environmental Management	General Obligation Bond	Total Governmental Funds
<b>Revenues:</b>				
Licenses and Fees	\$ -	\$ 42,609,854	\$ -	\$ 42,609,854
Federal Grants	-	31,647,841	-	31,647,841
State Funding	14,395,790	-	-	14,395,790
Interest on Cash & Cash Equivalents	-	1,297,775	9,988	1,307,763
Interest on Loans Receivable	-	9,109,644	-	9,109,644
Charges for Services	-	13,145,183	-	13,145,183
Other Revenue	295	701,206	-	701,501
Civil Penalties	696,953	152,353	-	849,306
<b>Total Revenues</b>	<b>15,093,038</b>	<b>98,663,856</b>	<b>9,988</b>	<b>113,766,882</b>
<b>Expenditures:</b>				
Personal Services	7,678,251	51,989,297	-	59,667,548
Services and Supplies	3,872,729	16,335,461	-	20,208,190
Special Payments	147,157	1,973,114	-	2,120,271
Capital Outlay	62,895	245,148	-	308,043
Debt Service:				
Principal - Bonds	1,701,452	-	10,438,548	12,140,000
Interest - Bonds	911,941	-	1,003,779	1,915,720
<b>Total Expenditures</b>	<b>14,374,425</b>	<b>70,543,020</b>	<b>11,442,327</b>	<b>96,359,772</b>
Excess (Deficiency) of Revenues Over Expenditures	718,613	28,120,836	(11,432,339)	17,407,110
<b>Other Financing Sources (Uses):</b>				
Transfers from Other Funds	-	15,742,494	11,442,327	27,184,821
Transfers to Other Funds	-	(27,184,821)	-	(27,184,821)
Transfers from Other Agencies	-	5,244,490	-	5,244,490
Transfers to Other Agencies	-	(127,468)	-	(127,468)
Transfers to State General Fund	(697,249)	-	-	(697,249)
<b>Total Other Financing Sources (Uses)</b>	<b>(697,249)</b>	<b>(6,325,305)</b>	<b>11,442,327</b>	<b>4,419,773</b>
Net Change in Fund Balances	21,364	21,795,531	9,988	21,826,883
<b>Fund Balances - Beginning</b>	<b>518,747</b>	<b>647,550,130</b>	<b>1,818,810</b>	<b>649,887,687</b>
Change in Inventories	130,183	10,810	-	140,993
<b>Fund Balances - Ending</b>	<b>\$ 670,294</b>	<b>\$ 669,356,471</b>	<b>\$ 1,828,798</b>	<b>\$ 671,855,563</b>

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, 2014**

	<u>Enterprise</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 49,038
Accounts and Interest Receivable, net	459,218
Inventories	<u>10,508</u>
Total Current Assets	<u>518,764</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>518,764</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 19,251
Total Current Liabilities	<u>19,251</u>
<b>Total Liabilities</b>	<u>19,251</u>
<b>NET POSITION</b>	
Unrestricted	<u>499,513</u>
Total Net Position	<u>\$ 499,513</u>

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

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2014**

	<u>Enterprise</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 5,120
Other Revenue	<u>697,027</u>
<b>Total Operating Revenues</b>	<u>702,147</u>
<b>Operating Expenses:</b>	
Salaries and Wages	248,184
Services and Supplies	<u>68,462</u>
<b>Total Operating Expenses</b>	<u>316,646</u>
Operating Income (Loss)	<u>385,501</u>
<b>Increase in Net Position</b>	385,501
<b>Total Net Position beginning of year</b>	<u>114,012</u>
<b>Total Net Position end of year</b>	<u><u>\$ 499,513</u></u>

