Oregon Department of State Lands

Mission: To ensure a legacy for Oregonians and their public schools through sound stewardship of lands, wetlands, waterways, unclaimed property, estates and the Common School Fund.



DSL is the administrative arm of the State Land Board

- Land Board established at statehood – composed of the Governor (chair), Secretary of State and State Treasurer
- Federal government granted 3.4 million acres of land to fund public education
- Revenue from state lands deposited in Common School Fund; earnings distributed to schools twice a year

2012 – 2016 Strategic Plan

Six Goals to Guide Our Work:

1 Manage Common School Fund Real Property for K-12 Schools

2 Protect Oregon's Wetlands and Waterways

3 Safeguard Unclaimed Property and Estates

4 Oversee Common School Fund Distributions

5 Deliver Excellent Customer Service

6 Serve as State Partner for South Slough

Organizational Structure

Land Board

↓

Director's Office

↓

Programs

(reorganization in 2014)

Common School Fund Property

(Real Property and Trust Property)

Aquatic Resource Management

(Removal-Fill Permits, Planning, State-owned Waterways)

Business Operations and Support Services

(Fiscal, IT, HR, Administrative Support)

South Slough National Estuarine Research Reserve

Goal 1: Common School Fund Property

Manage real property to benefit public schools, sustain a healthy landscape and meet Trust obligations

- About 772,000 acres of surface land
- 767,000 acres of mineral and energy resources
- 2.1 million acres of mineral rights underlying surface acreage owned by other state agencies

Real Property Programs

- Trust land management; revenue generation from lands

- ***Real Estate Asset Management Plan:*** increasing value of state-owned lands; balancing revenue generation with resource stewardship

Real Property, cont.

- Elliott State Forest Planning
- Asset Management
- Portland Harbor Superfund Site

FY 2014

Estimated total value of CSF trust land assets: $518 – 570 million

- $6 million in gross revenues generated from proprietary authorizations on state trust lands
- $4,623,559 in land sales
- 480 active authorizations

Program Option Package

POP 105: Ag Development on Rangelands

$455,000 OF

Limitation for developing 750 acres of southeast Oregon rangelands into irrigated agricultural lands. Fund would support installation of center-pivot irrigation to allow production of primarily alfalfa hay. Over a 20-year lease, the target is a 7 percent return on investment.

Goal 2: Aquatic Resources

Protect Oregon waters through administering the removal-fill law and wetlands conservation planning, and protecting public trust values on state-owned waterways

- Implement Oregon’s removal-fill law
- Manage navigable waterways to preserve public trust values (fisheries, navigation, recreation and commerce)
- Provide planning assistance to protect aquatic resources
- Oversee mitigation programs required by permits

FY 2014

- 1,233 removal-fill permits (includes 951 placer mining authorizations)

- 728 wetland delineation report reviews, wetland determinations and wetland land-use notices

- 1.26 million acres of waterways; 4,500 authorizations

- $3.3 million in revenues from authorizations

Economic Development Assistance

- Wetland mitigation banks (25)
- Removal-fill mitigation fund
- Technical assistance for Certified Industrial Sites
- Participation on Economic Recovery Review Council
- Permit streamlining

Program Option Packages

POP 101: Portland Harbor Cleanup Allocation
$4,746,229 OF; 1 LD FTE

Funds limitation for legal expenses and forensic science experts to protect the state's interest in the Portland Harbor Superfund cost allocation process.

POPs, cont.

POP 106: Administrative Fee for Processing Utility Easements

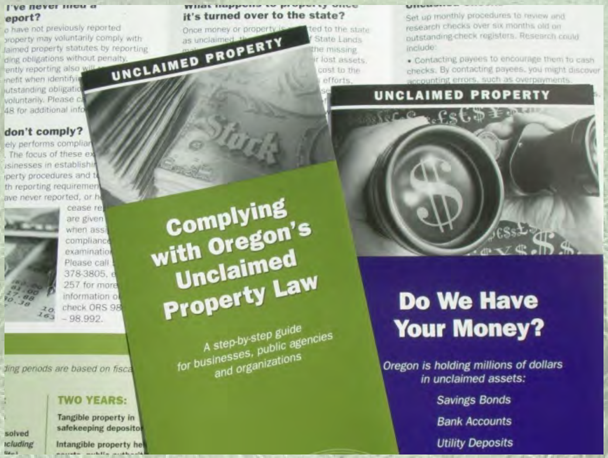
$23,750 Estimated of Revenue

(HB 2460)

Authority to collect an administrative fee for utility easement applications, consistent with other agency processes ($750 for most applications, and $5,000 in the territorial sea) and with fees in neighboring states. Current law excludes utilities from paying such a fee outside of city limits.

Goal 3: Trust Property

Administer unclaimed property and estates laws while safeguarding assets in the Common School Fund



- Consumer protection programs
- Outreach and education components
- Improved online services
- Funds held in Common School Fund to enhance earnings distributions to schools

FY 2014

- $63.8 million in unclaimed property received
- $23.3 million in claims paid to rightful owners
- 13,277 claims paid

- 284 estates administered
- $6.7 million pending permanent escheat to Common School Fund

Goal 4: Maximize Common School Fund Distributions

Monitor investments and sustain distributions to schools

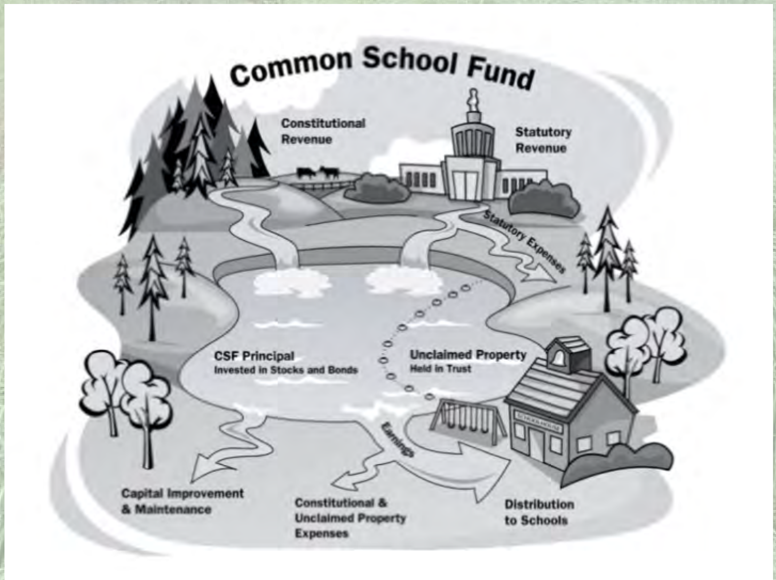
- K-12 school distributions:

  2008: $55.4 million

  2010: $50.4 million

  2012: $48 million

  2014: $50.8 million



- State Treasurer and Oregon Investment Council oversee the investment portfolio

Common School Fund

- Fund exceeded its performance target over the three-year period ending in December 2014, earning a 13.25 percent average annual return

- Market value of CSF is over $1.4 billion

Program Option Packages

POP 102: Improve Internal Controls and Accounting

$274,481 OF; 0.92 FTE

Authority to establish a permanent Accountant 4 position to ensure adequate attention to internal controls and accuracy in accounting and reporting for the Common School Fund. Includes limitation for contracting internal audit services.

POPs, cont.

POP 103: Replace and Upgrade Equipment

$204,682 OF

Includes replacing 10-year-old computer servers for increased system stability and storage capacity. Also includes upgraded equipment for field staff to improve data collection , communication and reliability, and to help ensure safety.

Goal 5: Customer Service

- Improve internal and external customer relations
- Improve service delivery (DSL reorganization)
- Implement systems that keep pace with technology
- Communicate with customer groups more effectively

Customer Service, cont.

- Paperless administrative processes (timesheets, leave requests, invoice approvals, etc.)

- Expanded electronic filing and records retention

- More online customer services (unclaimed property, wetland land use notices, removal-fill authorizations); moving toward implementing others (waterway registrations)

Goal 6: South Slough Reserve

Serve as state partner by providing leadership and administrative oversight

- 5,000-acre protected area located near Coos Bay in Charleston (oversees an additional 1,000 acres of CSF special stewardship forestland)
- State-federal partnership with NOAA; first of 28 reserves nationwide; established in 1974
- Education, Research and Stewardship

South Slough Programs

- Summer camps, public workshops, interpretive programs, educational events
- 6,755-square-foot visitor/interpretive center
- Collaborative partnerships to restore watershed habitats
- Leader in west coast estuarine research

FY 2014

- 225 education/interpretive programs
- 36 training workshops
- 7,610 program participants
- 3,745 visitors at interpretive center
- 19 research projects

Program Option Package

POP 104: Position Alignment at South Slough

$0 OF

Aligns the science and education lead workers by reclassifying the education lead. The two positions provide leadership for the Reserve's two main program areas. Funding will be accomplished by moving funds from Services and Supplies to Personal Services for a net zero effect on the budget.

