Oregon
Kate Brown, Governor

Department of State Lands
775 Summer Street NE, Suite 100
Salem, OR 97301-1279
(503) 986-5200
FAX (503) 378-4844
www.oregon.gov/dsl

STATE LAND BOARD

February 4, 2020
10:00 am – 12:00 pm
Oregon Department of State Lands
Land Board Room
775 Summer St NE
Salem, Oregon

AGENDA

Consent Items

1. Request for approval of the minutes of the December 10, 2019, State Land Board Meeting.

Action Items

2. ~~Request for approval of a direct sale of 34.06 acres of subsurface minerals and geothermal rights located in Tillamook County Township 2 South, Range 10 West, Section 1. Tax Lots 1000, 1100 and 1200, LAS File #61926.~~ **Withdrawn by DSL 1/29/20**

3. Proposed Legislative Concepts

Informational Items

4. Trust-Estates Annual Report

5. ODF Report on Common School Forest Lands

6. Aquatic Resource Management Sustainability Report

7. Common School Fund Audit Summary

Continued on next page

8. Other

Livestream available at: https://www.youtube.com/channel/UCQA7FHTWwl-gjJkQeYPJ1IA

This meeting will be held in a facility that is accessible for persons with disabilities. If you need assistance to participate in this meeting due to a disability, please notify Arin Smith at (503) 986-5224 or arin.n.smith@state.or.us at least two working days prior to the meeting.

Visitors are NOT permitted to bring backpacks, bags, or large purses into the DSL building prior to, during, or following Land Board meetings.

Purses, medical bags, and diaper bags are permitted, but may be subject to inspection by OSP.

Public Testimony - The State Land Board places great value on information received from the public. The Board accepts both oral and written comments on ***consent and action agenda items only***.

When providing testimony, please:

- Provide written summaries of lengthy, detailed information
- Recognize that substance, not length, determines the value of testimony or written information
- Endorse rather than repeat the testimony of others

Written comments may be submitted before or during the meeting for consideration by the Board. To speak at the meeting, you must sign in on the sheet provided at the information table located near the meeting room's entrance. The standard time limit is three minutes for each individual. The Board cannot accept testimony on a topic for which a public hearing has been held and the comment period has closed.

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The State Land Board (Land Board or Board) met in regular session on December 10, 2019, in the Land Board Room at the Department of State Lands (DSL or Department), 775 Summer Street NE, Salem, Oregon.

Present were:

Kate Brown	Governor
Bev Clarno	Secretary of State
Tobias Read	State Treasurer

Land Board Assistants

Jason Miner	Governor's Office
Richard Vial	Secretary of State's Office
Ryan Mann	State Treasurer's Office

Department Staff

Vicki Walker	Bill Ryan	Jean Straight	Mary French	Ken Armstrong
Arin Smith	Anne Friend	Lee Hullinger	Eric Metz	Meliah Masiba

Department of Justice
Matt DeVore

Governor Brown called the meeting to order at 10:02 a.m. The topics discussed and the results of those discussions are listed below. To view the Land Board (Board) meeting in its entirety, please visit our YouTube page: https://www.youtube.com/watch?v=Tj7MikcpRFw&t=9s

Consent Items

1. **Minutes**

   Treasurer Read made a motion to approve the minutes for the October 22, 2019, Land Board meeting.
   Secretary Clarno seconded that motion.
   The consent item was approved at 10:05 a.m.

Action Items

2. **Elliott State Research Forest Update**

   Director Walker gave a brief background and overview of the Elliott State Research Forest (ESRF) concept exploration process.

   10:15 a.m.
   Director Walker introduced the Dean of the College of Forestry at Oregon State University, Anthony Davis to speak regarding OSU's work.

10:41 a.m.
Troy Rahmig, Project Manager with ICF who is developing the Habitat Conservation Plan (HCP) for the Forest, came to the table and gave a presentation on their work.

Troy introduced Kim Kratz with NOAA Fisheries and Paul Henson with U.S. Fish and Wildlife. They expressed their agency's support for the HCP.

Questions and comments were taken from Governor Brown.

10:55 a.m.
Director Walker introduced members of the Elliott State Research Forest Advisory Committee, Keith Tymchuk, Bob Sallinger, Paul Beck, Mary Paulson and Asha Aiello. They discussed the committee process and their experiences being a part of it.

Comments were taken from Secretary Clarno.

11:22 a.m.
Director Walker introduced Chief Brainard with the Confederated Tribes of Coos, Lower Umpqua, and Siuslaw Indians; and Robert Kenta with the Confederated Tribes of the Siletz Indians. They expressed their support for the current direction of the ESRF Committee.

Director Walker made her closing statements, informing the Board that they should expect a proposal from OSU in the Fall of 2020 and requested approval from the Board to continue the Committee process.

Comments were taken from Treasurer Read.

Governor Brown called a short recess at 11:40 a.m. to reorganize the agenda.

3. **Request for approval to sell the area of the Stevens Road Tract within the Urban Growth Boundary in a brokered transaction.**
12:08 p.m. (Item 4 was discussed before Item 3)

Director Walker gave an overview of the agenda item. She then introduced Mayor Sally Russell, Representative Cheri Helt and Senator Tim Knopp (arrived later) so they could give their input to the Board. Carolyn Egan, City of Bend Economic Development Director, joined them at the table.

Questions were taken from Governor Brown.

One public comment was taken.

12:34 p.m.
Director Walker then introduced the brokers involved in the sale of the property to explain the sale process.

Questions were taken from Secretary Clarno.

Governor Brown made a motion to approve Action Item 3.
Treasurer Read seconded that motion.
The Action Item was approved at 12:43 p.m.

4. **Request for adoption of changes to the administrative rules governing the recreational use on state-owned land (Oregon Administrative Rules (OAR) 141-088-0210 and 141-088-0220).**
11:52 a.m.

Director Walker gave a brief overview of the proposed rules and the areas affected by them.

Governor Brown made a motion to approve Agenda Item 4.
There were no objections to that motion.
The Action Item was approved at 11:58 a.m.

<u>Other</u>

Each member of the Board made comments regarding agenda item 3.

12:50 p.m.
Public comment was taken regarding agenda item 2

Comment was taken from Treasurer Read.

The meeting was adjourned at meeting at 2:11 p.m.

____
Kate Brown, Governor

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Vicki L. Walker, Director

Oregon
Kate Brown, Governor

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State Land Board

Regular Meeting
February 4, 2020
Agenda Item 3

SUBJECT

Request for authorization to proceed with drafting legislative concepts to be submitted to the Department of Administrative Services (DAS) for the 2021 Legislative Session.

ISSUE

Whether the State Land Board should authorize the Department of State Lands (DSL) to proceed with drafting 2021 legislative concepts to submit to DAS for review and drafting in preparation for pre-session filing.

AUTHORITY

ORS 273.041 directing DSL to exercise all of the administrative functions of the State Land Board.

ORS 171.130 allowing the Governor and DAS to pre-session file certain state agency bills.

BACKGROUND

The DAS schedule for 2021 legislative concepts requires all agencies to submit proposals to DAS for review by April 17, 2020. DAS and the Governor's Office will complete their review by May 29, 2020, and forward approved concepts to Legislative Counsel for drafting. By November 13, 2020, agencies must submit draft concepts to DAS and the Governor's Office for final approval. The deadline for pre-session filing is

December 4, 2020. During the legislative concept development period, there are multiple opportunities to fine-tune or withdraw any concept, and DSL will continue to discuss these concepts with other agencies and stakeholders to refine the concepts in response to any input we receive. DSL will provide updates on the legislative concept process at Land Board meetings through December 2020.

PROPOSED LEGISLATIVE CONCEPTS

Requests from the Director's Office:

Elliott State Forest (Placeholder)-

> A placeholder bill in anticipation of legislative or statutory needs to move forward on the transfer of the Elliott State Forest to be operated as a research forest under the University of Oregon's College of Forestry.

Requests from Aquatic Resources Management Program:

Citation Authority for Removal-Fill Granted to Oregon State Police-

> Currently the only recourse for even minor removal-fill violations is the Department administrative process. In certain cases, it could be beneficial to allow OSP to issue a citation with a lesser fine to quickly resolve the violation while educating the responsible party. OSP citation would allow faster processing for both the state and the applicant in potential removal-fill violations. DSL sees this as an efficient way to increase compliance with the Removal-Fill Law.

Abandoned and Derelict Vessels and Camping (Placeholder)-

> DSL has recently seen a significant increase in health and safety complaints relating to unauthorized use of public lands and waterways. The Department has received multiple requests from upland property owners for emergency closures of these lands due to the presence of biohazards, trash, and personal property being left at camping sites, as well as an increase in abandoned and derelict vessels.
>
> Addressing these unauthorized uses takes intensive cleanup, long- and short-term storage of personal property, and continued monitoring and enforcement of each site to prevent and deter reoccurrence. Given the emerging nature and volume of the adjacent camping issues, DSL currently has neither the dedicated staff nor the funding resources to successfully manage the workload.

DSL would anticipate an omnibus bill for abandoned and derelict vessels and camping issues to include policies that address resources, staffing, statutory revisions, and proposed preventative measures.

Requests from the Unclaimed Property Program:

UP Transfer Reconciliation (Placeholder)-

SB454 (2019) directs the Department and the Oregon State Treasury to move forward in transferring the Unclaimed Property Program from the Department to OST. Both agencies have been working collaboratively to this end and this request is in anticipation of statutory changes that might be required to finalize this transfer.

UP Abandoned Property-Payroll-

Abandoned unpaid wages are reported to the Department three years from the date the property owner (the payee) last had contact with the employer (or "provided evidence of interest"). The states that are adjacent to Oregon and the federal Uniform Unclaimed Property Act of 2016 require that abandoned unpaid wages be reported after one year. This discrepancy places an administrative burden on employers by requiring them to treat abandoned wages differently for Oregon. The Department would like to revise ORS 98.334 to require reporting after a one-year dormancy period. A shorter dormancy period deposits abandoned wages into the Common School Fund to earn interest while expediting return of wages to the property owner.

UP Abandoned Property- Investment Securities-

Currently, most states align with the standards found in the federal Uniform Unclaimed Property Act of 2016. Oregon law differs, which has led financial institutions to report securities that in fact are not unclaimed. The Department would like to revise ORS 98.322 to come into alignment with the federal standards.

UP Public Records Exemption-

The Department would like to keep all information related to an unclaimed property audit as exempt from public records disclosure until the audit is completed and the findings report is issued. The Department would also like to keep claims documentation exempt from public disclosure without the claimant’s consent.

