

Notes to Financial Statements

The five financial statements included here have been selected to provide information about the receipts and expenditures of public money and about changes in net assets (equity) or fund balances. Additional information is available in the *Comprehensive Annual Financial Report of the State of Oregon* prepared annually by the State Controller's Division of the Oregon Department of Administrative Services and audited by the Secretary of State Audits Division.

Government-Wide Financial Statements

All of the state's activities are reported in the government-wide financial statements, except for activities accounted for in fiduciary funds because resources of those funds are not available to support the state's own programs. The **statement of activities** presents information showing how the state's net assets (the difference between assets and liabilities) changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred.

Fund Financial Statements

The fund financial statements provide more detailed information about the state's most significant **funds** (not the state as a whole). Funds are accounting mechanisms the state uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the state uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

All of the state's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Most of the state's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. Thus, the governmental fund statements provide a detailed **short-term** view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the state's programs.

In governmental funds, 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. Expenditures generally are recognized when a liability is incurred.

The state reports the following major governmental funds:

- The **General Fund** is the state's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund.
- The **Health and Social Services Fund** accounts for programs that provide assistance, services, training and health care to individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of funding for these programs come from federal grants, cigarette taxes, insurance premiums and nonfederal grants and donations.
- The **Public Transportation Fund** accounts for the planning, design, construction and maintenance of highways, roads, bridges and public systems relating to air, water, rail and highway transportation. Funding is provided from dedicated highway user taxes and fees in addition to various federal highway administration funds.
- The **Environmental Management Fund** accounts for programs that promote, protect and preserve the state's forests, parks, wildlife, fish and waterways. The main funding sources for these programs are usage fees, federal grants and sales revenue.

Proprietary funds. Services for which the state charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long-term and short-term financial information. The state's **enterprise funds** (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

The state reports the following major proprietary (enterprise) funds:

- The **Housing and Community Services Fund** accounts for activities to finance multi-family housing construction and home mortgages for low-income families and other programs such as the moderate-income elderly and disabled housing finance program, the single-family loan program and the community development corporation program. Funding is from the issuance of bonds that are repaid from the interest and principal payments made on mortgages.
- The **Veterans' Loan Fund** accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of general obligation bonds that are repaid from the interest and principal payments made on mortgages.

- The **Lottery Operations Fund** accounts for the operation of the Oregon State Lottery. The primary objective of the state lottery is to produce the maximum amount of net revenues to be used for K-12 education programs, furthering economic development, as well as restoring and protecting certain parks and natural resources.
- The **Unemployment Compensation Fund** accounts for federal moneys and unemployment taxes collected from employers to provide payment of benefits to the unemployed.
- The **University System Fund** accounts for the operations of Oregon's seven public universities, including the chancellor's office. Funding is from General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to funds from external donors and federal agencies.

The state uses **internal service funds** (the other type of proprietary fund) to account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis (such as the state's Central Services Fund).

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The state is the trustee, or **fiduciary**, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. Fiduciary funds are accounted for in a manner similar to proprietary funds.

The state reports the following fiduciary fund types:

- The **Pension Trust Funds** account for activities of the Public Employees Retirement System, which administers resources for the payment of retirement, disability, post-employment health care and death benefits to members of the retirement system.
- The **Private Purpose Trust Funds** account for all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations or other governments.
- The **Investment Trust Fund** accounts for the portion of the Oregon Short-Term Fund (OSTF) belonging to local governments. The OSTF is a cash and investment pool, managed by the State Treasurer, which is available for use by all funds and local governments. Oregon reports the state's portion of the pool within the funds of the state.

- The **Agency Fund** accounts for assets held by the state as an agent for other governmental units, organizations or individuals. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Discretely Presented Component Units

The state's component units include the State Accident Insurance Fund (SAIF) Corporation and the Oregon Health and Science University.

Budgetary Data

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 Legislative Assembly no later than December 1 preceding the biennium. The regular legislative session begins in January of each odd-numbered year. The budget is adopted by the Legislative Assembly's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State of Oregon. Appropriations may be at the agency, program or activity level. Accordingly, the legal level of budgetary control is at one of these various levels, depending on the legislature's view of the activity. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the state may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Also included in the Governor's budget recommendations are legally authorized, nonappropriated budget items that are not legislatively limited by an appropriation bill. Spending plans for nonbudgeted financial activities, which are not included in the Governor's budget recommendations, are also established by agencies for certain expenditures to enhance fiscal control. During the biennium, agencies under the Oregon Department of Administrative Services' fiscal policies are allotted spending limits quarterly for each appropriated and nonappropriated item. Each agency's expenditures are monitored against the spending limits and are controlled by the state's central accounting system.

The Legislative Assembly only meets in regular session for approximately six months of each biennium. Provision is made for interim funding through the legislature's Emergency Board. The Emergency Board authorizes and allocates all changes in funding and takes other actions to meet emergency needs when the Legislative Assembly is not in session.