Agency Key Performance Measures

- 17 KPMs total

- Measure activities in all Common School Fund programs of the agency, and activities of the South Slough Reserve

- The decline of timber revenues has a significant negative affect on the cash flow and growth of the Common School Fund

- Moving forward on most KPMs:
  - 61% “green”
  - 33% “yellow” and “red”
  - 6% - exceptions

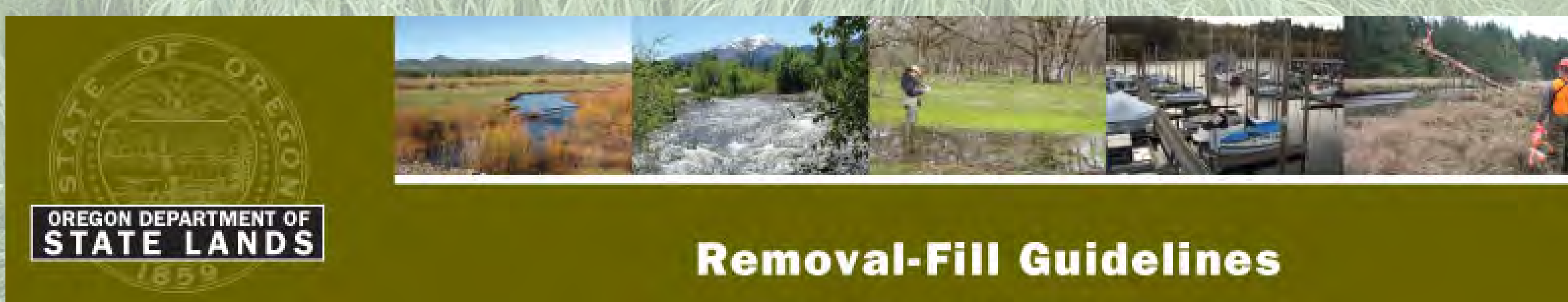
KPMs, cont.

- Specific KPMs include real property and waterway management, removal-fill permitting, wetlands identification and technical assistance, and unclaimed property
- KPM to measure customer satisfaction for the agency as a whole
- The investment activities of the Oregon Investment Council are not included in agency KPMs

Major Budget Drivers

- Manage state lands sustainably to generate revenue for K-12 schools

- Protect Oregon's wetlands and waterways through regulatory, proprietary and wetland planning programs



Major Budget Drivers, cont.

- Increase statewide outreach efforts to increase public understanding of agency programs and regulations

- Manage Common School Fund to increase distributions to schools and reduce administrative expenses

Environmental Factors

- Threatened and endangered species negatively affect revenue generation on state lands (Elliott State Forest, SE Oregon rangelands)
- Non-traditional revenue streams, e.g. environmental credits and alternative energy development, may provide opportunities
- Economic recovery has increased removal-fill permit applications

Environmental Factors, cont.

- Portland Harbor Superfund Site
- Reduced federal dollars for South Slough
- Legal challenges to agency regulatory actions
- Drought, fires on state rangelands

Agency Changes

- Reorganized agency in 2014
- Increased staff/management ratios per HB 4131
- Refocused/updated Real Estate Asset Management Plan
- Since 2007, acquired about 2,000 acres of in-lieu lands from the Bureau of Land Management (1,594 still owed)
- Started *Elliott State Forest Alternatives Project* in 2014
- Improved unclaimed property reporting and claims outreach to owners

Cost Containment

- Increased use of new technologies to meet increased workload, without adding new staff
- Implemented electronic communications, file storage, fiscal processes and web-based services
- Energy efficiencies at Salem headquarters and at SSNERR

Streamlining

- Coordination of federal and state processes for removal-fill permits

- Leading and participating in task forces:
  - Waterway remediation and restoration rules
  - Historically filled lands advisory group
  - Suction dredge task force

Major Budgetary Issues

- Common School Fund Distributions
- Portland Harbor Superfund Site
- Elliott State Forest

Agency Audits

- Third-Party Financial Audit, as of June 30, 2014

Agency Legislative Proposals

SB 249: Payments to R-F Mitigation Fund

HB 2460: Administrative Fee for Utility Easements

HB 2461: Waterway Leasing Exemptions

HB 2462: State Agency Property Transactions

HB 2463: Submerged Land Enhancement Fund

Oregon Department of State Lands

Mary Abrams, Director

OREGON DEPARTMENT OF
STATE LANDS

DEPARTMENT OF STATE LANDS 2013-2015 HIRING DATA

	Classification/Title	Position Number	Salary Range	Step Hired	Fill Date	New Hire	
1	C8504 - Natural Resource Specialist 4	1411003	30	1	8/1/2013	P Martos	
2	C8504 - Natural Resource Specialist 4	9313002	30	**4**	6/4/2014	B Yednock	Hard to fill recruitment/has a doctorate plus experience
3	C0211 - Accounting Technician 2	0211091	17	1	3/10/2014	K To	
4	C1484 - Information Systems Spec 4	1484092	25	2	5/19/2014	E Oswald	
5	X7008 - Principal Executive/Manager E	1411004	33	**6**	12/16/2013	L Warner-Dickason	Promotion one step increase
6	C8503 - Natural Resource Specialist 3	1413001	27	1	6/2/2014	H McDonald	
7	X7002 - Principal Executive/Manager B	0010002	26X	2	9/1/2014	P Wilson	
8	C8503 - Natural Resource Specialist 3	0817007	27	2	4/21/2014	M Butterfield	
9	C8504 - Natural Resource Specialist 4	3092001	30	**8**	6/1/2014	K Verble	Promotion one step increase
10	X0873 - Ops & Policy Analyst 4	1411005	32	2	3/17/2014	C Castelli	
11	X7006 - Principal Executive/Manager D	0105001	31X	**9**	4/1/2014	V McCoy	Voluntary demotion matched step of prior class
12	C0211 - Accounting Technician 2	0211091	17	**4**	5/12/2014	L Long	Justified paystub of prior position
13	C1483 - Information Systems Spec 3	0009009	24I	1	6/23/2014	M Lathrop	
14	C1484 - Information Systems Spec 4	1484072	25I	**9**	9/2/2014	M Swanson	Lateral transfer from OSP came in at same salary
15	C8503 - Natural Resource Specialist 3	0816001	27	**9**	7/1/2014	J Brown	Internal lateral transfer came in at same salary
16	C8503 - Natural Resource Specialist 3	3002002	27	1	8/20/2014	G Hutson	
17	C8503 - Natural Resource Specialist 3	8503076	27	2	8/1/2014	C Stevenson	
18	X7000 - Principal Executive Manager A	1411008	24X	6	10/1/2014	C Myers	Promotion one step increase
19	C1244 - Fiscal Analyst 2	1411007	24	1	11/1/2014	T Atalig	
20	C8502 - Natural Resource Specialist 2	3820002	24	2	8/11/2014	L Brown	
21	C8503 - Natural Resource Specialist 3	0817002	27	2	8/27/2014	M De Blasi	
22	C1096- Planner 1	3001004	23	2	1/12/2015	C Brehm	
23	C8503 - Natural Resource Specialist 3	0031008	27	2	8/27/2014	J Russell	
24	C0435 - Procurement/Contract Asst	0435071	19	2	1/5/2015	P Juarez	
25	C8503 - Natural Resource Specialist 3	8503013	27	**5**	10/15/2014	P Fox	15 yrs experience/prior state scv with DEQ step 7
26	C1216 - Accountant 2	0104001	23	2	1/1/2015	P Lara	
27	C1217 - Accountant 3	0116001	27	2	1/1/2015	T Crawford	
28	C0212 - Accounting Technician 3	5641002	19			in recruitment	
29	C0108 - Administrative Spec 2	0008002	19			in recruitment	
30	C1218 - Accountant 4 (LD)	0116001	30			in recruitment	
31	C0119 - Executive Suport Specialist 2	0014001	19			request to fill	