The Department holds sensitive information for hundreds of thousands of individuals, employers and contractors, from tax and vital records to bank account numbers, proprietary information and audit-related data. The Department obtains this information during its audit and claim processes. Those who submit this information have a reasonable expectation that they are submitting it in confidence, and that the Department will protect it. Disclosing this information is not in the public interest, as it can expose individuals to fraud; it can reduce the Department's ability to bring companies into compliance with unclaimed property statutes; and it can result in less property reported to Oregon and fewer people claiming their property.

The proposed concept would revise ORS 192.355(16) to include audit records from being exempted until the audit is completed and claims documentation to be exempt from disclosure without the claimant's consent.

Requests from the South Slough National Estuarian Research Reserve:

South Slough Boundary Expansion-

The South Slough National Estuarine Research Reserve (SSNERR) is currently defined as "the South Slough of Coos Bay, from Valino Island southward." Lands acquired by and managed by the Department but located north of Valino Island are required to be identified as special stewardship lands. These lands are managed by the Reserve team but located outside of the official National Estuarine Research Reserve boundary. This distinction prevents the use of federal funding for management of these special stewardship lands because they are located outside of the designated reserve boundary.

Amending the language in ORS 273.553 allows all lands managed by the South Slough to be included in the official reserve boundary. This would enable the reserve to apply for federal funding to support the management of these lands and rectify the inconsistent designation of SSNERR lands versus Reserve-managed lands.

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M E M O R A N D U M

Date: February 04, 2020

To: Governor Kate Brown
Secretary of State Bev Clarno
State Treasurer Tobias Read

From: Claudia Ciobanu
Trust Property Manager

Subject: Trust Property Unit Report FY 2018 & FY 2019

The Department of State Land's Trust Property Division manages the Unclaimed Property and Intestate Estate Administration programs.

UNCLAIMED PROPERTY PROGRAM

Background:

State law requires businesses and organizations, called holders, to report and remit property to the state when they lose contact with the property owner, usually after a period of one to three years.

Oregon's unclaimed property statutes date back to 1957. Originally, the law applied only to financial institutions, and the state was required to keep property for 25 years. After 25 years, the property became a permanent part of the state's assets. Over time, statutes changed significantly. Today they apply to every type of industry and include a wide variety of property types, from uncashed checks and stocks to unused gift certificates and pre-paid services. Furthermore, unclaimed property[1] is now held in perpetuity for the rightful owners or their heirs.

On average, the Department receives about $65 million in unclaimed property yearly and returns about half of that to owners. The total value of unclaimed property the Department holds in trust is $670 million. These funds are held in the Common School Fund and invested for the benefit of Oregon's public education.

Program Activities:

The Unclaimed Property team efforts fall into several categories:

- Educating and advising holders on Oregon's unclaimed property statutes and administrative rules;
- Auditing holders to ensure compliance with unclaimed property statutes;
- Verifying holder reports and posting them to our website so they can be found by property owners;
- Searching for property owners to reunite them with their funds; and
- Reviewing, approving and paying owner claims.

Program Highlights:

Unclaimed property reported to the state continues to grow, and we are returning more money to owners every year.

As illustrated in Table 1, the $67.6 million reported as unclaimed property during Fiscal Year (FY) 2018 represented a significant increase from FY 2017 – a 17% jump worth about $8.5 million. In FY 2019, unclaimed property receipts reached a record of almost $70 million.

Claims saw an increase of 7% from FY 2017 to 2018. That accounted for $4.7 million more being returned to owners, for a total of $32.5 million. In FY 2019, we returned $1.35 million more than in FY 2018.

Table 1 Trust Property Unclaimed Property Receipts (Reported) and Refunds (Claimed)

Fiscal Year	$ Reported	$ Claimed
2018	$67.6 million	$32.5 million
2019	$69.8 million	$33.8 million

During the FY 2018-2019 period, staff conducted the following program activities:

- Hosted 20 free unclaimed property reporting workshops throughout the state and online, and conducted additional unclaimed property presentations to business professionals.

[1] Most property is held as is received; however, contents of safe deposit boxes and stocks of small value are sold, and their liquid value is available for owners to claim.

- Processed more than 14,000 holder reports.
- Posted more than one million properties on our website so they can be claimed by owners.
- Conducted 91 audits of Oregon companies that never filed unclaimed property and identified about $320,000 in past-due funds.
- Worked with contract auditors to complete 750 audits, which returned $9.74 million in unclaimed property to Oregon.
- Processed more than 19,000 claims in FY 2018 and almost 17,000 claims in FY 2019. Overall, we released more than 124,000 properties during FY 2018-2019.
- Our owner-location activities have become more precise. About 20% of our claims were initiated because of our team's research efforts. The total value of those claims was about a third of the claims we paid.

The attached charts (Appendix A and B) show the growth of unclaimed property receipts and claim payments for the past several years.

Over the last ten years unclaimed property claims have more than doubled, while staffing levels remained the same. Furthermore, claims staff dedicate time to work other than claims. Garnishment processing, which is statutorily mandated and important to our state and local government partners, has increased at a rapid pace and now takes approximately 30 percent of unit resources.

The overall increase in claims and garnishments has negatively impacted our statutory compliance and customer service levels. Oregon Revised Statute 98.402 directs DSL to "respond to unclaimed property claims within 120 days," or approximately 4 months. At the end of 2017, response time was approximately 3 months (89 days); at the end of 2018, response time neared 4.5 months (136 days), and at the end of 2019, it reached 7 months (213 days).

We expect claims to increase as more unclaimed property is reported to Oregon. To comply with statutes and provide better service levels to our customers, we need additional staff. We made an unsuccessful request during the 2019 legislative session, and we plan to renew it during the 2020 session. In the meantime, we hired temporary help to address the growing workload.

INTESTATE ESTATES ADMINISTRATION PROGRAM

Background:

Under Oregon's Constitution, the Department is tasked with managing the estates of residents who die without a will and without known heirs, called intestate estates. Our goal is to find heirs for these estates as soon as possible. Until we do, DSL acts as personal representative for the estate and fulfills the fiduciary responsibilities imposed by law. The estates we manage range from those of decedents who are destitute to those with multi-million-dollar assets. If no heirs come forward in 10 years from date of death, the value of the estates permanently escheats to the Common School Fund.

Millions of dollars pass through the estates program each year and large amounts are reunited with rightful heirs found by Department staff. Without the efforts of the Department, the assets of many estates would fall into the hands of those who have no legal right to claim them.

Program Activities:

The Estates team efforts fall into several categories:

- Educating Oregon businesses of the statutory requirement to notify DSL of any individuals who die without a will and known heirs.
- Inventorying, safeguarding and liquidating assets to preserve the value for the estate.
- Administering assets and satisfying creditors.
- Searching for heirs directly and by using private genealogy researchers.
- Validating domestic and international heirship claims by working with the Oregon Department of Justice and contracted forensic genealogists.
- Filing estate taxes.
- Completing legal process for estate administration.

Program Highlights:

The Estates team continues to open more cases, locate more heirs and fully administer more estates every year. As illustrated in Table 2, during FY 2018, we opened almost 1,000 cases, which represents a 10% growth from FY 2017. During 2019, we opened a record 1,149 cases which corresponds to a 15% increase from FY 2018.

Table 2 Trust Property – Estates Case Load

Fiscal Year	Cases Opened	Heirs Found	Estates Partially Administered[2] (Insolvent)	Estates Fully Administered (Solvent)
2018	980	701	243	36
2019	1149	779	329	41

During the FY 2018-2019 period, staff conducted the following program activities:

- Educate landlords, funeral homes, medical examiners, attorneys, judges and others concerning the Department's role in intestate estate cases.

[2] Estates administration duties vary depending on each case, funds available and claims against the estate. Some cases are referred to Department of Human Services (DHS) to finalize administration if DHS has a significant claim on the estate.

- Administered more than $5 million in estate assets, managed 23 homes, sold 11 homes and countless other estate assets, such as cars, guns, coins, household goods and artifacts.
- Paid more than $895,000 to heirs, permanently escheated $355,000 to the Common School Fund, and set aside an additional $3.1 million for the 10-year hold before the funds can permanently escheat to the state.

TRUST PROPERTY GOALS AND OBJECTIVES

1. ***Make unclaimed property reporting accurate, easy, and fast***

- In September 2019, we implemented a new unclaimed property system, KAPS. The system allows unclaimed property holders to upload a data file or manually report for free. Additional improvements are planned for 2020 to allow reporters to upload supporting documentation and eliminate the need for paper during the reporting process.
- In October 2019, we adopted ACH debit payments, which allows reporters to easily remit unclaimed property to Oregon. The payment system is integrated with KAPS. This integration reduces the administrative cost of processing check payments and reconciling with the reporting system. This has been a great customer service improvement for our holders and a time-saving tool for our staff.
- Every year, the team continues to offer free educational seminars around the state. In 2019, we offered seminars online to improve access to accurate reporting information. The online seminars were very well attended.

2. ***Make the claim process simple and timely***

- With the adoption of KAPS, claimants have increased functionality that makes filing claims easier. Property owners can now file claims and upload all their documentation electronically. In addition, the system automatically verifies simple claims of less than $2,500. If ownership is validated, claims are approved automatically and paid within days.
- The team continues to analyze internal processes and procedures to identify improvements. Staff are continually refining their owner location tools to increase accuracy.
- We hired temporary help to address the current claims workload and will continue to request new permanent FTE to meet statutory response timelines and Department customer service standards.

3. ***Businesses find it easy to understand the rules and comply with the law***

- The largest compliance issue is simply that stakeholders are not aware of their responsibilities for intestate estates and unclaimed property reporting. Our team is looking at outreach efforts and partners to help educate stakeholders to increase this category of compliance.

- Our increased partnership with contract auditors is returning more unclaimed property to Oregon and provides much-needed nationwide education about Oregon's unclaimed property laws and rules.

4. Improvements to Uniform Unclaimed Property Act

- Holders who report to multiple states want more uniformity in state laws. During the 2018 legislative session, HB 2273 and HB 2274 began to address this issue. After public comment, we determined that these needed more consideration. In 2021, we are putting forward revised legislative concepts to make our law more uniform with other states.