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

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2014**

	<u>Enterprise</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers and Users	\$ 328,174
Payments to Employees	(255,974)
Payments to Suppliers	(46,575)
Payments to Other Funds for Services	
Net Cash Provided (Used) by Operating Activities	<u>25,625</u>
Net Increase (Decrease) in Cash and Cash Equivalents	25,625
Cash and Cash Equivalents - Beginning	<u>23,413</u>
<b>Cash and Cash Equivalents - Ending</b>	<b><u>\$ 49,038</u></b>
 <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating Income (Loss)	\$ 385,501
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Accounts Receivable, net	(373,973)
(Increase) Decrease in Inventories	22,253
Increase (Decrease) in Accounts Payable	(8,156)
Total Adjustments	<u>(359,876)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 25,625</u></b>

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

**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, 2014**

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	<b>Agency Fund</b>
<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.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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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, 2014**

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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, 2014**

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, 2014**

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, 2014**

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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, 2014**

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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, 2014, cash and cash equivalents restricted totaled \$203,789,661 in the Environmental Management Fund, \$1,828,798 in the General Obligation Bond Fund, \$49,038 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, 2014**

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## **P. Change in Accounting Principle**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented in the current year. This statement identifies the specific items previously reported as assets and liabilities that should be reclassified and reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The reclassifications are necessary to report financial statement elements in accordance with the definitions in GASB Concepts Statement No. 4. Implementation of this standard is reflected in the presentation of the governmental funds balance sheet.

## **Q. 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, 2014, the book balance and bank balance of cash and cash equivalents were both \$279,838,748. 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.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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>.

### 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, 2014 is as follows:

Loans Receivable	\$ 392,791,566
Less: Allowance for Principal Forgiveness	(1,526,294)
Total Loans Receivable, net	<u>\$ 391,265,272</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, 2014 was \$778,785.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

#### 4. Capital Assets

Capital asset activity for the year ended June 30, 2014 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	49,381	20,085	-	69,466
Furniture & Equipment	7,326,248	151,191	-	7,477,439
Motor Vehicles	498,900	-	-	498,900
Data Processing Software	7,361,863	846,972	(130,564)	8,078,271
Data Processing Hardware	2,967,297	67,071	-	3,034,368
Leasehold Improvements	2,829,874	59,696	-	2,889,570
Total Capital Assets, Depreciable	21,140,529	1,145,015	(130,564)	22,154,980
Less Accumulated Depreciation for:				
Land Improvements	(63,690)	(4,842)	-	(68,532)
Buildings	(49,381)	(335)	-	(49,716)
Furniture and Equipment	(6,819,427)	(159,239)	-	(6,978,666)
Motor Vehicles	(465,359)	(6,159)	-	(471,518)
Data Processing Software	(7,016,544)	(798,835)	12,040	(7,803,339)
Data Processing Hardware	(2,066,557)	(60,903)	-	(2,127,460)
Leasehold Improvements	(2,382,023)	(40,463)	-	(2,422,486)
Total Accumulated Depreciation	(18,862,981)	(1,070,776)	12,040	(19,921,717)
Total Capital Assets, Depreciable, Net	2,277,548	74,239	(118,524)	2,233,263
Governmental Activities Capital Assets, Net	\$ 2,299,896	\$ 74,239	\$ (118,524)	\$ 2,255,611



**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

#### 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, 2014 was \$5,000,866.

The following schedule summarizes the minimum lease payments for operating leases as of June 30, 2014:

<u>Year Ending 30-Jun</u>	<u>Operating Leases</u>
2015	\$ 4,268,695
2016	4,027,210
2017	2,732,196
2018	620,044
2019	278,216
2020-2024	406,945
Total Future Minimum Lease Payments	<u>\$ 12,333,306</u>

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
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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, 2014:

<b>Year Ending</b>			
<b>30-Jun</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$2,870,000	\$1,499,620	\$4,369,620
2016	3,165,000	1,387,707	4,552,707
2017	2,740,000	1,273,720	4,013,720
2018	2,775,000	1,167,895	3,942,895
2019	3,045,000	1,051,095	4,096,095
2020-2024	12,510,000	3,499,196	16,009,196
2025-2029	8,020,000	1,302,630	9,322,630
2030-2034	3,520,000	200,675	3,720,675
Totals	<u>\$38,645,000</u>	<u>\$11,382,538</u>	<u>\$50,027,538</u>