DEPARTMENT OF STATE LANDS

Reclassification Actions for 2013-2015

NEW Classification/Title		NEW Salary Range	Action	Biennial Cost
X0873 -	Operations and Policy Analyst 4	32	Upward reclass	$ 16,536.00
X1320 -	Human Resource Analyst 1	23	Upward reclass	$ 25,032.00
C0119 -	Executive Support Spec 2	19	Upward reclass	$ 8,520.00
X7000 -	Principal Executive Manager A	24	Downward reclass	$ (49,704.00)
C0437 -	Procurement and Contract Spec 2	27	Upward reclass	$ 23,760.00
C1244 -	Fiscal Analyst 2	27	Downward reclass	$ (36,288.00)
C8501 -	Natural Resource Specialist 1	21	Equal reclass	$ -
C1486 -	Informations Systems Specialist 6	29I	Upward reclass	$ 9,960.00
C8503 -	Natural Resource Specialist 3	27	Upward reclass	$ 18,576.00
X0873 -	Operations and Policy Analyst 4	32	Upward reclass	$ 24,144.00
C0107 -	Administrative Specialist 1	17	Upward reclass	$ 7,656.00
C0107 -	Administrative Specialist 1	17	Upward reclass	$ 7,656.00

All Reclassifications were reviewed and approved by Department of Administrative Services,

<u>HB 3165, HB 4131 and HB 2020 – DSL Ratio Reduction Plan</u>

February 2015

HB 2020's focus was to develop a plan to move state agencies' span of control ratios to 11 non- supervisory to 1 supervisory staff and to report on management service positions.

HB 4131 directed agencies to implement the position and personnel changes needed to reach the HB 2020 ratios. Movement must be made each subsequent year until the agency attains the 11 to 1 ratio.

HB 3165 established criteria to grant exceptions to fill supervisory positions, grant exceptions to positions from specific portions of an agency, allows the director to take into consideration personnel who are seasonal, part-time or not employees of the agency or consider an agency's unique personnel need.

DSL met the ratio reduction required for **October 2012**. This was accomplished by removing supervisory duties from **three supervisory management positions** (Executive Assistant, Human Resource Manager and W&WCD Support Staff Supervisor). Two positions had their direct reports removed but remained in management service and one position was re-classed into classified service. DSL ratio 6 to 1.

DSL met the ratio reduction required for **October 2013**. This was accomplished by removing supervisory duties from **two supervisory management positions** (Asset Manager and Western Region Manager) and establishing one higher level Operations Manager. Two positions had their direct reports removed but remained in management service. DSL ratio 7 to 1.

DSL requested and received approval for an exception for **October 2014 and October 2015**. The **exception granted** allows the agency to add volunteers working at the South Slough National Estuarine Research Reserve to our FTE, increasing the agency's ratio. DSL ratio 9 to 1.

As of July 1, 2015, the agency will have 104 budgeted positions and 13 supervisory positions. Further actions will be required to achieve movement towards the 11 to 1 ratio. The agency has three options: request another exception to include the number of volunteers; reduce the current number of supervisory positions from 13 to 11; or reduce the agency FTE by 4.

State of Oregon Department of State Lands Common School Fund

Annual Financial Statements for the Fiscal Year Ended June 30, 2014

State of Oregon Department of State Lands
Common School Fund
Table of Contents
June 30, 2014

FINANCIAL SECTION

OTHER REPORTS

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FINANCIAL SECTION

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MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

INDEPENDENT AUDITOR'S REPORT

State Land Board
Department of State Lands
Salem, Oregon

We have audited the accompanying financial statements of the Common School Fund, a major governmental fund of the State of Oregon as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Common School Fund as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Common School Fund and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of State Lands, as of June 30, 2014, the changes in their financial position, or where applicable, their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of Common School Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Common School Fund's internal control over financial reporting and compliance.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 2, 2014

BASIC FINANCIAL STATEMENTS

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Balance Sheet

ASSETS		
Cash and Cash Equivalents	$	89,100,543
Investments		1,342,174,796
Custodial Assets		9,837,927
Securities Lending Collateral		71,295,496
Accounts and Interest Receivables (net)		18,282,415
Due from Other Funds		126,472
Advances to Other Funds		300,000
Net Contracts, Notes, and Other Receivables		1,082,954
Total Assets	$	1,532,200,603
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$	35,282,447
Obligations Under Securities Lending		71,295,496
Due to Other Funds		26,160,114
Custodial Liabilities		207,850,553
Total Liabilities		340,588,610
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - contracts		1,082,954
Total Deferred Inflows of Resouces		1,082,954
Fund Balances:		
Restricted by:		
Oregon Constitution		892,976,023
Enabling Legislation		297,494,091
Donors and Other External Parties		58,925
Total Fund Balances		1,190,529,039
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	1,532,200,603

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

REVENUES		
Licenses and fees	$	766,803
Charges for Services		253,691
Fines, Forfeitures, and Penalties		85,335
Rents and Royalties		5,862,618
Investment Income		226,185,447
Sales		187,592
Unclaimed and Escheat Property Revenue		24,359,782
Other		4,316,201
Total Revenues		262,017,469
EXPENDITURES		
Personal Services		7,253,390
Services and Supplies		6,033,302
Capital Improvements		261,459
Investment Expenditures		5,181,385
Total Expenditures		18,729,536
Excess (Deficiency) of Revenues Over (Under) Expenditures		243,287,933
OTHER FINANCING SOURCES (USES)		
Transfers From Other Funds		3,657,435
Transfers to Other Funds		(55,937,018)
Insurance Recoveries		797,205
Total Other Financing Sources (Uses)		(51,482,378)
Net Change in Fund Balances		191,805,555
Fund Balances - Beginning		998,734,222
Prior Period Adjustments		(10,738)
Fund Balances - Beginning - As Restated		998,723,484
Fund Balances - Ending	$	1,190,529,039

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

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the Oregon Department of State Lands' Common School Fund have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants (AICPA).

A – The Reporting Entity

The Department of State Lands (Department) is the administrative agency of the State Land Board handling the day-to-day work of the board in managing the land and other resources dedicated to the Common School Fund. The State Land Board, which consists of the Governor, the Secretary of State and the State Treasurer, is the trustee of the fund as outlined in the Oregon Constitution.

The Common School Fund, a governmental fund, was established at statehood and is intended to generate earnings to distribute to public schools. The Common School Fund accounts for programs that manage state-owned land, including a leasing program that generates annual revenues, for the benefit of the public school system. Estate funds that become the property of the state, unclaimed property, and income derived from unclaimed property are also accounted for in this fund. Statutory and constitutional provisions stipulate that the assets of the fund, including investment income, must be used for common school purposes. The primary funding sources for these programs include investment income, leasing revenues, forest management, unclaimed property receipts, and transfers from other funds.

B – Fund Financial Statements

The fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances. The balance sheet is presented as: total assets equal liabilities, deferred inflows of resources, and fund balances. Information for receivables not expected to be collected within one year of the date of the financial statements and payables reported in the financial statements is discussed in Note 4. The statement of revenues, expenditures, and changes in fund balances reports revenues by type and expenditures by function. Other financing sources and other financing uses are reported in the last section of the statement.

C - Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Common School Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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, revenues are considered available, if they are collected within 90 days of the end of the current fiscal year. Expenditures generally are recognized when a liability is incurred, as under accrual accounting.

D – Deposits and Investments

Deposits

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the Office of the State Treasurer in the Oregon Short-Term Fund (OSTF), cash deposits held in demand deposit accounts with custodial banks, and cash deposits of debt proceeds in investment funds held by a trustee.

Investments

Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Investments in private equities are reported at cost.
- Investments in the OSTF with remaining maturities of up to 90 days are carried at amortized cost, which approximates fair value. The Department reports these investments as cash and cash equivalents on the balance sheet, but as investments in Note 2.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

DERIVATIVES

In accordance with State investment policies, the Office of the State Treasurer participates in contracts that have derivative characteristics. Derivative instruments are used to lower the cost of borrowing, to hedge against fluctuations in foreign currency rates, and to manage the overall risk of investment portfolios. The fair value of all derivative instruments within the Common School Fund are reported on the balance sheet as investments, accounts and interest receivable, and accounts and interest payable. The change in fair value for all Common School Fund derivative instruments is reported with investment income on the statement of revenues, expenditures, and changes in fund balances.

E – RECEIVABLES AND PAYABLES

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to other funds." Receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectible amounts. Payables consist of amounts owed to vendors for operational expenditures, other state agencies for services received and investment liabilities outstanding.