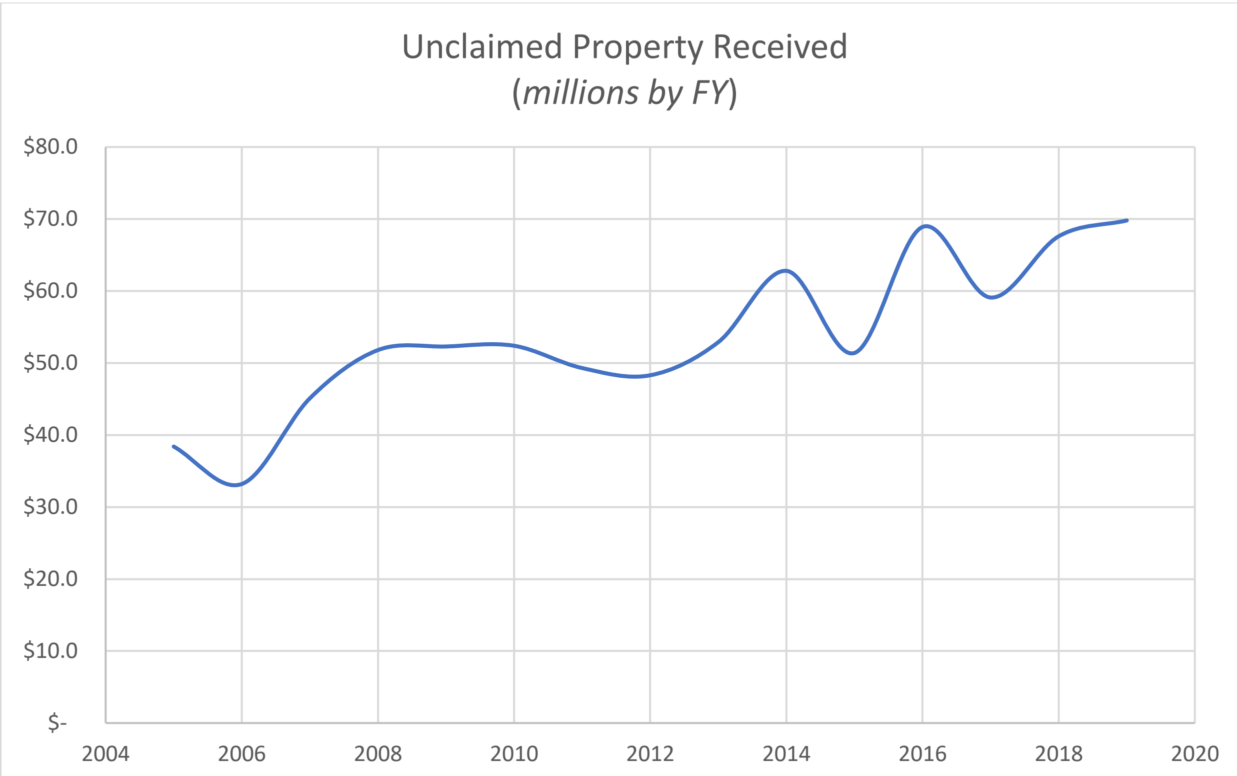
5. Intestate situations are reported timely and investigated promptly

- The team continues to look for more effective outreach methods and partnerships to ensure DSL is timely notified when there is a decedent without known heirs.
- In FY 2020, we plan to revise our printed materials and online presence to provide tailored information for the program's many stakeholders.
- The implementation of KAPS delayed our FY 2019 goal to develop an electronic reporting tool that will allow required reporters to report intestate deaths more timely and provide more complete information for our team. We plan to complete this goal in FY 2020.
- The reports of intestate cases have roughly doubled every three years since 2014, and our staffing levels have remained constant. The team has been operating at capacity for years. During FY 2020, we will evaluate our staffing needs relative to legal requirements and identify options for building capacity.

APPENDICES

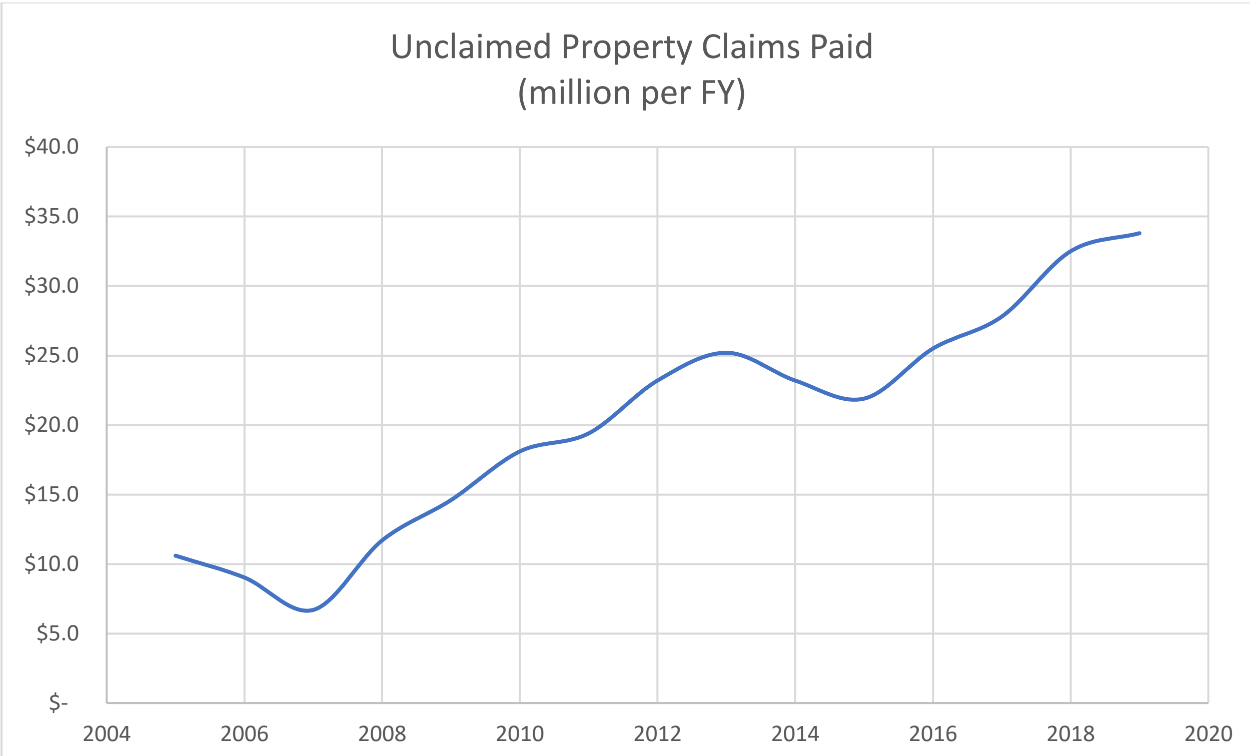
A. Unclaimed Property Receipts: FY 2005-2019
B. Unclaimed Property Refunds: FY 2005-2019
C. Intestate Estate Management Trends: 2014-2019

Unclaimed Property Receipts: FY 2005-2019



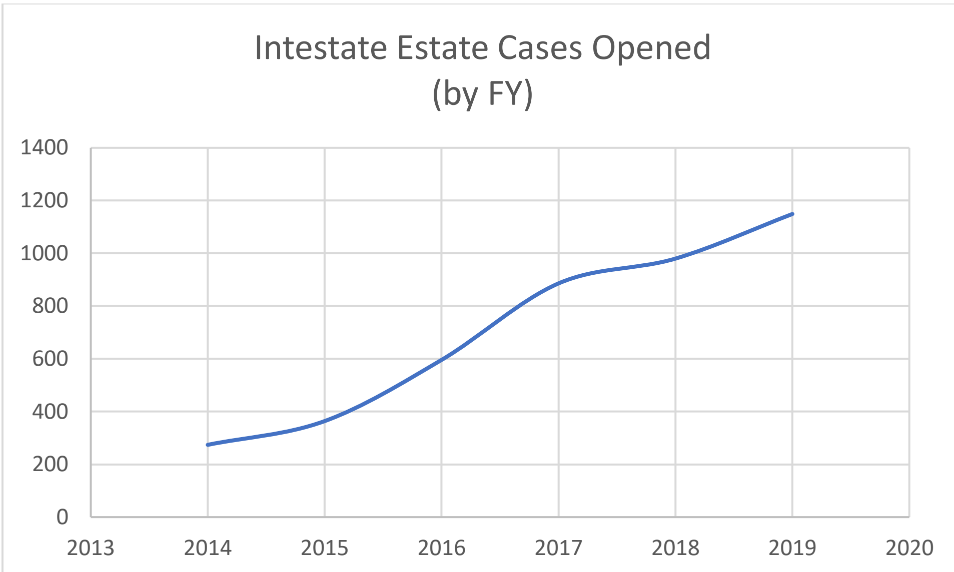
Unclaimed Property Received	
Fiscal Year (FY)	**$ Reported (*in millions*)**
2005	$ 38.4
2006	$ 33.2
2007	$ 45.1
2008	$ 51.8
2009	$ 52.3
2010	$ 52.4
2011	$ 49.3
2012	$ 48.3
2013	$ 52.9
2014	$ 62.8
2015	$ 51.4
2016	$ 68.9
2017	$ 59.1
2018	$ 67.6
2019	$ 69.8

Unclaimed Property Refunds: FY 2005-2019



Unclaimed Property Refunds	
Fiscal Year (FY)	**Funds Claimed (*in millions*)**
2005	$ 10.6
2006	$ 9.0
2007	$ 6.7
2008	$ 11.7
2009	$ 14.6
2010	$ 18.1
2011	$ 19.4
2012	$ 23.2
2013	$ 25.2
2014	$ 23.2
2015	$ 21.9
2016	$ 25.5
2017	$ 27.8
2018	$ 32.5
2019	$ 33.8

Intestate Estate Management Trends: FY 2014-2019



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Common School Forest Land Annual Report

FISCAL YEAR 2019

Prepared by the Oregon Department

January 2020

Table of Contents

Annual Report Located at:
http://www.oregon.gov/ODF/Pages/Reports.aspx

Executive Summary

DATE: January 21, 2020

TO: Governor Kate Brown
Secretary of State Bev Clarno
State Treasurer Tobias Read

FROM: Peter Daugherty, Oregon State Forester

SUBJECT: Fiscal Year 2019 Annual Report for Common School Forest Land

During fiscal year 2019 the Oregon Department of Forestry (ODF) managed 33,005 acres of Common School Forest Land (CSFL). As trustee of the CSFL, the State Land Board (SLB) oversees management to provide Oregonians the greatest benefit, consistent with resource conservation and sound land management strategies. Within this context, these lands are managed to maximize revenue to the state's Common School Fund (CSF) through an agreement among ODF, the SLB and the Department of State Lands (DSL). The DSL 2012 Real Estate Asset Management Plan directs that these lands provide a sustained, even flow of timber harvest. ODF achieves this mandate through goal-driven forest management plans approved by the Oregon Board of Forestry and the SLB. Net revenues generated from CSFL are dedicated to the CSF.

This agreement and partnership among ODF, DSL and the SLB requires ODF to present an annual report regarding the status of management of CSFL. This status report includes information related to timber management (volume and value of harvested, sold and planned timber sales), fiscal year operating costs, revenue transferred to the CSF, reforestation, intensive management accomplishments and costs and other information affecting CSFL management and operations.