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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, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and Certificates Payable:					
General Obligation Bonds	\$ 50,785,000	\$ -	\$ (12,140,000)	\$ 38,645,000	\$ 2,870,000
Less Deferred Amounts:					
Issuance Discount	(24,344)	-	1,483	(22,861)	-
Issuance Premium	2,990,168	-	(224,497)	2,765,671	-
Loss on Refunding	(694,087)	-	101,226	(592,861)	-
Total Bonds and Certificates Payable	\$ 53,056,737	\$ -	\$ (12,261,788)	\$ 40,794,949	\$ 2,870,000
Compensated Absences	4,359,737	-	(162,024)	4,197,713	2,770,490
Pollution Remediation Obligations	7,320,668	2,173,170	-	9,493,838	1,394,773
Total Long-term Liabilities	<u>\$ 64,737,142</u>	<u>\$ 2,173,170</u>	<u>\$ (12,423,812)</u>	<u>\$ 54,486,500</u>	<u>\$ 7,035,263</u>

### Arbitrage Rebate Liability

The Tax Reform Act of 1986 places restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. As of June 30, 2014, the Department's total calculated arbitrage rebate liability was \$0.

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## **7. Pollution Remediation Obligation**

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting standards for pollution remediation obligations. These obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement-related activities, and post remediation monitoring. Excluded from the scope of this statement are obligations for pollution prevention and control activities, fines and penalties, landfill closure and post closure care, and other future remediation activities required upon retirement of an asset.

The Department recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. At June 30, 2014, the Department recognized an estimated liability of \$9,493,838 for pollution remediation activities. The liability, which is recorded in the governmental reporting fund for purposes of the State CAFR, was recorded at the current value of the costs the Department expects to incur to perform the work.

For many projects, the Department can reasonably estimate the range of expected outlays early in the process because the site is common or similar to other sites for which the Department has experience. In other cases, the estimates are limited to an amount specified in a contract for remediation services or provided by environmental consulting firms. Expected recoveries from responsible or potentially responsible parties and insurance recoveries are included in estimates and reduce the Department's estimated expense. There were no estimable expected recoveries included in the estimated liability for pollution remediation obligations at June 30, 2014.

When new information indicates changes in expected cash outlays, the liability for pollution remediation is adjusted. Adjustments may be the result of price fluctuations resulting from delays in contracting specific remediation jobs, changes in technology, changes in legal or regulatory requirements, and changes in the remediation plan or operating conditions.

Currently, the Department is obligated as a government responsible for sharing costs to cleanup two Superfund sites, former McCormick and Baxter Creosoting Co. (Portland) and the former Taylor Lumber & Treating Inc. (Sheridan). Both sites are contaminated with chemicals used in the wood-treatment industry. Contamination was found in the soil, groundwater, and sediments of adjacent rivers. As a condition of Environmental Protection Agency's (EPA) funding of Superfund site cleanups, States are required to enter into a contract to provide a 10% share of remedial action costs and to fund long-term operations and maintenance after completion of the remedy. The State has a contractual obligation to provide match for both of these sites, but the expected match for the McCormick & Baxter site is already exceeded by state expenditures at the site. The Department will be obligated for long-term monitoring, maintenance, and operation of the site remedies, once the remedies are complete and declared "operational and functional."

In addition to these two sites, there are four other Superfund sites: Northwest Pipe and Casing (Clackamas), Portland Harbor (Portland), Formosa Mine (Douglas County), and Black Butte Mine (Lane County) where there is a possibility of future pollution remediation cost share obligation.

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In each of these cases, the State has not entered into a contract with EPA, nor have the State and EPA begun discussions of Oregon's contribution and planning of cleanup work has not progressed far enough to make a reasonable estimate of potential obligations. A brief disclosure related to each site follows:

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. The project has been funded to date by a site-specific fund managed by EPA. There is currently insufficient information to determine whether any additional match will be required by EPA, or if there will be operations and maintenance costs associated with whatever solution is proposed.