F – INTERFUND TRANSACTIONS

Interfund transactions are transactions between the Common School Fund and other funds included in the Oregon Comprehensive Annual Financial Report. Interfund balances (due to/from other funds and advances to/from other funds) result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances to/from other funds are not expected to be repaid within one year. See Note 7 for more on interfund transactions.

G – RESTRICTED ASSETS

Custodial assets are non-cash assets held in trust for third parties in the Unclaimed Property Program.

H – FUND EQUITY

The difference between assets and liabilities plus deferred inflows of resources is labeled "Fund Balance" on the fund financial statements. Fund balance is reported in five components: (1) Nonspendable, (2) Restricted, (3) Committed, (4) Assigned, and (5) Unassigned.

Restricted fund balances are the result of constraints imposed 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. Common School Fund Balances are all restricted.

For fund balance classification purposes, the Department determines the appropriate classification of each of their detail-level funds based on the resources accounted for in those funds and the constraints on spending those resources. The Department expends resources from the appropriate fund based on each fund's specific spending constraints. Ending fund balances, therefore, are the result of that spending.

I – CHANGES IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2014, the Department implemented one new accounting standard issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* 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 fund financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Common School Fund Investment Portfolio held at Treasury

Investments of the Common School Fund held by the State Treasurer (Treasurer) require the exercise of prudent and reasonable care in the context of the Common School Fund's investment portfolio and as part of an overall investment strategy. The Treasurer is required to diversify investments unless it is not prudent to do so. In addition, the Treasurer must exercise reasonable care to incorporate risk and return objectives suitable to the particular investment fund. The Treasurer has a policy and procedure that addresses objectives and strategies for investments of the Common School Fund.

The Common School Fund's investment policies are governed by statute and the Oregon Investment Council (Council). The Treasurer is the investment officer for the Council and is responsible for the funds on deposit with the Oregon State Treasury (Treasury). The Treasurer works with the State Land Board to ensure implementation of the asset allocation policy that meets the business needs of the Common Scholl Fund. The Council does not make asset allocation changes without considering input from the State Land Board. 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 Treasurer is authorized to use demand deposit accounts, fixed income investments, and direct equity investment transactions, although the majority of equity investments are directed by external investment managers under contract with the Council. Investments are managed around a 70 percent equity and a 30 percent fixed income target with a range of plus or minus 5 percent, as detailed below. The Common School Fund's actual asset allocation is monitored monthly relative to established asset allocation policy targets and ranges. A deviation outside of any of the ranges triggers a review and rebalancing back toward the target asset allocation with due consideration given to the liquidity of the investments and transaction costs. Whenever possible, cash flows into and out of the fund are used to rebalance between asset classes. Cash is held only for business operating purposes.

Asset Class	Benchmark	Target Allocation	Range
Domestic Equities	Russell 3000 Index	30%	25% - 35%
International Equities	MSCI ACWI ex-US	30%	25% - 35 %
Private Equity	Russell 3000 + 300 bps	10%	0% -12%
	Total Equities	70%	65% - 75%
US Fixed Income	Barclays Capital Universal Bond Index	30%	25% - 35%
Cash		0%	0% - 3%
Policy Mix	Weighted aggregate of indexes listed above at target allocation	100%	

Common School Fund Participation in the Oregon Short Term Fund Held at Treasury

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by the Common School Fund. Because the pool operates as a demand deposit account, the Common School Fund portion of the OSTF is classified on the financial statements as cash and cash equivalents. Additional information about the OSTF can be found in the OSTF financial statements at http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-%28OSTF%29.aspx#stat

Common School Fund Investments Held Outside Treasury

Statutes govern the placement of investments of the Common School Fund held outside Treasury as part of trust agreements or mandatory asset holdings by regulatory agencies. The Common School Fund investment portfolio includes $9,612,927 held outside Treasury and included in the $9,837,927 identified as custodial assets on the balance sheet.

A real estate investment portfolio held by the Department includes one parcel valued at $1,100,974 and is included within investments on the balance sheet.

A – DEPOSITS

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Department will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Department does not have a formal policy regarding custodial credit risk for deposits. However, banking regulations and Oregon law establish the insurance and collateral requirements for deposit in the OSTF.

Oregon Revised Statutes (ORS) Chapter 295 governs the collateralization of public funds. Bank depositories are required to pledge collateral against any public fund deposits in excess of the deposit insurance amounts. This requirement provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable.

ORS Chapter 295 provides the statutory authority for the Public Funds Collateralization Program (PFCP). The PFCP is an application created by Treasury to facilitate bank depository, custodian, and public official compliance with ORS Chapter 295. Under the PFCP, banks are required to report quarterly to Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. Banks are also required to report their net worth and FDIC Capitalization information. The FDIC assigns each bank a capitalization category quarterly; well capitalized, adequately capitalized or undercapitalized. Based on this information, the bank's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all banks is calculated for the next quarter. The maximum liability is reported to the bank, Treasury and the custodian.

Barring any exceptions, a bank depository is required to pledge collateral valued at 10 percent or more of the bank's quarter-end public fund deposits if the bank is well capitalized and 110 percent if the bank is adequately capitalized, undercapitalized, or assigned to pledge 110 percent by Treasury.

There are three exceptions to this calculation, and any exceptions are required to be collateralized at 100 percent.

1. A bank may not accept public fund deposits from one depositor in excess of the bank's net worth. If the bank has a drop in net worth that takes it out of compliance, the bank is required to post 100 percent collateral on any amount the depositor has in excess of the bank's net worth while working to eliminate that excess.
2. A bank may not hold aggregate public funds in excess of a percentage of the bank's net worth based on its capitalization category (100 percent for undercapitalized, 150 percent for adequately capitalized, 200 percent for well capitalized) unless approved for a period of 90 days or less by Treasury.
3. A bank may hold in excess of 30 percent of all aggregate public funds reported by all banks holding Oregon public funds, only if the excess is collateralized at 100 percent.

All deposits in the OSTF at June 30, 2014, were with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, all non-interest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the entire bank balance of un-invested OSTF deposits was fully insured.

As of June 30, 2014 $27,528 in other bank balances of the Common School Fund was held by an investment firm, not covered by the FDIC rules. However the firm is a member of the Securities Investor Protection Corporation which provides protection up to $500,000, of which $250,000 applies to cash credit balances. Consequently the entire bank balance of uninvested Common School Fund deposits was fully insured.

B – INVESTMENTS

Custodial Credit Risk

Custodial credit risk for investments of the Common School Fund is the risk that, in the event of the failure of the counter party to a transaction, the State will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Council has no formal policy regarding the holding of securities by a custodian or counter party. For the year ended June 30. 2014, no investment holdings of the Common School Fund held at Treasury were exposed to custodial credit risk.

At June 30, 2014 the Common School Fund held $9,585,399 in investments outside Treasury. These investments were held with Wedbush, an investment firm. The firm is a member of the Securities Investor Protection Corporation (SIPC) which provides protection up to $500,000 of which a maximum of $250,000 applies to cash credit balances. In addition to the coverage provide by the SIPC, the Firm has purchased from Lloyd's of London an excess SIPC bond that provides additional coverage for up to $25,000,000 in cash and securities for each client, subject to an aggregate loss limit of $100,000,000. The excess SIPC bond, together with SIPC coverage, provides for cash credit balances to each client to a maximum of $1,000,000. This protection will replace client's cash and/or securities that are otherwise unrecoverable. It does not cover clients from losses resulting from the decline in the market value of securities in their accounts. No investment holdings of the Common School Fund held outside Treasury were exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk (variable in value) borne by an interest bearing asset such as a loan or a bond, due to variability of interest rates. Approximately 30 percent of the Common School Fund's investment portfolio is invested in fixed income securities. Investment policy for fixed income investments of the Common School Fund is to maintain a well-diversified bond portfolio, managed to maximize total return, that reflects the overall characteristics of the Barclays Capital Universal Index Benchmark and to invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.

Credit Risk and Concentration of Credit Risk

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to make. Treasury investment policies for fixed income investments of the Common School Fund maintain an overall portfolio quality of at least "A" or higher; maintain an average bond duration level of plus or minus 20 percent of the Barclays Capital Universal Index. No more than 30 percent of the total fixed income portfolio at market value, may be maintained in securities rated less than Baa3. No more than 10 percent of the total fixed income portfolio, at market value, may be maintained in Rule 144A securities. No more than 25 percent of the fixed income allocation shall be invested in a single industry, or Government Agency. Use of leverage in any fixed income securities is not allowed (excluding use of securities in a securities lending program).