Fiscal Year 2019 Harvest and Revenue

In 2019, net operating income increased due to increased volume harvested from CSF timber sales. ODF continues stewardship of 33,005 acres of CSFL through active management, supervising and administering timber operations, monitoring environmental successes and sustaining critical wildlife habitat areas.

A number of reforestation and replanting projects were completed successfully, and young stand management activities continue to actively grow healthy, sustainable forests for future generations – providing a range of longer-term natural benefits such as wood products, diverse ecosystems and habitat, and clean air and water.

1. CSFL Harvest Volume:
    a. 4.7 MMBF
    b. 31 percent increase from FY 2018

2. Revenue Transfers to CSF:
    a. $1.9 million
    b. 5 percent decrease from FY 2018

3. Net Operating Income (NOI): NOI is the total revenue received by ODF minus management costs. It is influenced by the same factors that affect volume and value, as well as management expenses.
    a. $952,534
    b. 17 percent increase from FY 2018

4. CSFL Management costs:
    a. $1.4 million
    b. 3.5 percent increase from FY 2018

5. CSFL sales sold in FY 2019 (not yet harvested)
    a. 2.9 MMBF
    b. Approximately $492,000 in net timber sale value

Other Forest Management Activities
Reforestation and young stand management are integral to ensuring a sustainable flow of wood and future habitat development. On CSFL in FY 2019, 98 acres were reforested and 398 acres received young-stand management treatment, improving overall forest health and future growth.

This annual report summarizes CSFL management activities from July 1, 2018 through June 30, 2019.

Financial and Asset Management

Overview

This report primarily focuses on FY 2019 (July 1, 2018 through June 30, 2019). However forest management often requires evaluating trends in revenue and costs for previous biennia (e.g., sales approved in one year's operating plan may be harvested over one to three subsequent years). Revenue transferred to the CSF from management of CSFL has varied over the past 10 years from $1.9 million to $11 million annually.

The primary factors influencing revenue fluctuations include: housing starts, lumber prices, harvest timing, individual sale volumes and value, changing ratios between harvests on CSFL and Board of Forestry lands (BOFL), endangered species act protection measures and uncertainty and constraints associated with litigation.

Net Operating Income (NOI)

NOI for CSFL for FY 2019 was $952,534. Net Operating Income is calculated by subtracting all costs from revenue. NOI ranged from $395,017 to $2.9 million for CSFL in the past 5 years (Table 1).

Table 1: Net Operating Income	
FY2019	**$952,534**
FY2018	$816,371
FY2017	$395,017
FY2016	$2,935,860
FY2015	$909,258
5 Year Average	**$1,201,808**

Annual Revenue

Annual revenue is reported throughout this report, with influencing factors included for context.

Fiscal Year 2019 Revenue and Investment Costs

During FY 2019, $1.9 million in revenue was transferred to DSL (Table 2). Total charges for managing the CSFL totaled $1.4 million during FY 2019 (Table 2). These expenditures include State Forests Division personnel in Salem, three regional areas, and seven districts. The units are responsible for timber sale contract development and compliance, reforestation and intensive management activities, Endangered Species Act compliance, research and monitoring, forest planning and overall program administration.

Other charges to the CSF, referred to as "Net Revenue Transfers," totaled $444,181 in FY 2019 (Table 3). This is approximately 32 percent of total overall costs. Revenue transfers include a prorated portion of ODF's total costs for capital improvement projects, debt service and seed orchard management for reforestation and genetically improved seed.

Revenue transfers also include a portion of overall agency administration prorate which totaled $427,941. It is ODF's goal to ensure that allocation of agency administrative costs accurately reflects work performed by administrative and managerial staff, and that each program pays their appropriate share of administrative costs.

J.E. Schroeder Seed Orchard costs for FY 2019 were $4,544. These funds were used to produce genetically improved seed (superior growth, wood quality, and disease tolerant characteristics as identified through traditional breeding and selection methods) appropriate for reforesting state forestlands.

The ODF Fire Protection Division assessed DSL $482,868 for CSFL wildfire protection.

Table 2: CSL Revenues and Expenditures					
Expenditures and Transfers					
Category	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
T & E Surveys	$299,192	$318,681	$255,732	$84,315	$86,288
Salem Program	$693,229	$616,137	$503,060	$205,326	$183,254
Total Salem Expenditures	$992,421	$934,818	$758,793	$289,641	$269,542
Total District Expenditures	$1,676,363	$1,825,312	$1,612,930	$583,272	$653,170
Administrative Transfers	$651,927	$752,033	$733,924	$448,370	$444,470
Total Expenditures + Transfers	**$3,320,711**	**$3,512,163**	**$3,105,647**	**$1,321,283**	**$1,367,182**
District Expenditures Prorated by Acres					
District	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Tillamook	$132,897	$132,713	$128,778	$182,519	$184,428.21
Astoria	$68,236	$65,785	$65,667	$85,919	$109,456.59
Forest Grove	$19,133	$18,199	$20,358	$24,237	$37,185.61
West Oregon	$292,381	$263,039	$272,127	$317,171	$361,443.13
North Cascade	$37,533	$37,466	$37,196	$45,108	$44,683.30
SW Oregon	$216,723	$250,521	$234,398	$306,241	$0.00
Coos	$2,313,784	$2,547,397	$2,157,530	$96,289	$0.00
Western Lane[2]	$57,258	$52,009	$70,641	$55,730	$429,292.33
Klamath-Lake	$182,766	$145,035	$118,953	$208,069	$200,692.84
Total Expenditures + Transfers	**$3,320,711**	**$3,512,163**	**$3,105,648**	**$1,321,283**	**$1,367,182**
CSL Revenues					
District	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Tillamook	$44,188	$24,748	$13,569	$14,823	$127,484
Astoria	$62,831	$27,118	$137,300	$307,332	$482,885
Forest Grove	$1,399	$3,164	$29,300	$301,498	$322,422
West Oregon	$215,338	$931,851	$1,143,029	$896,188	$1,254,904
North Cascade	$121,270	$937,821	($23,149)	$5	$262
SW Oregon	$33,821	$0	$72,080	$490,844	$0
Coos/Elliott	$2,128,342	$4,230,051	$2,547,842	$19,229	$0
Western Lane	$1,372,255	$158	$0	$1,100	$83,850
Klamath-Lake	$250,525	$292,334	$20,055	$64,931	$47,910
[1]Revenues Received by ODF	**$4,229,969**	**$6,447,245**	**$3,955,381**	**$2,137,654**	**$2,319,717**
[1]Revenues Transferred to DSL	**$4,246,450**	**$6,448,023**	**$3,496,412**	**$2,001,213**	**$1,899,423**

[1] There is a difference in revenues received and revenue transferred due to timing of transfers.

[2] Starting FY19 SW Oregon and Coos Districts are being managed out of Western Lane.

Table 3: Details of FY 2019 Administrative Transfer Costs	
Administrative Revenue Transfers	**Amount**
Administrative Prorate Charge	**$427,941**
J.E. Schroeder Seed Orchard	**$4,554**
Residual Equity	**$316**
Bond Principal	**$10,553**
Bond Interest	**$817**
ADMINISTRATIVE TRANSFER COSTS TOTAL	**$444,181**

Table 4: Common School Forest Land Historical Timber Harvest Value, Volume and Average Stumpage Price Fiscal Years 2010 through 2019			
Fiscal Year	**[1] Timber Sales Value of Timber Removed**	**Timber Harvest Volume (MMBF) Removed**	**Average Sold Sale Stumpage Price/MBF**
2019	$2,057,269	4.671	$170
2018	$1,534,693	3.573	$476
2017 Elliott State Forest (Coos District)	$2,691,137	7.758	$347
2017 Other CSFL	$1,152,934	2.765	$413
Total 2017	**$3,844,071**	**10.523**	**$413**
2016 Elliott State Forest (Coos District)	$3,416,945	7.990	$327
2016 Other CSFL	$2,454,497	6.170	$347
Total 2016	**$5,871,441**	**14.160**	**$332**
2015 Elliott State Forest (Coos District)	$3,592,162	8.260	$436
2015 Other CSFL	$2,367,124	6.990	$356
Total 2015	**$5,959,286**	**15.250**	**$375**
2014 Elliott State Forest	$2,524,725	6.960	$434
2014 Other CSFL	$1,503,429	4.000	$205
Total 2014	**$4,028,154**	**10.960**	**$411**
2013 Elliott State Forest	$1,606,932	4.514	$288
2013 Other CSFL	$1,992,098	6.562	$328
Total 2013	**$3,599,030**	**11.076**	**$308**
2012	$12,004,481	32.250	$313
2011	$11,569,905	32.116	$317
2010	$8,221,998	24.812	$263
Last 5 Year Average	$3,853,352	9.635	$368
10 Year Average	$5,869,033	15.939	$338

[1] Timber Sale Value is gross timber sale's value before project work credits have been subtracted

Forest Land Management

During FY19 ODF managed 33,005 acres of CSFL (Table 5). Activities conducted on CSFL managed by ODF include: timber harvest, reforestation and intensive management, and road construction and maintenance. These lands are composed of four DSL Asset Management Plan forestland classifications: General Stewardship, Focused Stewardship, Special Use and High Value Conservation Areas.

Table 5: Common School Forest Lands Managed by ODF	
COUNTY	CSFL ACRES
BENTON	563
CLACKAMAS	113
CLATSOP	2,060
COLUMBIA	80
COOS	720
CURRY	1,352
DOUGLAS	1,908
JACKSON	1,622
JOSEPHINE	3,961
KLAMATH	6,827
LANE	907
LINCOLN	4,477
LINN	90
MARION	720
POLK	1,690
TILLAMOOK	5,584
WASHINGTON	250
YAMHILL	80
GRAND TOTAL:	33,005

Source: ODF, 09/24/19

Note: Report is based on legal acres not GIS acres

Timber Management Activities

A total of 8 active sales were harvested in FY 2019, producing 1.09 mmbf with a value of $571,049 (Table 7). In addition, there were 5 sales sold in FY 2019, producing approximately 2.89 mmbf (Table 6).

All planned sales on CSFL in FY 2020 are estimated to produce 7.3 mmbf with a net value of $3 million (Table 8).

Reforestation and intensive management activities such as site preparation, planting and thinning are used to promote healthy and productive forest land. Table 9 summarizes planned and completed acres and costs for these activities on CSFL.

Table 10 provides information about the road system management on CSFL by District and County.

