



State of Oregon
Department of Environmental Quality

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

For the Year Ended
JUNE 30, 2008

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**DEPARTMENT OF ENVIRONMENTAL QUALITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(Expressed in Whole Dollars)**

Exhibit A

	<u>GENERAL</u>	<u>ENVIRONMENTAL MANAGEMENT</u>	<u>GENERAL OBLIGATION BOND</u>	<u>TOTAL GOVERNMENTAL FUNDS JUNE 30, 2008</u>
ASSETS				
Cash and Cash Equivalents	\$ -	\$ 98,407,316	\$ 1,547,957	\$ 99,955,273
Accounts and Interest Receivable (net)	5,979	3,958,405	-	3,964,384
Due From State General Fund	1,411,285	-	-	1,411,285
Due From Other Funds	5,310	2,242,449	-	2,247,759
Due From Other Agencies	-	252,865	-	252,865
Inventories	304,482	1,060,428	-	1,364,910
Prepaid Items	-	3,600	-	3,600
Net Contracts, Notes and Other Receivables	-	585,917	-	585,917
Net Civil Penalties	139,592	36,285	-	175,877
Loans Receivable	-	386,556,011	-	386,556,011
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 1,866,648	\$ 493,103,276	\$ 1,547,957	\$ 496,517,881
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 1,084,929	\$ 2,982,513	\$ -	\$ 4,067,442
Due to Other Funds	235,447	2,012,312	-	2,247,759
Due to Other Agencies	-	1,743,739	-	1,743,739
Due to State General Fund	139,592	-	-	139,592
Trust Funds Payable	-	3,459,513	-	3,459,513
Deferred Revenue	-	7,527,726	-	7,527,726
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	1,459,968	17,725,803	-	19,185,771
 Fund Balances:				
Reserved for Encumbrances	102,198	6,224,564	-	6,326,762
Reserved for Inventories	304,482	1,060,428	-	1,364,910
Reserved for Loans Receivables	-	386,556,011	-	386,556,011
Reserved for Prepaid Items	-	3,600	-	3,600
Reserved for Debt Service	-	-	1,547,957	1,547,957
Reserved for Revolving Fund	-	10,000	-	10,000
Unreserved, Undesignated	-	81,522,870	-	81,522,870
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Total Fund Balances	406,680	475,377,473	1,547,957	477,332,110
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Total Liabilities and Fund Balances	\$ 1,866,648	\$ 493,103,276	\$ 1,547,957	\$ 496,517,881

The notes to the financial statements are an integral part of this report.
Capital Assets and Long-Term Debt are disclosed in Notes #3 and # 7 respectively.

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Whole Dollars)