Highly Sensitive Investments

The Common School Fund held approximately $53.1 million in debt instruments backed by pooled mortgages, TBAs (to-be-announced federal agency-issued mortgage pools), collateralized mortgage obligations (CMOs), or fixed-rate mortgages. These securities represent a stream of principal and interest payments from underlying mortgages and consequently, the value of these securities can be volatile as interest rates fluctuate. Assets with these characteristics may also be susceptible to prepayment by the mortgage holders which may result in a decrease in total interest realized. Additionally, the risk of default exits and collateral held may potentially be insufficient to cover the principal due. The Common School Fund also held approximately $8.6 million of asset-backed securities backed primarily by student loan and manufactured housing loan receivables.

The credit rating and average effective duration for the Common School Fund's Investments Held at Treasury, at June 30, 2014.

Investment Type	Credit Rating	< 1 Year	1-5 Years	6-10 Years	More than 10 years	Total Market Value
U.S. Treasury Obligations	AAA	$ -	$ 2,107,779	$ -	$ -	$ 2,107,779
U.S. Treasury Obligations	Exempt	-	1,310,789	436,735	5,949,420	7,696,944
U.S. Treasury Strips	Exempt	-	-	203,282	-	203,282
U.S. Treasury TIPS	Exempt	-	-	1,974,047	1,967,365	3,941,412
US Federal Agency Debt	AA	-	-	-	120,849	120,849
US Federal Agency Debt	Not Rated	2,999,730	-	-	-	2,999,730
US Federal Agency Mortgages	AAA	17,995	-	-	-	17,995
US Federal Agency Mortgages	Not Rated	3,398,551	119,137	28,583	42,169,713	45,715,984
Corporate Bonds	AA	-	249,885	-	62,420	312,305
Corporate Bonds	A	310,744	3,274,722	4,816,821	2,414,451	10,816,738
Corporate Bonds	BBB	578,351	5,132,799	9,212,939	7,928,177	22,852,266
Corporate Bonds	BB	50,500	70,838	835,964	1,589,394	2,546,695
Corporate Bonds	B	-	78,898	127,950	76,520	283,368
Corporate Bonds	CCC	-	30,300	-	-	30,300
Non-US Government Debt	A	-	-	447,587	-	447,587
Non-US Government Debt	BBB	-	-	-	687,280	687,280
International Debt Securities	AA	-	211,491	21,157	263,908	496,556
International Debt Securities	A	-	890,800	2,069,544	2,139,873	5,100,217
International Debt Securities	BBB	-	1,364,587	3,011,608	3,163,523	7,539,717
International Debt Securities	BB	-	106,278	2,126,866	-	2,233,143
International Debt Securities	B	-	11	9,950	143,175	153,136
International Debt Securities	Not Rated	-	61,064	-	788,747	849,811
Asset Backed Securities	AAA	1,297,056	-	-	-	1,297,056
Asset Backed Securities	AA	1,495,201	-	-	-	1,495,201
Asset Backed Securities	A	1,901,094	-	-	43,115	1,944,209
Asset Backed Securities	BBB	475,033	4,945	-	-	479,978
Asset Backed Securities	BB	438,400	-	-	-	438,400
Asset Backed Securities	B	332,158	-	-	-	332,158
Asset Backed Securities	CCC	294,500	-	-	-	294,500
Asset Backed Securities	CC	2,295,986	-	-	-	2,295,986
Collateralized Mortgage Obligations	AAA	517,872	-	-	305,381	823,253
Collateralized Mortgage Obligations	AA	236,386	-	-	-	236,386
Collateralized Mortgage Obligations	A	1,437,976	-	-	292,357	1,730,333
Collateralized Mortgage Obligations	BBB	2,248,099	-	-	506,174	2,754,273
Collateralized Mortgage Obligations	BB	651,908	-	-	323,202	975,110
Collateralized Mortgage Obligations	B	4,234,132	-	-	308,779	4,542,910
Collateralized Mortgage Obligations	CCC	2,656,575	-	-	254,389	2,910,964
Collateralized Mortgage Obligations	CC	1,859,592	-	-	-	1,859,592
Collateralized Mortgage Obligations	Not Rated	228,864	-	-	232,193	461,057
Mutual Funds, Domestic Fixed Income	Not Rated	-	-	-	223,382,094	223,382,094
Mutual Funds, International Fixed Income	Not Rated	-	-	-	8,265,439	8,265,439
Total Debt Investments		$ 29,956,703	$ 15,014,322	$ 25,323,033	$ 303,377,936	$ 373,671,993

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Total Debt Investments	$ 29,956,703	$ 15,014,322	$ 25,323,033	$ 303,377,936	$ 373,671,993
Equity - Domestic					290,832,454
Equity - International					319,416,167
Equity Mutual Funds - Domestic					229,489,984
Private Equity - Domestic					117,645,601
Real Estate - Domestic					6,646,946
Real Estate - International					3,260,028
Rights & Warrants - International					89,109
Lehman Receivable					21,539
Total Held at Treasury					1,341,073,822
Investmens Not Held at Treasury, Real Estate					1,100,974 [1]
Total Investments					**$ 1,342,174,796**

[1] See Investments Held Outside of Treasury note

Investments Held at Treasury

Fixed income securities are classified using final maturity date or next rate reset date, whichever is sooner. Fixed income mutual funds are classified by effective duration, the measurement used by the fund manager.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. State agencies are required to deposit moneys in state-qualified depositories under Oregon law. Exceptions due to foreign field offices and related circumstances are approved by the Treasurer. International debt securities denominated in U.S. dollars are not subject to currency risk if the investment's obligations will be paid in U.S. dollars. Investment policies for fixed income investments under the management of the Treasurer provides for investments of the Common School Fund in non-dollar denominated securities within a target allocation range of 25 to 35 percent of their portfolio. For investments not under the management of the Treasurer there are no formal policies on foreign currency risk. Deposits and investments exposed to foreign currency risk for the Common School Fund as of June 30, 2014.

	Deposits and Investments (U.S. Dollars)						
Foreign Currency Denominations	Deposits	International Equity Securities	Non-US Government Debt	Real Estate	Repos	Rights and Warrants	Total
Australian Dollar	$ 80,580	$ 12,108,679	$ -	$ 907,209	$ -	$ -	$ 13,096,468
Brazil Real	-	-	230,096	-	-	-	230,096
Canadian Dollar	84,281	26,561,873	-	-	-	-	26,646,154
Swiss Franc	47,936	19,195,534	-	-	-	-	19,243,470
Danish Krone	28,800	5,742,276	-	-	-	-	5,771,076
Euro	673,121	97,727,045	-	1,142,772	-	79,004	99,621,942
British Pound	39,712	35,294,312	-	297,950	-	-	35,631,974
Hong Kong Dollar	69,418	5,130,530	-	312,781	-	10,105	5,522,833
Israeli Shekel	3,938	3,815,565	-	55,888	-	-	3,875,392
Japanese Yen	350,610	55,061,245	-	543,427	-	-	55,955,282
Mexican Peso	74,942	-	2,443,769	-	-	-	2,518,711
Norwegian Krona	50,139	2,550,418	-	-	-	-	2,600,557
New Zealand Dollar	20,957	-	-	-	-	-	20,957
Swedish Krona	26,923	14,554,385	-	-	-	-	14,581,308
Singapore Dollar	58,770	1,737,609	-	-	266,013	-	2,062,392
Total	$ 1,610,127	$ 279,479,470	$ 2,673,864	$ 3,260,028	$ 266,013	$ 89,109	$ 287,378,611

Investments Held Outside Treasury

Some custodial assets held outside Treasury are not investments. The following table shows the credit rating and segmented time distribution for Investments Held Outside Treasury at June 30, 2014.

Investment Type	Credit Rating	Investment Maturities < 1 Year	Investment Maturities 1-5 Years	Investment Maturities 6-10 Years	Balance at June 30, 2014
U.S. Agency Securities [1]	AAA	$ -	$ -	$ 776	$ 776
U.S. Treasury Strips [1]	AAA	1,998	1,892	2,625	6,515
GNMA [1]	AAA	-	2	-	2
Municipal Bonds [1]	AAA	4,997	14,237	-	19,234
Domestic Mutual Funds-debt [1]	not rated	3,120,456	-	-	3,120,456
		$ 3,127,451	$ 16,131	$ 3,401	3,146,983
Real Estate [1]	N/A				1,100,974
Alternative Equities [1]	N/A				12,794
Domestic Equity Securities [1]	N/A				6,425,622
Total					$ 10,686,373

[1] Some investments (along with certain cash deposits) are reported as part of custodial assets on the balance sheet.