Timber Sales Sold During FY 2019

Table 6. Common School Forest Lands Timber Sales Sold in Fiscal Year 2019										
Sale Name	**ODF District**	**CSFL % of Sale**	**Total Sale Volume (Mbf)**	**CSFL Volume (Mbf)**	**CSFL Acres Partial Cut**	**CSFL Acres Regen.**	**Total Project Costs**	**CSFL Project Costs**	**Net Sale Value (BOF + CSFL)**	**Net CSFL Value**
Sassy Sally	Astoria	0.01%	4,814	0.48	0.01	0.01	$312,913	$31.29	$1,382,697	**$138**
Manzanita Woman	Klamath-Lake	100%	2,678	2,678	312.5	25.6	$41,419	$41,419	$418,804	**$418,804**
Cold Boulder	West Oregon	11%	1,709	183	0.0	9.6	$50,610	$5,430	$615,359	**$66,028**
Thin Women	West Oregon	1%	1,990	13	0.9	0.4	$54,001	$356	$338,005	**$2,231**
Shingle South Thin	West Oregon	1%	1,301	16	2.4	0.0	$30,751	$381	$403,666	**$5,005**
		Totals	**12,492**	**2,891**	**316**	**36**	**$489,694**	**$47,619**	**$3,158,532**	**$492,207**

All dollar amounts are rounded to the nearest whole dollar.

Activity Summary for FY 2019

Table 7. Active Timber Sales on Common School Forest Lands Volume and Value, Fiscal Year 2019					
Sale Name	**District**	**Sale No.**	**%CSFL**	**MMBF Harvested**	**Value CSFL**
Woods Way	Forest Grove	FG-341-2018-T18029-01	34%	0.83	$472,157
Cole Soap	Astoria	AT-341-2018-W00618-01	64%	0.01	$6,249
Powerline Thin	West Oregon	WO-341-2018-W00671-01	30%	0.24	$92,643
Cold Boulder	West Oregon	WO-341-2020-W00776-01	11%	0.00	$0
Manzanita Women	Klamath-Lake	KL-341-2019-W00513-01	100%	0.00	$0
Thin Women	West Oregon	WO-341-2019-W00667-01	1%	0.00	$0
Shingle South Thin	West Oregon	WO-341-2019-W00790-01	1%	0.00	$0
Sassy Sally	Astoria	AT-341-2019-W00361-01	.01%	0.00	$0
				1.09	**$571,049**

Planned Timber Sales for FY 2020

Table 8: Annual Operation Plan Timber Sales Planned On CSFL in FY 2020									
Sale Name	**ODF District**	**CSFL Percent of Sale**	**Timber Sale Volume (MBF)**	**CSFL Volume (MBF)**	**CSFL Acres Regen Cut**	**CSFL Acres Partial Cut**	**Total Sale Value**	**CSFL Project Costs**	**Net CSFL Value**
Hamlet 8	Astoria	9%	1,865	164	0	27	$652,743	$20,973	$36,597
Beaver Nation	Tillamook	52%	1,382	722	55	0	$408,772	$13,562	$199,870
Cline Miller Thin	West Oregon	4%	1,296	54	0	7	$291,661	$1,827	$10,229
Green Acres Thin	West Oregon	0%	1,505	3	0	0	$338,571	$66	$556
Little Thin on the Prairie	West Oregon	100%	1,161	1,161	0	129	$261,131	$40,000	$221,131
Wolf Junction	West Oregon	18%	3,663	675	14	0	$2,106,329	$16,234	$372,165
Milk Creek	Western Lane	100%	4,486	4,486	104	0	$2,242,880	$95,000	$2,147,880
		Total	**15,358**	**7,264**	**174**	**164**	**$6,302,085**	**$187,663**	**$2,988,427**

Reforestation and Intensive Management

Table 9: Intensive Management Activities On CSFL - FY 2019			
Management Activity	**Acres Planned**	**Acres Completed**	**Total Cost**
Initial Planting*	99	98	$31,387
Interplanting	4	0	$0
Invasive Plant Control	4	0	$0
Precommercial Thinning**	25	44	$3,490
Pruning	0	0	$0
Release-Chemical- Aerial	0	0	$0
Release-Chemical-Hand**	117	9	$1,622
Release-Mechanical-Hand**	10	41	$8,453
Site Prep –Mechanical	9	10	$3,231
Site Prep -Slash Burning	9	0	$2,690
Site Prep-Chemical- Aerial	13	13	$643
Site Prep-Chemical- Hand	44	44	$3,004
Surveys - Invasive Plants	0	0	$0
Surveys – Reforestation	55	125	$1,288
Tree Protection-Barriers**	5	14	$5,058
Tree Protection-Direct Control	44	0	$0
Underplanting*	0	0	$0
Total	**438**	**398**	**$60,866**

*Planting costs include all costs including seedlings & seed.
**Some districts used inmate labor. Inmate crew costs are covered in this table.

Road Management Activities

Table 10: FY 2019 Annual Road Work – CSFL								
District & County	**Aggregate/Paved Surface (miles)**			**Dirt Surface (miles)**			**Bridge**	**Fish Pipes**
	Constructed	**Improved**	**Vacated**	**Constructed**	**Improved**	**Vacated**	**Installed**	**Installed**
Astoria-Clatsop	0.00	2.60	0	0	0	0	0	0
Forest Grove-Tillamook	0.46	0.19	0	0	0	0	0	0
North Cascade-Linn	0.94	14.28	0	0	0	0	0	0
North Cascade-Marion	1.87	11.21	0	0	0	0	0	0
West Oregon-Lincoln	0.00	1.10	0	0.3	0	0	0	0
Totals	**3.3**	**29.4**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**

Links To More Information

Stand Level Inventory

Forest Inventory Report covers the fiscal year-end stand level inventory estimates on Board of Forestry and Common School Land for each district.

Stream and Watershed Restoration

Restoration reports summarize all restoration activity reported to OWEB by State Forest Districts since 1995.

Forest Health

- Aerial Survey Summary Reports by ODF Area
- Forest Health Highlights Report -Joint Publications of Oregon Department of Forestry and USDA Forest Service, Pacific Northwest Region

Oregon
Kate Brown, Governor

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M E M O R A N D U M

Date: February 4, 2020

To: Governor Kate Brown
Secretary of State Bev Clarno
State Treasurer Tobias Read

From: Vicki L. Walker, Director
Department of State Lands

Subject: Aquatic Resource Management Sustainable Funding Status Report

Executive Summary: The Department of State Lands continually seeks opportunities to increase revenue to the Common School Fund by examining program operations. Analysis of the Department's Aquatic Resource Management (ARM) program fee structure was conducted as a critical first step in achieving sustainable program funding.

Study of removal-fill permit and waterway lease rates and fees determined that ARM charges for service do not consistently cover operating expenses. Additionally, the extreme cost of waterway cleanups such as the $12.2 million Goble cleanup, as well as addressing the growing issue of illegal camping on public waterways, are an unpredictable and significant expense.

The studies identified the need to gather additional data, as well as to further evaluate and prioritize key issues and potential actions. When that work is complete, DSL intends to begin engaging stakeholders to further explore sustainable funding solutions for the ARM program.

Introduction: The Aquatic Resource Management (ARM) program protects Oregon's waters and wetlands by administering the state's removal-fill and wetlands conservation laws and protecting public use and enjoyment of publicly owned waterways.

The program generates revenue by collecting fees for:

- Authorizations and leases for use of waterways. Whenever private users restrict public access to the publicly owned beds and banks of waterways, the public is compensated for loss of that use. Commercial marinas and residential floating homes are examples of activities that require a lease. The ARM's proprietary waterway program oversees waterway operations.

- Removal-fill permits for removal or fill activities in waterways and wetlands, as well as wetland delineations. The ARM program's removal-fill program oversees permitting and delineations.

When program revenue does not exceed operating expenses, Common School Fund earnings revenue is used. The Department's 2017-2021 Strategic Plan identifies maintaining a sustainable financial structure for the ARM program as a primary objective. To support exploration of a sustainable funding model, studies of waterway leasing rates and removal-fill permit rates were conducted.

Waterway Leasing Rate Study[1]**:** In 2018, an in-depth study of the Department's waterway leasing rates was conducted using the framework of equity, administrative and economic efficiency, and whether current rents were achieving market rates. The study determined:

Waterway revenue covers the proprietary program's typical operating expenses. FY16-18 data indicates the program is currently covering expenses. The program has generated approximately $2.3 million in revenue above expenses on a three-year average, if episodic expenses are excluded.

Episodic expenses associated with waterway cleanups, abandoned and derelict vessels, and illegal camping affect the program's ability to consistently cover expenses. If the costs related to derelict vessels and the Portland Harbor Superfund site are included, the program recovered approximately 41 percent of operating costs in FY16 - FY18.

Episodic expenses add complexity and uncertainty to attempts to forecast a sustainable funding model for the ARM. Additionally, historical financial data does not exist for cost of addressing the emerging issue of illegal camping on public waterways. Further analysis is needed to determine potential budget impacts of illegal camping.

Report recommendations included:

[1] Oregon Department of State Lands. (2018). Waterway Leasing Rate Study. (pg. 1–36).

- Equity among lessees will improve, and market rates will be better captured, by use of real market value rather than assessed value in the Department's method for determining riparian land values.
- Economic and administrative efficiency can be improved by phasing out use of the percent of gross receipts rate category.
- Economic efficiency and rent equity can be improved by discontinuing use of a statewide flat rate.
- Reforms in the current waterway insurance requirements should be explored. Current insurance requirements were found to be insufficient in covering the liability of the approximately $12.2 million Goble cleanup in 2018.

Recommendations from the Waterway Leasing Rate Study will help to generate additional revenue. However, rate adjustments from rulemaking efforts will occur only on new leases or at lease renewal, leaving years before the full effects are seen in the program's operating budget.

Removal-Fill Rate and Fee Study[2]: In 2019, an in-depth study of the removal-fill program fee and rate structure was conducted through the framework of equity and administrative and economic efficiency. The study determined:

Program revenue does not cover the removal-fill program's operating expenses. FY08 – FY18 data indicates the program is covering approximately 20 percent of its operating expenses with charges for service annually.

Operating expenses have remained relatively consistent, indicating fees and rates have long been insufficient to cover costs. Personnel costs, typically a program's largest expense, have risen minimally from FY08 - FY18, increasing less than 1 percent per year and only $135,604 in that decade. Since 1989, the Oregon Legislature has only minimally increased the removal-fill rates and fees.

The current volume-based rate structure is administratively and economically inefficient, and inequitable. The current maximum fee of $1,292 does not cover the costs to review complex projects which can take hundreds or even thousands of staff hours to complete.

Report recommendations included:

- Further exploration is needed of a new rate structure that captures the cost of delivering service, project complexity in review of permits, and meets program goals. The current rate structure is not connected to the staff time required to evaluate a permit application and make a permitting determination. The current volume-based system does not capture the complexity of a project, environmental impacts, market forces, project type, public need, or geographic location.

[2] Oregon Department of State Lands. (2019). Removal-Fill Rate and Fee Study. (pp. 1–57).