Exhibit B

	<u>GENERAL</u>	<u>ENVIRONMENTAL MANAGEMENT</u>	<u>GENERAL OBLIGATION BOND</u>	<u>TOTAL GOVERNMENTAL FUNDS JUNE 30, 2008</u>
REVENUES:				
Licenses & Fees	\$ -	\$ 34,289,163	\$ -	\$ 34,289,163
Interest and Investments	-	14,353,986	67,726	14,421,712
Civil Penalties	807,933	51,605	-	859,538
Other Revenues	-	16,307,729	-	16,307,729
Federal Revenues	-	16,012,383	-	16,012,383
Total Revenues	<u>807,933</u>	<u>81,014,866</u>	<u>67,726</u>	<u>81,890,525</u>
EXPENDITURES:				
Personal Services	8,525,149	48,990,673	-	57,515,822
Services & Supplies	4,663,613	19,619,769	-	24,283,382
Special Payments	230,729	3,167,878	-	3,398,607
Capital Outlay	239,440	557,151	-	796,591
Debt Service:				
Principal - Bonds	1,565,500	-	1,257,000	2,822,500
Interest - Bonds	807,248	-	707,877	1,515,125
Other Debt Service	-	130,730	-	130,730
Total Expenditures	<u>16,031,679</u>	<u>72,466,201</u>	<u>1,964,877</u>	<u>90,462,757</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(15,223,746)</u>	<u>8,548,665</u>	<u>(1,897,151)</u>	<u>(8,572,232)</u>
OTHER FINANCING SOURCES (USES):				
Transfers From Other Agencies	-	5,101,124	-	5,101,124
Operating Transfers-in	-	14,497,759	1,964,837	16,462,596
Operating Transfers-out	-	(16,462,596)	-	(16,462,596)
Transfers to State General Fund	(807,933)	-	-	(807,933)
Transfers to Other Agencies	-	(119,209)	-	(119,209)
Insurance Recoveries	-	22,729	-	22,729
Long-Term Debt Issued	-	9,300,000	-	9,300,000
Debt Issuance Premium	-	52,019	-	52,019
Appropriations	<u>16,132,338</u>	<u>-</u>	<u>-</u>	<u>16,132,338</u>
Total Other Financing Sources (Uses)	<u>15,324,405</u>	<u>12,391,826</u>	<u>1,964,837</u>	<u>29,681,068</u>
Net Change in Fund Balances	<u>100,659</u>	<u>20,940,491</u>	<u>67,686</u>	<u>21,108,836</u>
Fund Balances - Beginning	265,281	463,445,840	1,480,271	465,191,392
Prior Period Adjustments	<u>-</u>	<u>(8,978,107)</u>	<u>-</u>	<u>(8,978,107)</u>
Fund Balances - Beginning - As Restated	265,281	454,467,733	1,480,271	456,213,285
Change in Reserve for Inventories	<u>40,740</u>	<u>(30,751)</u>	<u>-</u>	<u>9,989</u>
FUND BALANCES - ENDING	<u>\$ 406,680</u>	<u>\$ 475,377,473</u>	<u>\$ 1,547,957</u>	<u>\$ 477,332,110</u>
	(Exhibit A)	(Exhibit A)	(Exhibit A)	

The notes to the financial statements are an integral part of this report.

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008
(Expressed in Whole Dollars)

Exhibit C

	Agency Fund
ASSETS	
Cash and Securities Held in Trust	\$ <u>193,010</u>
Total Assets	\$ <u><u>193,010</u></u>
LIABILITIES	
Trust Funds Payable	\$ <u>193,010</u>
Total Liabilities	\$ <u><u>193,010</u></u>

The notes to the financial statements are an integral part of this report.

**DEPARTMENT OF ENVIRONMENTAL QUALITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Whole Dollars)**

Exhibit D

	2008-09		1ST YEAR ACTUALS BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
General Fund Appropriation	<u>37,915,120</u>	<u>37,856,722</u>	<u>16,173,078</u>	<u>(21,683,644)</u>
Amounts Available for Appropriation	<u>37,915,120</u>	<u>37,856,722</u>	<u>16,173,078</u>	<u>(21,683,644)</u>
Expenditures (Outflows)				
Personal Services	19,724,076	19,669,918	8,525,149	11,144,769
Services & Supplies	12,529,838	12,525,598	4,777,976	7,747,622
Special Payments	426,672	426,672	230,729	195,943
Capital Outlay	464,081	464,081	266,476	197,605
Debt Service				
Principal-Bonds	2,955,500	2,955,500	1,565,500	1,390,000
Interest - Bonds	<u>1,814,953</u>	<u>1,814,953</u>	<u>807,248</u>	<u>1,007,705</u>
Total Expenditures	<u>37,915,120</u>	<u>37,856,722</u>	<u>16,173,078</u>	<u>21,683,644</u>
Budgetary Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Exhibit D-1

Sources/Inflows of Resources

Actual amounts (budgetary basis) "Available for Appropriation"	\$ 16,173,078
The general fund appropriation received from the State General Fund is on an allotment basis. Under GAAP, it is considered as other financial sources	(16,173,078)
Civil penalties and other revenue received are not available to spend by the agency.	<u>807,933</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds (Exhibit B)	<u>\$ 807,933</u>

Uses/Outflows of Resources

Actual amounts (budgetary basis) "Expenditures/Outflows"	\$ 16,173,078
Change in inventory balance from fiscal year 2007.	(40,740)
Change in prepaid assets from fiscal year 2007.	1,539
Encumbrances for supplies, equipment or services ordered but not received is reported in the year the order is placed for budgetary purposes and in the year the supplies or services received for financial reporting purposes.	<u>(102,198)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds (Exhibit B)	<u>\$ 16,031,679</u>

The notes to the financial statements are an integral part of this report.