C – Securities Lending

In accordance with state investment policies, CSF participates in securities lending transactions. Through securities lending authorization agreements, the Oregon State Treasury has authorized its custodian, State Street Bank, to lend its securities pursuant to the terms and conditions of policy and applicable agreements. As of June 30, 2014, the fair value of cash and non-cash collateral received was $70.5 million and invested cash collateral was $69.1 million for CSF. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

OSTF also participates in securities lending activity. CSF receives an allocated portion of this activity based on its deposits in OSTF. As of June 30, 2014, CSF's allocated portion of cash collateral received and invested cash collateral were $2.2 million and $2.2 million, respectively. Securities on loan from the OSTF in total included U.S. Treasury securities (88.91%), U.S. Agency securities (5.50%), and domestic fixed income securities (5.59%). Cash collateral received for OSTF securities lent is invested in securities lending collateral pools and is not exposed to custodial risk. The following table shows the combined balances of the securities on loan, cash and securities collateral received, and investments of cash collateral held.

Securities Lending as of June 30, 2014

Investment Type	Securities on Loan at Fair Value	Cash and Securities Collateral Received	Investments of Cash Collateral at Fair Value
U.S. Treasury Securities	$ 5,217,405	$ 5,304,678	$ 4,970,224
U.S. Agency Securities	299,201	304,425	-
Domestic Equity Securities	30,138,055	30,842,871	30,807,593
Domestic Debt Securities	15,042,259	15,339,930	15,548,691
International Equity Securities	17,844,124	18,719,660	17,796,413
Allocation from Oregon Short Term Fund	3,588,850	3,662,435	2,185,833
Total	$ 72,129,894	$ 74,173,999	$ 71,308,754

NOTE 3 – DERIVATIVES

Derivatives are financial instruments whose value is derived from underlying assets, reference rates, or indexes. They generally take the form of contracts in which two parties agree to make payments at a later date based on the value of the underlying assets, reference rates, or indexes. The main types of derivatives are futures, forwards, options and swaps.

In the Common School Fund portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at the future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counter party to perform.

The following table shows the foreign currency exchange contracts within the Common School Fund as of June 30, 2014.

		Currency Forward Contracts		
Currency	**Options**	**Net Receivables**	**Net Payables**	**Total Exposure**
Australian Dollar	$ -	$ 90	$ (44,217)	$ (44,127)
Canadian Dollar	-	477,211	(296)	476,915
Swiss Franc	-	-	(77,051)	(77,051)
Danish Krone	-	66,774	-	66,774
Euro Currency	79,004	-	(142,345)	(63,341)
Pound Sterling	-	358,034	(4,868)	353,166
Hong Kong Dollar	10,105	(31)	420	10,494
New Israeli Sheqel	-	(2)	(45,200)	(45,202)
Japanese Yen	-	14,978	(94,555)	(79,577)
Norwegian Krone	-	(394)	33,721	33,327
New Zealand Dollar	-	353,515	-	353,515
Swedish Krona	-	(2,215)	(3,145)	(5,359)
Singapore Dollar	-	-	(2,741)	(2,741)
Total	**$ 89,109**	**$ 1,267,963**	**$ (380,279)**	**$ 976,793**

In the Common School Fund portfolio, rights and warrants are often obtained and held due to existing investments. Rights are the right, but not the obligation, to purchase newly issued equity shares, often in proportion to the number of shares currently owned, in a specified company, at a pre-established price on or within a predetermined date. A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain period. Rights and warrants are privately transacted in over-the-counter markets. Both are subject to general market risk and liquidity risk.

The following table shows the changes in fair value and the fair value of rights and warrants within the Common School Fund as of June 30, 2014.

	Changes in Fair Value [1]		Fair Value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional [2]
Rights	Investment Revenue	$ 137,505	Common Stock	$ 89,109	$ 120,065
Warrants	Investment Revenue	2,227,598	Long Term Instruments	887,684	$ 124,939,794
Total		**$ 2,365,102**		**$ 976,793**	

[1] Excludes futures margin payments

[2] Notional may be a dollar amount or size of underlying for futures and options

The fair value of derivative instruments is reported on the balance sheet as investments, accounts and interest receivables, and accounts payable, and the changes in fair value of derivative instruments are reported on the statement of revenues, expenditures and changes in fund balance as investment income.

NOTE 4 – RECEIVABLES AND PAYABLES

A – RECEIVABLES

The following table disaggregates receivable balances reported in the financial statements as accounts and interest receivable (net) and net contracts. Contracts are not expected to be collected within one year of the date of the financial statements.

Receivables reported for governmental activities at June 30, 2014:

Governmental activities		Total
General accounts	$	124,231
Due from federal government		349,500
Interest		1,718,137
Broker receivable		16,090,547
Contracts		1,134,318
Gross receivables		19,416,733
Allowance for doubtful accounts		(51,364)
Total receivables, net	$	19,365,369

B – PAYABLES

The following table disaggregates accounts payable reported in the financial statements as general accounts payable and broker payable. Payables reported for governmental activities at June 30, 2014:

Governmental activities	Total
General accounts payable	$864,225
Broker payable	34,418,222
Total payables	$35,282,447

C – CUSTODIAL LIABILITIES

Custodial liabilities consist of unclaimed property held in custody by the Department in perpetuity for the rightful owner as required by ORS 98.302-98.436 and 98.991-98.992. The unclaimed property liability is reported at approximately 39% of the total unclaimed property being held. An annual adjustment is made to this account to reduce the amount reported to the amount actually expected to be paid out based on a history of the account. The total legal liability for the unclaimed property program as of June 30, 2014 was $505,349,239. The accumulated annual adjustment as of June 30, 2014 was $297,498,686.

NOTE 5 – LEASES

OPERATING LEASES

The Department has entered into various non-cancelable rental agreements that are accounted for as operating leases because the agreements do not meet the criteria to be classified as capital leases. Operating lease payments are chargeable as rent and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2014, were $120,093. Future minimum rental payments for operating leases in effect as of June 30, 2014:

Year ending June 30,		Payments
2015	$	112,839
2016		55,820
2017		1,279
Total future minimum rental payments	$	169,938

NOTE 6 – POLLUTION REMEDIATION OBLIGATION

Pollution remediation 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 pollution remediation obligations 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 Common School Fund recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. As of June 30, 2014 the Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of contamination in the Portland Harbor Superfund site. There are over 200 parties, private and public, that may eventually bear a share of the costs. It is too early in the Environmental Protection Agency'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 be assessed against the Common School Fund. The Portland Harbor Superfund site is discussed in greater detail in Note 13.

NOTE 7 – INTERFUND TRANSACTIONS

Interfund balances reported in the financial statements as of June 30, 2014.

	Due from Other Funds		
Due to Other Funds	**General**	**Environmental Management**	**Common School**
General	$ -	$ -	$ 25,389,627
Environmental Management	-	-	770,487
Common School	37,617	88,855	-
Total	$ 37,617	$ 88,855	$ 26,160,114

	Advances to Other Funds		
Advances from Other Funds			**Common School**
Environmental Management	$ -	$ -	$ 300,000

Interfund balances result from the time lag between the date a transaction for interfund goods and services or reimbursable expenditures is recorded and the date the payment between funds is made. Advances to other funds are not expected to be repaid within one year.

NOTE 8 – EMPLOYEE RETIREMENT PLAN

The Oregon Public Employees Retirement System (PERS) provides retirement plans for Department employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Oregon Revised Statues (ORS) chapters 238 and 238A. A copy of the Oregon Public Employees Retirement System annual financial reports may be obtained at:
www.oregon.gov/PERS/section/financial_reports/financials.shtml.

PERS Pension

Employees of the Department who were plan members before August 29, 2003, participate in the PERS Pension, a cost-sharing multiple-employer defined benefit pension plan. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options as established by ORS Chapter 238. Options include survivorship benefits and lump sum distributions. The PERS also provides death and disability benefits.

Oregon Public Service Retirement Plan
The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Department employees hired after August 28, 2003, participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits as established by ORS chapter 238A

Beginning January 1, 2004, PERS members became members of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute a percentage of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Department does.
For the PERS Pension and the OPSRP Pension, the Department is required by ORS 238.225 and ORS 238A.220, respectively to contribute actuarially computed amounts as determined by the Board. The funding policies provide for monthly employer contributions. 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 9.86%; and the OPSRP rate is 8.14%

Combined employer contributions for the years ended June 30, 2014, 2013, and 2012 were approximately $436,397, $457,509, and $455,212 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2014, 2013, and 2012 were approximately $291,013, $305,696, and $303,643 respectively.