- Any potential new rate structure should reduce inequity within the current structure and avoid creating additional inequity. For example, simply increasing the current fee structure would disproportionately affect single-family residential development.
- Cost of delivering service has not yet been sufficiently quantified. Additional data must be gathered to inform future rate and fee discussions.
- New charges for service should be explored. New fees would help to generate additional revenue and offset increase needed for permitting cost recovery.

Conclusion: The current ARM program charges for service do not cover operating expenses. Without changes to the removal-fill and proprietary program fee structures, the Common School Fund will continue to fund a portion of ARM program operating costs unless another dedicated funding source is identified.

Next Steps:

- The Department is evaluating report recommendations to identify key issues and determine potential actions and priorities.
- Additional consideration is being given to development of a new removal-fill rate structure that covers the cost of delivering service and meets the Department's goal of increasing revenue to the Common School Fund. Additional data is needed to support this work, and staff is assessing options for data gathering.
- When DSL has a more complete picture of potential actions, stakeholders will be engaged to discuss key issues and identify solutions.
- Should the identified solutions require legislative action, DSL will explore development of a legislative concept in the 2023 session.

Common School Fund

Annual Financial Report

For the Fiscal Year Ended June 30, 2019

Oregon Department of State Lands

An Agency of the State of Oregon

Vicki L. Walker
Director

Jean Straight
Deputy Director, Administration Division

Report Prepared by:

Lee Hullinger, Fiscal Manager
Star Thomson, CPA
Teresa Crawford

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Table of Contents

FINANCIAL SECTION

OTHER REPORTS

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

State Land Board
Department of State Lands
Salem, Oregon

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise Common School Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Common School Fund's 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 from 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.

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 respective financial position of the Common School Fund, as of June 30, 2019, and the respective 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, 2019, the changes in their financial position, or where applicable, their cash flows for the year then ended in accordance with accounting principles general accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019 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 solely 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 effectiveness of the Common School Fund's 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.

For Merina+Co
Tualatin, Oregon
November 25, 2019

BASIC FINANCIAL STATEMENTS

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Balance Sheet

ASSETS		
Cash and Cash Equivalents	$	63,669,113
Investments		1,750,097,873
Custodial Assets		38,007,853
Securities Lending Collateral		9,791,617
Accounts and Interest Receivables (net)		17,191,647
Due from Other Funds		28,817
Advances to Other Funds		300,000
Net Contracts, Notes, and Other Receivables		27,467
Total Assets	$	1,879,114,387
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$	43,000,112
Obligations Under Securities Lending		9,791,617
Due to Other Funds		219,156
Custodial Liabilities		344,564,298
Total Liabilities		397,575,183
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - contracts		27,467
Total Deferred Inflows of Resources		27,467
Fund Balances:		
Restricted by:		
Oregon Constitution		1,114,781,237
Enabling Legislation		366,730,500
Total Fund Balances		1,481,511,737
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$	1,879,114,387

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	$	532,803
Federal		370,094
Charges for Services		300,121
Rebates and Recoveries		28,546
Fines, Forfeitures, and Penalties		87,444
Rents and Royalties		6,141,620
Investment Income		101,686,415
Sales		188,298
Unclaimed and Escheat Property Revenue		15,081,421
Other		347
Total Revenues		124,417,109
EXPENDITURES		
Personal Services		9,683,543
Services and Supplies		13,797,356
Capital Improvements		162,885
Investment Expenditures		7,343,834
Total Expenditures		30,987,618
Excess (Deficiency) of Revenues Over (Under) Expenditures		93,429,491
OTHER FINANCING SOURCES (USES)		
Transfers From Other Funds		108,530,189
Transfers to Other Funds		(75,675,487)
Insurance Recoveries		1,486,476
Total Other Financing Sources (Uses)		34,341,178
Net Change in Fund Balances		127,770,669
Fund Balances - Beginning		1,353,741,068
Fund Balances - Ending	$	1,481,511,737

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 statement of revenues, expenditures, and changes in fund balances reports revenues by type and expenditures by natural classification. 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. 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.

D – DEPOSITS AND INVESTMENTS

<u>Deposits</u>

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 except for 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.

The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and generally values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services.

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 uncollectable accounts. Payables consist of amounts owed to vendors for operational expenditures, other state agencies for services received and investment liabilities outstanding.

F – INTERFUND TRANSACTIONS

Inter-fund transactions are transactions between the Common School Fund and other funds included in the Oregon Comprehensive Annual Financial Report. Inter-fund balances (due to/from other funds and advances to/from other funds) result from the time lag between the dates that (1) inter-fund 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 in inter-fund 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) Non-spendable, (2) Restricted, (3) Committed, (4) Assigned, and (5) Unassigned.

Restricted fund balances are the result of constraints imposed by the 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.

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 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 School 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 55 percent equity, 25 percent fixed income, 10% real estate, and 10% diversifying strategies (alternative) 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	22%	20% - 25%
International Equities	MSCI ACWI ex-US Index	23%	20% - 25%
Private Equities	Russell 3000 + 300 bps Index	10%	8% - 12%
	Total Equities	55%	48% - 62%
US Fixed Income	Barclays Aggregate Index	25%	20% - 30%
Real Estate		10%	8% - 12%
Alternative		10%	8% - 12%
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-(OSTF).aspx

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 $37,782,853 held outside Treasury and included in the $38,007,853 identified as custodial assets 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 depository financial institution 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. 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 depository 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 Treasury uses an internally-developed web application to administer the PFCP and facilitate depository, custodian, and public official compliance with ORS Chapter 295. Under the PFCP, depositories are required to report quarterly to Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) limits. Depositories are also required to report their net worth and capitalization information. The FDIC or NCUA assigns each bank or credit union a capitalization category quarterly: well capitalized, adequately capitalized, or undercapitalized. Based on this information, the depository's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all depositories is calculated for the next quarter. The maximum liability is reported to the depository, Treasury, and the custodian.

Barring any exceptions, a depository is required to pledge collateral valued at no less than 10 percent of its last reported uninsured public fund deposits if the depository is well capitalized and as much as 110 percent if the depository 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 depository may not accept public fund deposits from one depositor in excess of the depository's net worth. If the depository has a drop in net worth that takes it out of compliance, the depository is required to post 100 percent collateral on any amount the depositor has in excess of the depository's net worth while working to eliminate that excess.
2. A depository may not hold aggregate public funds in excess of a percentage of the depository's net worth based on its capitalization category (100 percent for undercapitalization, 150 percent for adequately capitalized, 200 percent for well capitalized) unless approved for a period of 90 days or less by Treasury.
3. A depository may hold in excess of 30 percent of all aggregate public funds reported by all depositories holding Oregon public funds, only if the excess is collateralized at 100 percent.

Where interest bearing balances within the OSTF exceed the FDIC or NCUA amount of $250,000 the balances were covered by collateral held in the PFCP.

As of June 30, 2019, $885,884 in other depository balances of the Common School Fund was held by two investment firms, not covered by the FDIC rules. However, the firms are members of the Securities Investor Protection Corporation (SIPC) which provides protection up to $500,000, of which $250,000 applies to cash credit balances. Consequently, $250,000 was insured by SPIC and $635,884 was uninsured and held by the counterparty in the Department of State Lands' name.

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 counterparty 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 the securities by a custodian or counter party. For the year ended June 30, 2019 no investment holdings of the Common School Fund held at Treasury were exposed to custodial credit risk.

At June 30, 2019 the Common School Fund held $36,896,969 in investments outside Treasury. These investments were held with Avenu and Wedbush investment firms. The firms are members 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. All the investment holdings of the Common School Fund held outside Treasury were registered in the Department of State Lands' name and therefore not 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 27 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).

Interest Rate Sensitive Investments

The Common School Fund held approximately $84.8 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 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 $7.2 million of asset-backed securities backed primarily by student loan and manufactured housing loan receivables.

The credit rating of the Common School Fund's investments held at Treasury and using the segmented time distribution method at June 30, 2019 follows.

Investment Type	Credit Rating[1]	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 or none	Total Market Value
U.S. Treasury	Exempt	$ -	$ 6,506,469	$ 6,608,669	$ 9,214,440	$ 22,329,578
U.S. Treasury TIPS	Exempt	-	-	-	4,443,783	4,443,783
U.S. Federal agency debt	AA	100,041	-	-	-	100,041
U.S. Federal agency mortgages	AAA	166,541	-	-	-	166,541
U.S. Federal agency mortgages	Not Rated	5,604,683	-	659,764	71,084,513	77,348,960
Total U.S. government debt		5,871,265	6,506,469	7,268,433	84,742,736	104,388,903
Corporate bonds	AAA	-	248,674	1,442,971	277,250	1,968,895
	AA	20,005	1,371,197	2,058,082	1,103,855	4,553,139
	A	7,766,968	4,306,389	6,083,253	3,271,531	21,428,141
	BBB	5,144,161	9,870,287	19,185,590	19,670,069	53,870,107
	BB	797,593	4,017,472	2,317,918	2,247,000	9,379,983
	B	-	40,600	-	34,725	75,325
Total corporate bonds		13,728,727	19,854,619	31,087,814	26,604,430	91,275,590
Non-U.S. government debt	AA	-	1,674,173	585,448	-	2,259,621
	A	1,250,991	1,933,381	1,759,548	2,357,467	7,301,387
	BBB	182,213	1,740,062	2,534,423	7,481,918	11,938,616
	BB	-	396,500	-	471,574	868,074
	B	-	459,568	-	363,315	822,883
Total non-U.S. government debt		1,433,204	6,203,684	4,879,419	10,674,274	23,190,581
Asset backed securities	AAA	941,620	-	-	-	941,620
	AA	1,700,540	-	-	-	1,700,540
	A	2,898,219	-	-	-	2,898,219
	BBB	835,489	-	-	-	835,489
	B	97,546	-	-	-	97,546
	CCC	73,038	-	-	-	73,038
	CC	570,057	-	-	-	570,057
	Not Rated	40,004	-	-	-	40,004
Total asset-backed securities		7,156,513	-	-	-	7,156,513
Collateralized mortgage obligations	AAA	932	-	-	-	932
	AA	104,324	-	-	-	104,324
	A	1,176,836	-	-	-	1,176,836
	BBB	1,502,253	-	-	-	1,502,253
	BB	89,536	-	-	-	89,536
	B	226,430	-	-	-	226,430
	D	74,658	-	-	-	74,658
Total collateralized mortgage obligations		3,174,969	-	-	-	3,174,969
Collateralized mortgage backed securities	AAA	1,113,647	-	-	31,938	1,145,585
	AA	1,292,274	-	-	332,419	1,624,693
	A	61,675	-	-	-	61,675
	CCC	49,690	-	-	44,181	93,871
	C	399,396	-	-	-	399,396
	D	153,235	-	-	57,207	210,442
	Not Rated	608,382	-	-	-	608,382
Total collateralized mortgage backed securities		3,678,299	-	-	465,745	4,144,044
Domestic fixed income funds	Not Rated	-	-	-	240,013,804	240,013,804
Total debt investments		$ 35,042,977	$ 32,564,772	$ 43,235,666	$362,500,989	$ 473,344,404

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Investment Type	Credit Rating[1]	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 or none	Total Market Value
Total debt investments		$ 35,042,977	$ 32,564,772	$ 43,235,666	$362,500,989	473,344,404
Domestic equity securities						291,338,520
International equity securities						315,401,745
Domestic equity funds						109,121,498
International equity funds						93,875,086
Private equity holdings						214,427,188
Domestic real estate investment trusts						3,318,211
International real estate investment trusts						2,006,304
Real estate open ended funds						126,923,587
Alternative equity funds						114,424,468
International rights and warrants						76,862
Total investments held at Treasury						$1,744,257,873

[1] Investments of $22,329,578 in U.S. Treasury securities, $4,443,783 in U.S. Treasury Inflation Protected Securities (TIPS), and $22,637,913 in Government National Mortgage Association (GNMA), which are reported within U.S. Federal agency mortgages, are explicitly guaranteed by the U.S. government, and therefore, are exempt from credit risk disclosure requirements.