**DEPARTMENT OF ENVIRONMENTAL QUALITY
BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL MANAGEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Whole Dollars)**

Exhibit E

	2008-09 BUDGETED AMOUNTS		1ST YEAR ACTUALS BUDGETARY	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	BASIS	
Budgetary Fund Balance, July 1	\$ 141,023,034	\$ 141,023,034	\$ 141,023,034	\$ -
Resources (Inflows)				
Business Licenses & Fees	90,572,897	90,572,897	34,289,163	(56,283,734)
Interest and Investments	30,959,452	30,959,452	14,353,986	(16,605,466)
Civil Penalties	-	-	51,605	51,605
Loan Repayments	50,000,000	50,000,000	24,338,252	(25,661,748)
Other Revenues	30,716,253	30,716,253	16,354,597	(14,361,656)
Federal Revenues	34,271,234	34,271,234	16,371,741	(17,899,493)
Transfers From Other Agencies	10,573,712	10,573,712	5,101,124	(5,472,588)
Operating Transfers-In	23,662,699	23,662,699	14,497,759	(9,164,940)
Long Term Debt Issued	9,300,000	9,300,000	9,352,019	52,019
Amounts available for Appropriations	421,079,281	421,079,281	275,733,280	(145,346,001)
Expenditures (Outflows):				
Personal Services	107,729,695	107,455,656	48,990,673	58,464,983
Services & Supplies	46,470,544	46,444,057	25,334,229	21,109,828
Special Payments	95,291,896	95,291,896	62,376,302	32,915,594
Capital Outlay	1,794,302	1,794,302	983,010	811,292
Debt Service:				
Other Debt Service	-	-	130,730	(130,730)
Operating Transfers-Out	14,565,188	14,565,188	16,462,596	(1,897,408)
Transfers to Other Agencies	105,970	105,970	69,220	36,750
Total Charges to Appropriations	265,957,595	265,657,069	154,346,760	111,310,309
Budgetary Fund Balance, June 30	\$ 155,121,686	\$ 155,422,212	\$ 121,386,520	\$ (34,035,692)

The notes to the financial statements are an integral part of this report.

**DEPARTMENT OF ENVIRONMENTAL QUALITY
BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL MANAGEMENT FUND
FOR THE YEAR ENDED 2008**

Exhibit F

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources

Actual amounts (budgetary basis) "Available for Appropriation"	\$ 275,733,280
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes. The beginning balance for the biennium is reported in the first year.	(141,023,034)
Operating transfers-in and transfers from other agencies are inflows of budgetary resources but are not revenues for financial reporting purposes.	(19,598,883)
To avoid overstating revenues, loan repayments are eliminated for financial reporting purposes.	(24,338,252)
Bond proceeds are inflows of budgetary resources but are considered to be non-operating revenues for financial reporting purposes.	(9,352,019)
To record the change in deferred revenue from fiscal year 2007.	<u>(406,226)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Fund (Exhibit B)	<u>\$ 81,014,866</u>

Uses/Outflows of Resources

Actual amounts (Budgetary basis) "expenditures/outflows"	\$ 154,346,760
Operating transfers and transfers to other agencies are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(16,531,816)
To avoid overstating expenditures, loan disbursements are eliminated for financial reporting purposes.	(59,135,735)
Encumbrances for supplies, equipment or services ordered but not received is reported in the year the order is placed for budgetary purposes and in the year the supplies or services received for reporting purposes.	(6,224,564)
Insurance recoveries are reported as reduction of expenditures for budgetary purposes but classified as other financing source for reporting purposes.	22,729
Distributions to other agencies are classified as expenditures for budgetary purposes but classified as operating transfers for financial reporting purposes.	(49,989)
Change in prepaid assets from fiscal year 2007.	8,066
Change in inventory balance from fiscal year 2007.	<u>30,750</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds (Exhibit B)	<u>\$ 72,466,201</u>

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Oregon Department of Environmental Quality

NOTES TO THE FINANCIAL STATEMENTS

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**Oregon Department of Environmental Quality
Notes to Financial Statements**

June 30, 2008

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), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA).