NOTE 9 – DEFERRED COMPENSATION PLANS

The Oregon Savings Growth Plan (OSGP) is a deferred compensation plan available to eligible state employees. Employee contributions are deposited into the Deferred Compensation Fund established by Oregon Revised Statute 243.411. To participate, an employee enters into an individual agreement with the State to defer current earnings to be paid at a future date. The Public Employees Retirement System (PERS) administers the plan. As a trustee of the assets, PERS contracts with ING to maintain OSGP participant records. The Office of the State Treasurer, as custodian of the assets, contracts with State Street Bank and Trust Company to provide financial services. PERS may assess a charge to participants not to exceed 2 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program.

Participants direct the selection of investment options and bear any market risk. Although the State has no liability for losses under the OSGP, the State does have the prudent investor responsibility of due care. Activity of the OSGP is reported in the Oregon Comprehensive Annual Financial Report under the Deferred Compensation Plan in the fiduciary funds combining financial statements.

NOTE 10 – RISK FINANCING

The State of Oregon administers property and casualty programs covering State government through its Insurance Fund. The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain positions by law to be covered and other key positions.

As a state agency, the Department participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each entity based on its share of services provided in a prior period. The total statewide coverage assessment is based on independent biennial actuarial forecasts and administrative expenses, less carry-forward or equity in the Insurance fund. For the Common School Fund the amount of claim settlements did not exceed insurance coverage for each of the past three years.

NOTE 11 - COMMITMENTS

Commitments are defined as existing arrangements to enter into future transactions or events, such as contractual obligations with vendors for future purchases or services at specified prices and sometimes at specified quantities. Commitments may also include agreements to make grants and loans.

The Oregon Investment Council has entered into agreements that commit the investment managers for the Common School Fund (CSF), upon request, to additional investment purchases up to a predetermined amount. As of June 30, 2014 the Common School Fund had approximately $84.3 million in commitments to purchase private equity investments. These amounts are unfunded and are not recorded in the financial statements.

NOTE 12 – RELATED PARTY DISCLOSURES

The Oregon State Treasurer (Treasurer) is a constitutional officer within the executive branch of the state of Oregon, elected by statewide vote. As chief financial officer for the state, the Treasurer heads the Oregon State Treasury (Treasury). Treasury acts as the central bank for all state agencies and is the largest financial institution in the state. Treasury manages the portfolio of investments for the state's funds, including the Common School Fund.

The State Land Board, which consists of the Governor, Secretary of State and Treasurer, is the trustee of the Common School Fund as outlined in the Oregon Constitution. The Common School Fund's investment policies are governed by statute and the Oregon Investment Council. The Treasurer is the investment officer for the Investment Council. During the year ended June 30, 2014 the Common School Fund paid Treasury $323,789 in fees for the management of the Common School Fund investment portfolio.

NOTE 13– CONTINGENCIES

A – PORTLAND HARBOR SUPERFUND SITE

The Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a ten-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency has listed as a Superfund site under the federal Superfund law (CERCLA). The Department is one of over 200 parties, private companies, and public entities that may eventually be found liable for a share of the costs related to investigation and cleanup of the site.

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OTHER REPORTS

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Land Board
Department of State Lands
Salem, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Balance Sheet and the related Statement of Revenues, Expenditures, and Changes in Fund Balance of the Common School Fund, a major governmental fund of the State of Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Common School Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Common School Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Common School Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Common School Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 2, 2014

POLICY OPTION PACKAGE 101
PORTLAND HARBOR CLEANUP
COMMON SCHOOL FUND/AQUATIC RESOURCE MANAGEMENT

PURPOSE: The Department of State Lands (DSL) anticipates needing continued assistance from the Department of Justice (DOJ) and forensic consultants in the 2015-17 biennium related to the Portland Harbor Superfund Cleanup Site process. DSL is involved in this Superfund site because of the state's proprietary and regulatory activities in the lower Willamette River. We must address complex environmental and legal issues with state and federal environmental agencies and other entities such as the Lower Willamette Group, as cost allocation negotiations and natural resource damage assessment work continues. We are requesting additional resources to cover anticipated legal expenses for defending the state.

HOW ACHIEVED: The DOJ will continue to provide oversight for the Portland Harbor cleanup process through its involvement in the cost allocation process and natural resource damage assessment/restoration work. DOJ's involvement in both these efforts will provide a defensible position for the state, with the goal of reducing future cleanup costs and natural resource damage claims to be paid by the state. In addition to DOJ's legal work, the services of outside forensic consultants are critical to the state's defense. DOJ manages the oversight of an expert witness contract to assist in the state's defense.

ALTERNATIVES CONSIDERED: No other alternatives were considered. DSL does not have the legal expertise or staffing to provide these services, nor do we currently have any alternative funds that could be used for this purpose. Previously, available statutory funds and insurance reimbursements have been spent on ongoing Portland Harbor legal costs.

QUANTIFYING RESULTS: DSL needs assistance from DOJ to limit the liability and cost to the State of Oregon due to the significance of the environmental hazard and likely cleanup costs in Portland Harbor.

STAFFING IMPACT: 1.0 Limited Duration FTE

REVENUE SOURCE: Other Funds $4,746,229.

POLICY OPTION PACKAGE 102
IMPROVE INTERNAL CONTROLS
COMMON SCHOOL FUND/BUSINESS OPERATIONS AND SUPPORT SERVICES

PURPOSE: As the administrative arm of the State Land Board, the Department of State Lands (DSL) is responsible for appropriately accounting for revenues and expenses, and the production of independently audited financial statements and corresponding notes for the Common School Fund (CSF). The diversified investment portfolio of the CSF requires extensive reconciliations and increasingly complex accounting entries. Fiscal year 2013 was the second year the agency produced its own financial statements and was audited by a third-party audit firm. The audit identified a significant deficiency of internal controls specific to reconciliations of substantial accounts.

The agency administratively established a limited duration accountant position during the 2014 fiscal year to assist in the implementation of the necessary internal controls, provide oversight of year-end accounting entries, and help prepare the financial statements. This package seeks position authority and limitation to establish a permanent Accountant 4 to ensure adequate attention to internal controls and accuracy in accounting and reporting.

The package also includes a request for limitation that will allow the agency to contract internal audit services.

HOW ACHIEVED: The Accountant 4 provides professional expertise and assistance to the fiscal manager to ensure the agency complies with Generally Accepted Accounting Principles (GAAP) and meets Governmental Accounting Standards Board (GASB) standards. This support will strengthen internal controls while providing efficient and appropriate accounting entries, all of which will result in clean audits.

ALTERNATIVES CONSIDERED: DSL previously used its internal auditor to prepare the financial statements and be the point of contact with the contract auditor. The narrow focus of the task did not address the overall internal controls needed for the workload of the section as pointed out in the audit. Operationally the agency needs a full-time accountant, and can meet its internal audit needs by contracting with a service provider.

QUANTIFYING RESULTS: Adequate staffing will result in appropriate accounting entries, accurate and timely reconciliations, and audit reports without findings.

STAFFING IMPACT: 0.92 Permanent FTE

REVENUE SOURCE: Other Funds (Common School Fund) $274,481

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BUDGET NARRATIVE

POLICY OPTION PACKAGE 103
REPLACE AND UPGRADE EQUIPMENT
COMMON SCHOOL FUND/BUSINESS OPERATIONS AND SUPPORT SERVICES

PURPOSE: The Department relies heavily on technology to provide its employees with the tools necessary to efficiently do their work. The purpose of this package is to replace aging network servers, increase storage capacity, and supply all field staff with smart phones that are compatible with new GIS technology and remote access to the agency network.

The Eastern Oregon region work group travels in remote areas over rough terrain on a regular basis and is presently using a 4-wheel drive truck that needs to be replaced before it becomes unreliable and costly to repair. There is limited or no cell phone coverage in many of the remote areas particularly in large portions of Eastern Oregon and this package includes a request for limitation to provide satellite phones as a safety measure to staff working in such areas.