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.

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 Oregon State Treasury at June 30, 2019.

Investment Type	Credit Rating	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 years	Total Market Value
U.S. Treasury Securities [1]	AAA	$ -	$ 8,053	$ -	$ -	$ 8,053
U.S. Agency Securities [1]	AAA	-	39,546	37,956	1,155	78,657
U.S. Treasury Strips [1]	AAA	2,076	5,763	-	-	7,839
Municipal Bonds [1]	AAA	4,995	26,868	15,383	15,672	62,918
Corporate Bonds [1]	AAA	56	20,411	10	50,639	71,116
Debt Investments		$ 7,127	$ 100,641	$ 53,349	$ 67,466	228,583
Mutual Funds [1]						14,203,519
Domestic Equity Securities [1]						21,601,503
International Equity Securities [1]						841,415
Alternative Equities [1]						21,949
Total						$ 36,896,969

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

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 20 to 30 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, 2019 follow:

	Deposits and Investments (U.S. Dollars)					
Foreign Currency Denominations	**Deposits**	**International Equity Securities**	**Non-US Government Debt**	**International Real Estate**	**Rights and Warrants**	**Total**
Argentine Peso	$ 54,802	$ -	$ 133,706	$ -	$ -	$ 188,508
Australian Dollar	(7)	13,942,956	-	-	-	13,942,949
Canadian Dollar	30,997	13,015,953	-	412,970	-	13,459,920
Swiss Franc	1,013	22,294,379	-	-	-	22,295,392
Chinese Yuan	173,617	-	73,048	-	-	246,665
Danish Krone	1,006	5,494,101	-	-	-	5,495,107
Euro	148,991	91,389,996	-	-	76,862	91,615,849
British Pound	15,100	31,483,889	-	-	-	31,498,989
Hong Kong Dollar	58,817	23,679,327	-	1,140,070	-	24,878,214
Israeli Shekel	5,518	1,309,932	-	-	-	1,315,450
Japanese Yen	283,861	54,004,917	-	-	-	54,288,778
Mexican Peso	843,713	1,718,093	6,206,167	125,142	-	8,893,115
Norwegian Krona	22	1,385,915	-	-	-	1,385,937
Russian Ruble	199,213	-	3,464,177	-	-	3,663,390
Swedish Krona	1,013	4,968,964	-	-	-	4,969,977
Singapore Dollar	-	1,593,844	-	-	-	1,593,844
Total	$1,817,676	$266,282,266	$9,877,098	$1,678,182	$ 76,862	$ 279,732,084

C – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of investments within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Investments held by Treasury:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
    - Investments managed by Treasury: investments in equity securities, including exchange-traded derivatives, when their value is based on quoted prices from an active market; and real estate, which consist of investments in real estate investment trusts, when their valued based on an active market price.
    - Investments not managed by Treasury: funds priced using a fair value per share that is published daily and validated with a sufficient level of observable activity; and equity securities, including exchange-traded derivatives, when their value is based on quoted prices from an active market.

- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
  - Investments managed by Treasury: investments with remaining maturities of fewer than 90 days are carried at amortized cost, which approximates fair value; investments with maturities of greater than 90 days, debt securities, and investments not valued at fair value per share are valued using the latest bid prices or evaluated quotes from independent pricing vendors, which use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions; certain non-U.S. government commercial paper is reported at amortized cost as independent vendor pricing was not available; and where observable activity is limited, yet supports that the fair value per share represents an exit value of the security at the measurement date.
  - Investments not managed by Treasury: debt securities are valued using the latest bid prices or evaluated quotes from independent pricing vendors, which use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions; and where observable activity is limited, yet supports that the fair value per share represents an exit value of the security at the measurement date.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.
  - Investments not managed by Treasury: in the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or prices provided by investment managers; and funds that do not meet the criteria to be measured at fair value because the fair value per share (or its equivalent) was not calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies.

Investments that are measured at net asset value (NAV) as a practical expedient, such as private equity, real estate open ended funds, and alternative equities, are excluded from the fair value hierarchy if the NAV (or its equivalent) was calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies.

Private equity consists of 14 funds, organized as limited partnerships and limited liability companies, participating in diversified strategies including leveraged-buyouts, venture capital, growth equity, fund of funds, co-investments and special situations. The fair values of the private equity investments have been determined using the NAV per share (or its equivalent) as provided by the general partner or managing member. These funds have a finite term. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 12-14 years.

Investments in real estate open ended funds have been valued based on the NAV per share (or its equivalent) as provided by the fund manager and consist of investments in two open ended funds that permit quarterly redemption of shares, subject to certain requirements being met.

Alternative equity funds seek to provide diversification and inflation hedging characteristics to the Common School Fund and consist of three investments in commingled funds which permit monthly redemption of shares, subject to certain requirements being met. The fair values of the investments have been determined using NAV per share (or its equivalent) as provided by the fund manager.

Real estate property investments held outside of the Oregon State Treasury are valued by appraisals using market sales approach and income approach.

The following table shows the fair value classification hierarchy for investments at June 30, 2019.

	Fair Value Classification Heirarchy			Total
Investments by Fair Value Level	**Level 1**	**Level 2**	**Level 3**	**Investments**
U.S. Treasury	$ -	$ 22,329,578	$ -	$ 22,329,578
U.S. Treasury TIPS	-	4,443,783	-	4,443,783
U.S. Federal Agency Debt	-	100,041	-	100,041
U.S. Federal Agency Mortgages	-	77,515,501	-	77,515,501
Corporate Bonds	-	91,275,590	-	91,275,590
Non-US Government Debt	-	23,190,581	-	23,190,581
Asset Backed Securities	-	7,156,513	-	7,156,513
Collateralized Mortgage Obligations	-	3,174,969	-	3,174,969
Collateralized Mortgage Backed Securities	-	4,144,044	-	4,144,044
Domestic Fixed Income funds	-	240,013,804	-	240,013,804
Total debt securities	-	473,344,404	-	473,344,404
Domestic equity securities	291,338,520		-	291,338,520
International equity securities	315,289,563		112,182	315,401,745
Domestic equity funds	-	109,121,498	-	109,121,498
International equity funds	9,252,114	84,622,972	-	93,875,086
Real Estate Investment Trust	5,324,515	-	-	5,324,515
International rights and warrants	76,862	-	-	76,862
Investments Held at Treasury	621,281,574	667,088,874	112,182	1,288,482,630
Investments Not Held at Treasury, Real Estate	-	-	5,840,000	5,840,000
Total Investments by fair value level	$621,281,574	$667,088,874	$5,952,182	1,294,322,630
Investments Measured at Net Asset Value (NAV):				
Private equity				214,427,188
Real estate open ended funds				126,923,587
Alternative equity				114,424,468
Total investments measured at NAV				455,775,243
Total Investments at fair value				$1,750,097,873

The following table shows the investments measured at net asset value per share (or its equivalent) including unfunded commitments and redemption at June 30, 2019.

Investments Measured at Net Asset Value (NAV)	Fair Value	Unfunded Commitments[1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	214,427,188	46,649,113	NA	NA
Real estate open ended funds	126,923,587	-	Quarterly	15 - 45 days
Alternative equity	114,424,468	25,000,000	Monthly	3 - 10 days
Total Investments at fair value	$455,775,243	$ 71,649,113		

[1] Excludes new commitments not yet funded at June 30, 2019.

Fair value classification hierarchy for investments reported in custodial assets at June 30, 2019 is shown on the following table:

	Fair Value Classification Heirarchy			
Investments Reported in Custodial Assets	Level 1	Level 2	Level 3	Total
U.S. Treasury securities [1]	$ 8,053	$ -	$ -	$ 8,053
U.S. agency securities [1]	-	78,657	-	78,657
U.S. Treasury strips [1]	7,839	-	-	7,839
Municipal bonds [1]	-	62,918	-	62,918
Corporate bonds [1]	-	71,116	-	71,116
Alternative equities [1]	-	-	21,949	21,949
Equity funds [1]	14,203,519	-	-	14,203,519
Domestic equity securities [1]	21,553,452	48,051	-	21,601,503
International equity securities [1]	841,415	-	-	841,415
Total investments reported in custodial assets	$ 36,614,278	$ 260,742	$ 21,949	$ 36,896,969

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

D – SECURITIES LENDING

CSF participates in securities lending transactions in accordance with State investment policies. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the CSF securities pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2019.

During the year State Street had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned U.S. securities, international fixed income securities, or 105 percent in the case of international equity. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and during the fiscal year the State did impose restrictions on the amount of loans the custodian made on its behalf. The State is fully indemnified against losses due to borrower default by its custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

As of June 30, 2019, the fair value of cash and non-cash collateral received was $21.8 million and invested cash collateral was $8.6 million for CSF. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

State Street, as a lending agent, has created a fund to reinvest cash collateral received on behalf of the OSTF. CSF receives an allocated portion of this activity based on its deposits in OSTF. As of June 30, 2019, CSF's allocated portion of cash collateral received and invested cash collateral were $1.2 million and $1.2 million respectively. Securities on loan from OSTF in total included U.S. Treasury securities (65.96%), U.S. Agency securities (18.58%), and domestic fixed income securities (15.46%).