1. Summary of Significant Accounting Policies

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 - 180.

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

The accounts of the agency are organized on the basis of major and nonmajor funds each of which is considered a separate accounting entity with a self-balancing set of accounts. The various funds are established for the purpose of accounting for specific activities or attaining certain objectives in accordance with applicable laws, regulations, restrictions or limitations. The funds used by the DEQ are described below.

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.

- (2) 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.
- (3) General Obligation Bond Fund (Major Fund) accounts for the accumulation of resources for and the payment of interest and principal on general governmental obligations that are disclosed in the Notes.

Fiduciary Funds

- (4) Trust and Agency Funds are 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.

The Department does not have any proprietary funds to be reported as business-type activities. Therefore, the financial statements are only reported as governmental-type activities.

As an agency of the State of Oregon, it is not required for the Department to prepare the Management Discussion and Analysis and Government-Wide Financial Statements. Capital assets and related accumulated depreciation and long term liabilities are disclosed in the Notes to the Financial Statements.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the financial statements.

Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this 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 State of Oregon 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.

Agency funds are accounted for on the modified accrual basis of accounting. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

D. Budgetary Data

Agency budgets are approved by the Legislature biennially 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, nonappropriated budget items that are not legislatively limited by an appropriation bill. Nonappropriated budgets and some nonlimited 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 and the acquisition and depreciation of capital assets. 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.

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 included within the basic financial statements.

E. Cash and Investments

Cash includes all cash deposited in the State Treasury and cash in depositories other than the State Treasury. Cash includes coin, currency, checks, warrants, and other cash equivalents in the hands of an official or a designated agent such as change funds and receipts held prior to deposits.

Investments for all funds are stated at cost. Designated investments are made and held by the State Treasurer.

F. Receivables and Payables

Receivables consist of revenues earned or accrued in the current period. The Department considers receivables collected within 90 days after year-end to be available and recognizes them as revenues of the current year.

Types of receivables included in this classification are related to cost recovery projects, interest, state wastewater treatment loans, civil penalties, and amounts due from the federal government or other governments.

Accounts payable consist mainly of amounts owed to vendors, state agencies or local entities. Outstanding balances between funds are reported as “due to/from other funds”.

G. Inventories

Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are unavailable for appropriation.

H. Capital Assets

Capital assets and depreciation expense used in governmental fund type operations are accounted for in the Agency Reporting Fund. Capital assets acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the Agency Reporting Fund. Assets costing less than \$5,000 or having a useful life of less than two years are not capitalized.

Capital assets are stated at cost. Donated capital assets are reported at estimated fair market value at the date of donation. 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. Assets are depreciated using the straight line method.

I. Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from State service. Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation at termination. Compensated absences liabilities are normally liquidated with expendable available resources and a governmental fund liability and expenditure recognized as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements.

The liability for compensated absences is calculated by each agency based on current salary costs. DEQ's current liability is \$2,653,302 and the noncurrent portion is \$1,306,850 at June 30, 2008.

J. Long-term Obligations

Long-term debt and other long-term obligations used in governmental fund type operations are accounted for in the Agency Reporting Fund. In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, 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 debt service expenditures.

K. Fund Equity

In governmental funds, fund equity has been reserved to indicate that certain current resources are not available for expenditure or are legally segregated for a specific future use. No portion of the unreserved fund balance in the accompanying financial statements has been designated.

L. Rebutable Arbitrage

Rebutable arbitrage is treated as a claim expenditure/expense and is reported in the Agency Reporting Fund.

M. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items in the fund financial statements. In governmental funds, prepaid items are accounted for using the consumption method and a portion of fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

N. Restricted Assets

Certain proceeds of the Agency's bond and certificate of participation (COP) issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because these resources are segregated and their use is limited by applicable bond covenants or COP financing agreements. Generally, this includes cash and investments set aside for current and future debt service payments.

2. Deposits and Investments

Statute and the Oregon Investment Council (Council) govern the State of Oregon's (State) investment policies. The State Treasurer is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill and caution.

The State Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. All of Department's cash is in the Short Term Fund. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the financial statements as cash and cash equivalents. A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report can be obtained from the Office of the State Treasurer, Finance Division, 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>.

A. Custodial Credit Risk for Deposits

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.

Monies in the OSTF are held in demand deposit accounts and time certificates of deposits. Where balances continually exceed \$100,000, Oregon Revised Statutes (ORS) 295.025 requires the depositor to obtain certificates of participation in the amount of the excess deposits from its pool manager. Deposits in the OSTF in excess of FDIC coverage and the State's statutory collateralization requirement are not collateralized and are uninsured; thus the deposits are considered exposed to custodial credit risk. The total balance for the state that is exposed to custodial credit risk can be found in the OSTF Notes to the Financial Statement.

3. Capital Assets

A. Capital Asset Activity

Capital asset activity for the major funds at year ended June 30, 2008 was as follows:

Capital Assets	Balance 07-01-2007	Additions	Disposals	Balance 06-30-2008
Land	\$ 22,348	\$ -	\$ -	\$ 22,348
Land Improvements	112,741	-	-	112,741
Buildings	49,381	-	-	49,381
Furniture & Equipment	5,896,108	459,244	85,472	6,269,880
Motor Vehicles	489,918	-	-	489,918
Data Processing Software	3,890,466	113,204	-	4,003,670
Data Processing Hardware	962,134	-	-	962,134
Leasehold Improvements	<u>2,486,132</u>	<u>224,143</u>	<u>-</u>	<u>2,710,275</u>
Totals at historical cost	<u>13,909,228</u>	<u>796,591</u>	<u>85,472</u>	<u>14,620,347</u>
Less accumulated depreciation for:				
Land Improvements	(37,575)	(5,637)	-	(43,212)
Buildings	(46,649)	(547)	-	(47,196)
Furniture and Equipment	(4,904,175)	(372,614)	85,472	(5,191,317)
Motor Vehicles	(329,932)	(36,642)	-	(366,574)
Data Processing Software	(2,252,505)	(1,047,813)	-	(3,300,318)
Data Processing Hardware	(708,564)	(22,849)	-	(731,413)
Leasehold Improvements	<u>(1,776,833)</u>	<u>(178,492)</u>	<u>-</u>	<u>(1,955,325)</u>
Total accumulated depreciation	<u>(10,056,233)</u>	<u>*(1,664,594)</u>	<u>85,472</u>	<u>(11,635,355)</u>
Capital Assets, net	<u>\$ 3,852,995</u>	<u>\$ (868,003)</u>	<u>(-)</u>	<u>\$ 2,984,992</u>

*Depreciation expense was charged to fund types as follows:

General Fund Activities	\$ 155,911
Environmental Management Fund Activities	<u>1,508,683</u>
Total Depreciation Expense	\$ 1,664,594

B. Insurance Recoveries

The Department received insurance proceeds of \$20,355 for repairs on a truck. The damage was not considered to be major capital asset impairment. The Department also recovered \$2,373 for property theft.

4. Employee Retirement Plans

The State of Oregon Public Employees Retirement System (PERS) is a single pension plan that features both a cost-sharing multi-employer defined benefit plan and an agency multiple-employer pension plan administered by the Public Employees Retirement Board under the guidelines of ORS. An employee is considered vested and eligible for retirement benefits if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment.

The 1995 Oregon Legislature enacted a law creating two tiers of PERS benefits. Employees hired into an eligible position prior to January 1, 1996 are enrolled in Tier One, while employees hired into an eligible position on or after January 1, 1996 are enrolled in Tier Two.