For the Portland Harbor site, the State expects that it will be requested by the EPA to pay a share of the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") orphan share obligations. When the EPA negotiates a settlement with the liable parties for the Portland Harbor Superfund, it may agree to pay some portion of the financial responsibility assigned to potentially responsible parties who are insolvent or defunct, and unaffiliated with any other viable liable party (the "orphan share"). If the EPA assumes some orphan share costs, the State anticipates the EPA will request to the State to agree to pay 10% of any orphan share payment made by EPA, plus the costs of continuing operation and maintenance of the orphan site(s). At this time, whether the State would enter into such an agreement and the amount the State would pay are unknown, and will depend on the outcome of negotiations with the EPA. The Portland Harbor Superfund site is discussed in greater detail in Note 14.

As of June 30, 2014, EPA has not yet determined a course of action for the Formosa Mine and Black Butte Mine sites, nor has State yet agreed to participate by providing matching funds or long-term operations and maintenance

In addition to the Superfund sites, DEQ is voluntarily performing pollution remediation on five site types (listed below) and only two of which result in net obligations recognized.

*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 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.

*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.

*Industrial orphan sites:* DEQ voluntarily cleans up industrial orphan sites with proceeds of bond 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 orphans 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.

The Department's cleanup costs for dedicated sites will not exceed cash available from responsible parties, plus earned interest, so no costs estimate was necessary for financial statement purposes. Monitoring, operations, and maintenance costs for the Alkali Lake site are based on environmental consulting firm estimates, which include a contingency allowance. For other sites in this category, industrial and solid waste orphans and dry cleaner fund financed cleanups; the Department's obligation is to complete the work currently under contract with environmental services firms. The related obligation accrued is based on the remainder of the contracted work with the environmental firms.

## 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, 2014:

	<b><u>Due From Other Funds</u></b>	<b><u>Due To Other Funds</u></b>
General Fund	\$ -	\$ (17,540)
Environmental Management Fund	1,680,593	(1,663,053)
	<u>\$ 1,680,593</u>	<u>\$ (1,680,593)</u>

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.

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The following schedule summarizes Transfers To and From Other Funds in the financial statements as of June 30, 2014:

	<b>Transfers From Other Funds</b>	<b>Transfers To Other Funds</b>
Environmental Management Fund	\$ 15,742,494	\$ (27,184,821)
General Obligation Bond Fund	11,442,327	-
	<u>\$ 27,184,821</u>	<u>\$ (27,184,821)</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.

#### 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.

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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, 2014, 2013, and 2012 were \$3,584,176 \$3,403,346, and \$3,522,540 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, 2014, 2013, and 2012 were \$2,280,597, \$2,206,548, and \$2,298,394, 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, 2014, 2013, and 2012 were \$2,509,491, \$2,321,586, and \$2,371,725, respectively, equal to the required contributions each year.

## **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.



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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, 2014 was 0.59%, which is embedded within the total PERS contribution rate. The Department's contributions for the years ended June 30, 2014, 2013, and 2012 were approximately \$224,259, \$216,979, and \$226,068, 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, 2014 was 0.27%, which is embedded within the total PERS contribution rate. The Department's contributions for the years ended June 30, 2014, 2012, and 2011 were approximately \$102,627, \$61,306, and \$31,277, 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 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.

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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. 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.