HOW ACHIEVED: The Department's strategic decision to move toward a paperless environment has substantially increased demands on network disk space and server resources. The current servers are nearly 10 years old and have been out of production for some time, making it hard to find replacement parts. Network storage capacity needs are rapidly increasing and will continue to do so as the existing hard files are scanned into the system. This package request includes $139,150 to purchase two blade server chassis, gigabit switches, server blades, and a storage array with 20TB usable capacity. Replacing and upgrading the servers and storage will provide continued reliability of technology services to the Department's employees, partners, and customers.

Providing staff with technology that increases portability for fieldwork will improve efficiencies and productivity. Smartphones will enable staff to monitor and respond to emails, keep in touch with their team members and the office, use new GIS applications and access their files remotely.

This package request includes $43,200 for upgrading current cell phones and adding data plans.

Employees working alone in remote and rugged terrain often do not have cell phone coverage and therefore, no reliable way to call for assistance in an emergency situation. The package request includes $8,100 for the purchase and monthly access plans of three satellite phones.

The Department currently owns a heavy duty pickup truck used exclusively by the Eastern Oregon field office for transporting materials and equipment over unimproved roads to access remote parcels owned by the Department. The truck needs to be replaced in the 2015-17 biennium. The Department has placed a request with fleet services to replace the agency-owned vehicle with a leased vehicle. This package includes $14,232 for the costs of leasing the replacement vehicle.

ALTERNATIVES CONSIDERED: If the department defers investment in the IT infrastructure it can expect to have performance problems as the older equipment struggles to keep up with the increased demands. The agency requested and received an estimate of $505,000 per biennium from the State Data Center (SDC) to host the Department's network. Purchasing new equipment is the least cost and most appropriate use of state resources.

BUDGET NARRATIVE

Alternatives for the other requests in this package were not considered. Providing improved technology, increased safety, and reliable transportation are essential for employee productivity, safety, well-being and efficiency.

QUANTIFYING RESULTS: Replacing and modernizing equipment minimizes the potential for lost productivity and promotes efficiencies. These efficiencies will allow for shorter turn-around time on permit and authorization decisions which will increase revenues and provide better customer service.

STAFFING IMPACT: No Impact

REVENUE SOURCE: Other Funds (Common School Fund) $204,682.

BUDGET NARRATIVE

POLICY OPTION PACKAGE 104
POSITION ALIGNMENT
SOUTH SLOUGH NATIONAL ESTUARINE RESEARCH RESERVE

PURPOSE: This package reclassifies one position at the South Slough National Estuarine Research Reserve (SSNERR): the Education Coordinator is reclassified from a Natural Resource Specialist (NRS) 3 position to a Policy Analyst 4. This action completes the re-alignment of the SSNERR into three distinct program focus areas.

HOW ACHIEVED: SSNERR recently re-aligned its organizational structure into three distinct groups: Administration and Facilities, Science, and Education. The operations manager oversees the Administration and Facilities group and the lead scientist provides the oversight for the science group. The agency HR manager audited the education lead position and determined it was more appropriately classified as a Policy Analyst 4.

Funding for this package is achieved by moving limitation from services and supplies to personal services for a no net cost to the agency.

ALTERNATIVES CONSIDERED: There are no appropriate alternatives to consider. The reclassification has been reviewed and approved by DAS. The staff person currently in the position is paid at a work-out-of-class rate.

QUANTIFYING RESULTS: The Education Program lead is responsible for developing and implementing training programs locally, regionally and nationally. The audience for the various programs range from toddlers to teachers. Successful education programs result in improved understanding of estuaries and coastal watersheds.

STAFFING IMPACT: None

REVENUE SOURCE: Other Funds/Federal Funds: accomplished by moving limitation from Services and Supplies to Personal Services for no net change to limitation

BUDGET NARRATIVE

POLICY OPTION PACKAGE 105
AGRICULTURAL DEVELOPMENT ON RANGELANDS
CAPITAL IMPROVEMENTS/COMMON SCHOOL FUND PROPERTY

PURPOSE: The Department of State Lands owns about 625,000 acres of open rangelands in southeast Oregon, and an additional 4900 acres of irrigated agricultural land. Leasing these lands brings revenue into the Common School Fund – in FY 2013, $114,363 in net income from ag lands and $52,230 from rangelands (note: fire suppression expenses come out of rangeland revenues, decreasing the net income).

The agency's *Real Estate Asset Management Plan* directs DSL to "meet or beat" the current ten-year average Common School Fund returns (currently 6.5 percent). One strategy to accomplish this has been to increase revenue on state-owned rangelands through converting them to irrigated agriculture where appropriate. Developing irrigated lands on rangelands generates higher revenues for the Common School Fund: about $2/acre on average for grazing leases compared to more than $50/acre for irrigated agriculture leases.

Beginning in 2011, DSL began partnering with lessees to develop rangelands into center-pivot irrigated agriculture, supporting production of primarily alfalfa hay. By the end of 2015, more than 1,000 rangeland acres will have been developed into irrigated agricultural land. Development costs are shared with the lessee, and generally include DSL paying for the permanent irrigation infrastructure (well drilling and electrical), and the lessee furnishing pumps and irrigation equipment, and paying all costs associated with production.

This package is a request for $455,000 in limitation that will allow the agency to develop an additional 750 acres of rangeland for agricultural production in the 2015-17 biennium. Over a 20-year lease, this investment is expected to produce a return-on-investment of at least 7 percent, or about $40,000 per year.

HOW ACHIEVED: The due diligence the agency completes on all proposed projects includes determining the estimated costs and expected rate of return (target – at least 7%); clearing environmental concerns such as the presence of wetlands, species habitat and cultural resources; and securing necessary water permits. When the analysis is complete, DSL makes a decision on investing in the proposed agricultural development project. The ultimate goal is a lease in full production, which will generate many times the previous forage fee per acre. Over time, these investments will result in significantly more revenue from state-owned lands.

ALTERNATIVES CONSIDERED: The alternative is to keep the land leased for forage (grazing), which will not bring the long-term return to the Common School Fund.

QUANTIFYING RESULTS: The costs vs. anticipated rate of return (7%) will be analyzed over time as irrigated agricultural lands are put into production and leases secured.

STAFFING IMPACT: None

REVENUE SOURCE: Other Funds (Common School Fund) $455,000

BUDGET NARRATIVE

POLICY OPTION PACKAGE 106
ADMINISTRATIVE FEE FOR PROCESSING UTILITY EASEMENTS
COMMON SCHOOL FUND/ AQUATIC RESOURCE MANAGEMENT

PURPOSE: ORS 758.010 (1) allows any person or corporation to construct, maintain and operate its water, gas, electric or communication service lines, fixtures and other facilities across a state-owned waterway free of charge (outside of city limits). ORS 758.010 (1) and (3) state that the lines may not obstruct the state-owned waterway, and that the Department of State Lands (DSL) "may impose reasonable requirements for the location, construction, operation and maintenance of the lines, fixtures and facilities on such land." A person or corporation applies for an easement on a standard application that is reviewed for completeness and circulated for review and comment. DSL reviews the comments and issues an easement with any applicable reasonable requirements to ensure that public trust uses of the waterway are not obstructed. In accordance with ORS 758.010, DSL issues these easements at no charge. However, the process for administering the easements has an administrative cost to DSL.

DSL has submitted a legislative concept (LC 603) to amend ORS 758.010 to add language that would allow the agency to collect an administrative fee to help defray costs for processing utility easements outside of city limits.

HOW ACHIEVED: Upon passage of the bill, the agency will initiate the rulemaking process to establish the administrative fee structure.

ALTERNATIVES CONSIDERED: No other alternatives were considered, other than retaining the status quo.

QUANTIFYING RESULTS: Though administrative fees would be established through rulemaking, the agency anticipates that about $23,750 could be generated in the 2015-17 biennium. This is based on a $750 fee for most utility facilities, and a $5,000 fee for projects in the territorial sea. These are the current administrative fees in agency rules.

STAFFING IMPACT: None

REVENUE SOURCE: An application fee to offset the agency's administrative costs of processing these easements.

BUDGET NARRATIVE

POLICY OPTION PACKAGE 501
MEASURE 91 IMPLEMENTATION

PURPOSE: Measure 91 legalized the sale of marijuana in Oregon and provided the Oregon Liquor Control Commission (OLCC) the statutory authority to establish, regulate and license the retail sales of marijuana. The Common School Fund will receive 40% of the excise tax revenue proceeds from the OLCC.

HOW ACHIEVED: The law takes effect in January 2016, after which time the OLCC will effect transfers of funds to the Department.

STAFFING IMPACT: None

REVENUE SOURCE: Other Funds

REVENUE: $3,643,577