Tier One members are eligible for retirement with unreduced benefits at age 58 or at any age with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

Tier Two members are eligible for retirement with unreduced benefits at age 60 or at any age with 30 or more years of service. Employees may retire after reaching age 55; however benefits are reduced if retirement occurs prior to age 60 with less than 30 years of service.

PERS contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee's contribution has been assumed and paid by the employer at the 6 percent rate set by law. The employer contribution rate from July 1, 2007 through 12/31/07 was 5.45% and thereafter 6.54%.

The Retirement Bond Debt Service Assessment was authorized by the State of Oregon Legislature in 2003 to sell general obligation bonds in the amount of \$2 billion to pay a PERS unfunded actuarial liability. This action reduced the PERS contribution rate for PERS covered employers in November 2003.

The Oregon Department of Administrative Services is coordinating the debt service assessments to PERS employers to cover the bond debt service payments. PERS employers are assessed a percentage of PERS-subject payroll to fund the payments. The assessment rate will be adjusted biennially over the life of the twenty-four year debt repayment schedule.

The payroll assessment rate for the pension obligation bond was 6.20% for the payroll period beginning July 1, 2007 through January 31, 2008 and thereafter 5.95%. For the year ended June 30, 2008, the Department was charged an assessment of \$2,282,769.

The Oregon Public Service Retirement Plan (OPSRP) is a single pension plan that features both a defined benefit plan and a defined contribution plan administered by the Public Employees Retirement Board under the guidelines of ORS. An employee is considered vested and eligible for retirement benefits if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment.

The 2003 Oregon Legislature enacted a law creating OPSRP. Employees hired into eligible positions after August 29, 2003 are enrolled as well as PERS members who have a break in service.

OPSRP members are eligible for retirement with unreduced benefits at age 65 or at age 58 with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. The employer contribution rate was 8.03% from July 1, 2007 through June 30, 2008.

PERS members as of August 20, 2003 who maintain employment without a break in service will have their employee contribution (paid by the employer) deposited to the defined contribution portion of the OPSRP and their employer contribution credited to the OPSRP defined benefit portion of the ORSRP. They will continue to retain their existing PERS accounts and other benefits associated with PERS membership.

The payroll for employees covered by PERS and OPSRP for the year ended June 30, 2008 was \$37,597,439. The amount DEQ contributed and picked up for the year ended June 30, 2008 totaled \$4,620,616.

PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

5. 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.

6. 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, 2008 totaled \$139,374.

7. Long-Term Debt

A. 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.

B. Summary of General Obligation Bond Debt Service:

The following schedule shows the debt service requirements for general obligation bonds as of June 2008:

Year Ending June 30	Principal	Interest	Total
2009	\$ 3,145,000	\$ 1,752,107	\$ 4,897,107
2010	3,285,000	1,623,974	4,908,974
2011	3,415,000	1,500,326	4,915,326
2012	3,565,000	1,367,678	4,932,678
2013	3,715,000	1,226,724	4,941,724
2014-2018	14,705,000	4,011,393	18,716,393
2019-2023	7,795,000	1,416,431	9,211,431
2024-2028	<u>3,390,000</u>	<u>366,824</u>	<u>3,756,824</u>
Totals	<u>\$43,015,000</u>	<u>\$13,265,457</u>	<u>\$56,280,457</u>

C. Certificates of Participation

ORS 283.085 to 283.092 authorizes the State of Oregon to enter into financing agreements through the issuances of certificates of participation. The State has issued certificates of participation on the Agency's behalf to provide funds for the acquisition of furniture, equipment and fixtures for the new laboratory.