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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, 2014, 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	\$176,182	\$123,472	\$49,625	\$645,832	\$995,111
Grant and Loan Commitments	124,936	1,125,598	-	17,000	1,267,534
Systems Development	-	30,810	-	-	30,810
State Revolving Fund Loan Commitments	-	30,839,000	-	71,665,395	102,504,395
<b>Total Commitments</b>	<b>\$301,118</b>	<b>\$32,118,880</b>	<b>\$49,625</b>	<b>\$72,328,227</b>	<b>\$104,797,850</b>

### 14. Contingencies

#### Litigation

DEQ is involved in negotiations related to a non-judicial allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor. The U.S. Environmental Protection Agency (EPA) has listed a stretch of the lower Willamette River in Portland, Oregon on its National Priorities List (NPL). The boundaries of the Portland Harbor Superfund site have not been finally delineated but could likely include the lower eleven mile stretch of the Willamette River. The Superfund site may also include upland portions of the area where releases of hazardous substances occurred, those releases are not controlled, and the releases pose a threat to the river. There are over 200 parties, private and public, that may eventually bear a share of the costs related to the investigation and clean up of the site. The EPA has not identified any state agency as a potentially responsible party, but the agency will likely participate in a non-judicial allocation of response costs. It is too early in the EPA's remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will assessed against the State. Initial estimates are that total costs may range from several hundred millions of dollars to almost 2 billion dollars.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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The Portland Harbor Superfund site will also involve a separate allocation process for contamination caused injuries to natural resources administered by tribal, federal, and state trustees. Resource inquiries are currently being assessed so that claims may be assessed against the responsible parties. It is too early to estimate what, if any, share of the liability the State may bear for natural resource damage.

The Department may be required to pay a share of the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) orphan share obligations. When the EPA negotiates a settlement with the liable parties for the Portland Harbor Superfund site, it may agree to pay some portion of the financial responsibility assigned to potentially responsible parties that are insolvent or defunct, and unaffiliated with any other viable liable party (the "orphan share"). Under CERCLA, the Department may be asked to pay 10 percent of any orphan share payment made by the EPA. These potential costs are currently unknown.

#### 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. 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, 2014 totaled \$66,418 while for the period ending June 30, 2013 benefits totaled \$96,492.

#### 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.

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**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 Fun

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, 2014

	2014-2015 Biennial Budget		Actual		Variance
	Original	Final	FY 2014	Biennial	
<b>Revenues:</b>					
Civil Penalties	\$ 1,000,000	\$ 1,000,000	\$ 696,953	\$ 696,953	\$ (303,047)
Other Revenue	-	-	295	295	295
State Funding	29,936,112	30,961,259	14,395,790	14,395,790	(16,565,469)
<b>Total Revenues</b>	<b>30,936,112</b>	<b>31,961,259</b>	<b>15,093,038</b>	<b>15,093,038</b>	<b>(16,868,221)</b>
<b>Expenditures:</b>					
Personal Services	\$ 16,201,829	\$ 16,953,246	\$ 7,678,251	\$ 7,678,251	\$ 9,274,995
Services & Supplies	8,531,366	8,728,732	3,940,593	3,940,593	4,788,139
Special Payments	249,868	249,868	147,157	147,157	102,711
Capital Outlay	429,256	505,620	62,895	62,895	442,725
Debt Service					
Principal-Bonds	3,500,162	3,500,162	1,701,452	1,701,452	1,798,710
Interest - Bonds	1,023,631	1,023,631	911,941	911,941	111,690
<b>Total Expenditures</b>	<b>29,936,112</b>	<b>30,961,259</b>	<b>14,442,289</b>	<b>14,442,289</b>	<b>16,518,970</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,000,000	1,000,000	650,749	650,749	(349,251)
<b>Other Financing Sources (Uses):</b>					
Transfers Out (State General Fund)	(1,000,000)	(1,000,000)	(697,249)	(697,249)	302,751
<b>Total Other Financing Sources (Uses)</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>	<b>(697,249)</b>	<b>(697,249)</b>	<b>302,751</b>
Net Change in Fund Balance	-	-	(46,500)	(46,500)	(46,500)
<b>Fund Balance Beginning, Budgetary Basis</b>	<b>-</b>	<b>-</b>	<b>518,747</b>	<b>518,747</b>	<b>518,747</b>
<b>Fund Balance Ending, Budgetary Basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>472,247</b>	<b>\$ 472,247</b>	<b>\$ 472,247</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.

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.

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.

**Fund Balance Ending, GAAP Basis**

89,229

(21,365)

130,183

**\$ 670,294**

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, 2014**  
**(In Dollars)**

	<b>2014-2015</b>		<b>Actual</b>		<b>Variance</b>
	<b>Biennial Budget</b>		<b>FY 2014</b>	<b>Biennial</b>	
	<b>Original</b>	<b>Final</b>			
<b>Revenues:</b>					
Licenses and Fees	\$ 89,070,520	\$ 89,070,520	\$ 42,609,854	\$ 42,609,854	\$ (46,460,666)
Federal Grants	61,426,904	61,486,465	31,647,841	31,647,841	(29,838,624)
Interest	32,483,060	32,483,060	10,407,419	10,407,419	(22,075,641)
Charges for Services	24,428,801	24,440,941	13,186,163	13,186,163	(11,254,778)
Other Revenues	873,157	873,157	701,204	701,204	(171,953)
Civil Penalties	190,000	190,000	152,353	152,353	(37,647)
<b>Total Revenues</b>	<b>208,472,442</b>	<b>208,544,143</b>	<b>98,704,834</b>	<b>98,704,834</b>	<b>(109,839,309)</b>
<b>Expenditures:</b>					
Personal Services	\$ 117,729,183	\$ 121,007,673	\$ 52,898,438	\$ 52,898,438	\$ 68,109,235
Services & Supplies	46,741,109	46,750,644	18,394,034	18,394,034	28,356,610
Special Payments	115,302,693	115,302,693	43,579,577	43,579,577	71,723,116
Capital Outlay	1,721,658	1,834,758	245,148	245,148	1,589,610
<b>Total Expenditures</b>	<b>281,494,643</b>	<b>284,895,768</b>	<b>115,117,197</b>	<b>115,117,197</b>	<b>169,778,571</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(73,022,201)	(76,351,625)	(16,412,363)	(16,412,363)	59,939,262
<b>Other Financing Sources (Uses):</b>					
Transfers In (Operating)	41,876,665	42,401,513	23,942,413	23,942,413	(18,459,100)
Transfers Out (Operating)	(41,876,665)	(42,401,513)	(35,344,948)	(35,344,948)	7,056,565
Transfers In (Other Agencies)	10,806,085	10,806,085	5,244,490	5,244,490	(5,561,595)
Transfers out (Other Agencies)	(259,000)	(259,000)	(127,468)	(127,468)	131,532
Transfers Out (State General Fund)	(1,665,000)	(1,665,000)	-	-	1,665,000
Loan Repayments	62,000,000	62,000,000	25,580,420	25,580,420	(36,419,580)
<b>Total Other Financing Sources (Uses)</b>	<b>131,217,085</b>	<b>131,217,085</b>	<b>19,294,907</b>	<b>19,294,907</b>	<b>(111,922,178)</b>
Net Change in Fund Balance	58,194,884	54,865,460	2,882,544	2,882,544	(51,982,916)
<b>Fund Balance Beginning, Budgetary Basis</b>	<b>-</b>	<b>-</b>	<b>647,550,130</b>	<b>647,550,130</b>	<b>647,550,130</b>
<b>Fund Balance Ending, Budgetary Basis</b>	<b>\$ 58,194,884</b>	<b>\$ 54,865,460</b>	<b>\$ 650,432,674</b>	<b>\$ 650,432,674</b>	<b>\$ 595,567,214</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		
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)		
Loan forgiveness is considered an expenditure for GAAP purposes but it is not recorded for budgetary purposes.			(778,785)		
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		
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		
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)		
Interfund loan repayments are expended on the budgetary basis, but reduce the loan balance for GAAP purposes			60,000		
<b>Fund Balance Ending, GAAP Basis</b>			<b>\$ 669,356,471</b>		

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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## **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. Timing differences occur because of a six-month lapse period between June 30 and December 31 of each odd-number year.



**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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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, 2014. A copy of this report is available at the Department of Administrative Services, Chief Financial Office, 155 Cottage Street NE, Salem, Oregon 97301-3969.