D. Summary of Certificates of Participation:

The following schedule shows the debt service requirements for certificates of participation as of June 30, 2008:

Year Ending June 30	Principal	Interest	Total
2009	\$ 100,000	\$21,400	\$121,400
2010	105,000	17,400	122,400
2011	105,000	13,200	118,200
2012	110,000	9,000	119,000
2013	<u>115,000</u>	<u>4,600</u>	<u>119,600</u>
Totals	<u>\$535,000</u>	<u>\$65,600</u>	<u>\$600,600</u>

E. Summary of Changes in Bonded Debt Outstanding:

The following schedule summarizes the changes in the agency reporting fund as of June 30, 2008:

	Beginning Balance 7/1/2007	Additions	Deductions	Ending Balance 6/30/2008	Due Within One Year
Pollution Control Bonds	\$36,445,000	\$ 9,300,000	\$2,730,000	\$43,015,000	\$3,145,000
Certificates of Participation	627,500	-	92,500	535,000	100,000
Discount on Bonds Sold	(12,636)	-	(2,001)	(10,635)	-
Premium on Bonds Sold	164,408	52,019	13,547	202,880	-
Deferred Loss on Refunding	<u>(648,355)</u>	<u>-</u>	<u>(60,196)</u>	<u>(588,159)</u>	<u>-</u>
Total Bonds/Certificates Payable	<u>\$36,575,917</u>	<u>\$9,352,019</u>	<u>\$2,773,850</u>	<u>\$43,154,086</u>	<u>\$3,245,000</u>

F. Defeased Debt

The following schedule summarizes the amount of general obligation bonds outstanding that are considered defeased as of June 30, 2008:

Series 1998A	\$3,045,000
Series 2000B	<u>5,050,000</u>
Total	<u>\$8,095,000</u>

G. Arbitrage Rebate Liability:

The Tax Reform Act of 1986 places restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt 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. The total arbitrage rebate liability was \$4,527 as of June 30, 2008.

8. Leases

Financial reporting and accounting procedures differ between operating leases and capital leases. Operating leases are rental agreements, and payments are chargeable as rent in the services and supplies expenditure account. Capital leases are treated similarly to purchases on contract. The property is capitalized at the present value when the lease is incurred and a corresponding liability is recorded.

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. Rental costs for such leases for the year ended June 30, 2008 was \$4,772,164

A. Schedule of Future Lease Payments

The following schedule summarizes the minimum lease payments for operating and capital leases as of June 30, 2008:

Year Ending	Capital Leases	Operating Leases	Annual Total
June 30, 2009	\$ -	\$ 4,003,199	\$ 4,003,199
June 30, 2010	-	3,560,480	3,560,480
June 30, 2011	-	5,216,612	5,216,612
June 30, 2012	-	3,084,008	3,084,008
June 30, 2013	-	1,978,323	1,978,323
June 30, 2014-2018	-	7,476,019	7,476,019
June 30, 2019-2023	-	1,525,878	1,525,878
June 30, 2024-2028	-	<u>1,407,151</u>	<u>1,407,151</u>
Total Future Minimum Lease Payments	<u>\$ -</u>	<u>\$ 28,251,670</u>	<u>\$ 28,251,670</u>

9. 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, 2008, and the anticipated sources of funding, is summarized in the following table:

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Personal Service Contracts	\$ -	\$ -	\$ -	\$ 231,800	\$ 231,800
Grant and Loan Commitments	433,336	1,477,216	-	385,918	2,296,470
Equipment Purchases	-	-	-	625,448	625,448
State Revolving Fund Loan Commitments	-	<u>33,887,936</u>	-	<u>81,202,990</u>	<u>115,090,926</u>
Total	<u>\$ 433,336</u>	<u>\$ 35,365,152</u>	<u>\$ -</u>	<u>\$ 82,446,156</u>	<u>\$ 118,244,644</u>

10. Interfund Transactions

The following schedule summarizes interfund receivables and payables as of June 30, 2008.

Fund Type	Interfund Receivable	Interfund Payable
Environmental Management	\$2,242,449	\$ 2,012,312
General Fund	<u>5,310</u>	<u>235,447</u>
Total For Agency	<u>\$ 2,247,759</u>	<u>\$ 2,247,759</u>

11. Risk Financing

The Risk Management 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 a commercial excess property policy with limits of \$400 million and a blanket commercial excess bond with limits of \$20 million. 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 for each coverage is based on independent biennial actuarial forecasts and division expenses, less any available fund balance in the Insurance Fund from the prior biennium.

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