As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at $1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the balance sheet and statement of net position.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender of borrower, the life of the loans at June 30, 2019 is effectively one day. On June 30, 2019, the CSF had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State. 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, 2019 Investment Type	Cash and Securities Collateral Received	Securities on Loan at Fair Value	Investments of Cash Collateral at Fair Value
U.S. Agency securities	$ 2,286,160	$ 2,243,113	$ -
Domestic equity securities	12,040,258	11,872,474	4,318,816
Domestic debt securities	1,366,053	1,339,314	1,551,257
International equity securities	6,059,339	5,732,785	2,770,642
	21,751,810	21,187,686	8,640,715
Allocation from Oregon Short Term Fund	1,672,623	1,638,678	1,153,947
Total	$ 23,424,433	$ 22,826,364	$ 9,794,662

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 of 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 subject to foreign currency risk within the Common School Fund as of June 30, 2019:

Currency	Options	Currency Forward Contracts: Net Receivables	Currency Forward Contracts: Net Payables	Total Exposure
Australian Dollar	$ -	$ 37,542	$ (67,976)	$ (30,434)
Canadian Dollar	-	224,163	(51,494)	172,669
Swiss Franc	-	7,543	(76,432)	(68,889)
Yuan Renminbi	-	-	4,863	4,863
Danish Krone	-	74,006	(87,383)	(13,377)
Euro Currency	76,862	91,825	(47,528)	121,159
Pound Sterling	-	(7,294)	(18,191)	(25,485)
Hong Kong Dollar	-	5,065	(4,035)	1,030
New Israeli Sheqel	-	44,597	(41,549)	3,048
Japanese Yen	-	18,470	(96,483)	(78,013)
Mexican Peso	-	-	(6,145)	(6,145)
Norwegian Krone	-	92,458	(33,306)	59,152
New Zealand Dollar	-	163,886	(156,225)	7,661
Russian Ruble	-	-	(185)	(185)
Swedish Krona	-	54,241	(89,116)	(34,875)
Singapore Dollar	-	76,852	315	77,167
Total	$ 76,862	$ 883,354	$ (770,870)	$ 189,346

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 specific 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 related net appreciation in fair value amounts and the notional amounts of derivative instruments outstanding within the Common School Fund as of June 30, 2019:

Investment Derivatives	Net Appreciation/ (Depreciation) in Fair Value [1,3]	Classification	Fair Value	Notional Value [2]
Foreign Exchange Forwards	$ (822,370)	Long Term Instruments	$ 112,483	$ 163,295,901
Rights	(605)	Common Stock	76,863	202,464
Warrants	(3,891)	Common Stock	-	-
Total	$ (826,866)		$ 189,346	$ 163,498,365

[1] Negative values (in brackets) refer to losses

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

[3] Excludes futures margin payments

The fair value of derivative instruments is reported on the balance sheet as investments, accounts and interest receivables, and accounts payable. Changes in fair value of derivative instruments during the fiscal year 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). Receivable reported for governmental activities at June 30, 2019:

Governmental activities	Total
General accounts	$ 7,391
Interest	2,816,342
Investment broker receivable	14,367,914
Other Noncurrent Receivables	137,333
Gross receivables	17,328,980
Allowance for doubtful accounts	(109,866)
Total receivables, net	$ 17,219,114

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, 2019:

Governmental activities	Total
General accounts payable	$ 2,282,542
Investment broker payable	40,717,570
Total payables	$ 43,000,112

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 45% 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, 2019 was $711,347,584. The accumulated annual adjustment as of June 30, 2019 was $366,783,285.

NOTE 5 – LEASES

A – 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 expense and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2019 were $133,494. The following table shows future minimum rental payments for operating leases in effect as of June 30, 2019.

Year ending June 30,	Payments
2020	$ 129,887
2021	60,949
2022	5,627
2023	5,627
2024	2,344
Total future minimum rental payments	$ 204,434

B – LEASE RECEIVABLES

The Department receives rental income from land and property leased to non-state entities. For the year ended June 30, 2019 the Department received rental income of $280,299 on leased assets with a fair market value of $5,840,000. The leased assets are considered investments of the Department of which the fair market value includes net appreciation of $955,087 over the cost of the leased assets. Future minimum lease revenues for non-cancelable operating leases as of June 30, 2019:

Year ending June 30,	Amount
2020	$ 249,665
2021	173,716
2022	163,759
2023	168,672
2024	154,852
2025-2029	326,875
Total future minimum rental revenues	$ 1,237,539

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, governmental 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.

On June 1, 2017 the Department initiated a clean-up project and assessment to remove multiple derelict vessels on the Columbia River near Goble, Oregon. Many of the vessels contained environmentally hazardous materials including fuel, oil, lead paint, asbestos, and household waste. Derelict vessel removal and clean-up costs for the Goble site were $2.93 million for the year ended June 30, 2019 and are reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance as services and supplies expenditure. The vessel removal and clean-up project was completed in December 2018 at a total cost of $12.01 million.

The Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with 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 will be assessed against the Common School Fund. The Portland Harbor Superfund site is discussed in greater detail in note 12.

On May 31, 2019, the Department entered into a settlement agreement for funding remedial design with the Environmental Protection Agency (EPA), Oregon Department of Transportation, and the City of Portland for the Portland Harbor Superfund site cleanup. The EPA settlement agreement for funding remedial design requires the State to pay $6 million to EPA in July 2019 and up to $6 million by June 2021, not to exceed $12 million in total. The pollution remediation obligation of $12 million for the Portland Harbor Cleanup remedial design is recorded in the State of Oregon Comprehensive Annual Financial Report for the year ended June 30, 2019 Statement of Net Position.

NOTE 7 – INTERFUND TRANSACTIONS

Inter-fund balances reported in the financial statements as of June 30, 2019:

	Due from Other Funds	
Due to Other Funds	**Environmental Management**	**Common School**
General	$ -	$ 3,461
Environmental Management	-	215,695
Common School	28,817	-
Total	$ 28,817	$ 219,156

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

Inter-fund balances result from the time lag between the date a transaction for inter-fund 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 – RELATED PARTY TRANSACTIONS

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, 2019 the Common School Fund paid Treasury $490,959 in fees for the management of the Common School Fund investment portfolio.

NOTE 9 – 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 10 – FUND EQUITY

Restricted fund balances result from 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. Enabling legislation authorizes the Department to levy, access, charge, or otherwise mandated payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation. As of June 30, 2019, the Common School fund balance of $1,481,511,737 is restricted for K-12 Education.

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.

As of June 30, 2019, the Department had the following personal services contract commitments in effect:

Funding Source	Total
Federal Funds	$ 57,416
Other Funds	9,619,248
Total commitments	$ 9,676,664

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, 2019, the Common School Fund had approximately $72 million in commitments to purchase private equity and real estate open ended fund investments. These amounts are unfunded and are not recorded in the financial statements.

NOTE 12 – CONTINGENCIES

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.

The Department has received General Notice Letters from the EPA informing it is a potentially responsible party (PRP) under CERCLA for cleanup costs at the site. The EPA's letter to the Department charges that the State, through the Department and the State Land Board, is a PRP because of releases of hazardous substances by third parties on submerged and submersible leased lands owned by the state for the public and managed by the Department.

On January 6, 2017 EPA issued a Record of Decision (ROD) for the final cleanup remedy which EPA estimates will cost $1.05 billion and take approximately 13 years to complete. Liable parties under CERCLA are responsible for funding this remedial action, as well as other preliminary actions required before full implementation of the ROD, such as additional investigation, remedial design, and agency oversight. The Portland Harbor Superfund mediation will allocate response costs among all liable parties. It is too early to estimate the proportionate share of the liability for response costs, if any, that may ultimately be assessed against the Common School Fund. It is not known when the mediation process will end.

In December 2017, the EPA signed an Administrative Settlement and Order on Consent (ASAOC) which obligates four PRP parties to undertake pre-remedial design sampling to investigate the current state of sediment contamination in the site. This sampling investigation and related deliverables to EPA were completed in mid-2019 and the parties continue to negotiate how the results may impact the remedial effort. On November 5, 2019, the EPA signed an ASAOC with the State, through DSL and ODOT, and the City of Portland to develop the (a) a Harbor-wide Information Management Plan and (b) a Programmatic Institutional Controls Implementation and Assurance Plan. The costs that will be allocated to DSL and the Common School Fund for these plans are not yet known but are estimated at $3.15 million, plus the potential for additional costs to support third party remedial design work.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources caused by contamination at the site, which is an additional type of recovery under the Superfund law known as natural resource damages (NRD). The NRD claim will be asserted against all PRPs, including the Department, by the Portland Harbor Natural Resource Trustees, a group composed of five tribes, two federal agencies, and the State. The Trustees have initiated a cooperative injury assessment process funded by thirty parties including the State. The NRD process will result in an allocation of liability for NRD damages at the same time as the allocation of liability for remedial costs, although parties may alternatively elect to seek an earlier settlement with Trustees. The state is seeking a settlement of its NRD liabilities. In late October 2019, the Department received an NRD settlement offer from the Trustees that is being evaluated. The settlement offer requires the Department to purchase mitigation credits of approximately $2.6 million.

The Department is pursuing claims for insurance coverage of its Portland Harbor defense costs and any future liabilities for cleanup costs and natural resource damages. These claims are based on insurance policies held from 1968 to 1972 that listed the Department as an additional insured. These insurance carriers have agreed to participate in funding the Department's defense in Portland Harbor proceedings but have reserved their rights to deny indemnity coverage. In July 2019, the State executed a partial defense costs settlement agreement with most of the insurers, which provides for the insurers to reimburse 75% of the Department's defense costs for a seven year period through October 2024, and to make additional payments to the Department for a portion of unreimbursed defense costs up the same percentage.

NOTE 13 – SUBSEQUENT EVENTS

On November 13, 2019 the Department entered into a contract to sell commercial real estate property located in Hillsboro, Oregon for $4,550,000 with a fair market value of $4,000,000. The property is comprised of land and commercial buildings that generated $225,000 in gross rental revenue for the fiscal year ending June 30, 2019. It is expected that the building rental revenue will be supplanted by investment earnings on the sales proceeds in subsequent years.

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OTHER REPORTS

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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, 2019, and the related notes to the financial statements, which collectively comprise Common School Fund's basic financial statements, and have issued our report thereon dated November 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Common School Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

For Merina+Co
Tualatin, Oregon
November 25, 2019

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November 25, 2019

To the Director and Management
State of Oregon, Department of State Lands
Salem, Oregon

We have audited the financial statements of the Common School Fund of the State of Oregon Department of State Lands, major governmental fund of the State of Oregon (the Common School Fund) as of and for the year ended June 30, 2019, and have issued our report thereon dated November 25, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 24, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Common School Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Common School Fund is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the estimate of the unclaimed property that will be distributed and the estimate of allowance for doubtful accounts.

> Management's estimate of the unclaimed property that will be distributed is based on historical collections.
>
> Management's estimate of the allowance for doubtful accounts is based on a percentage of total receivables.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Common School Fund's financial statements relate to:

> The disclosure of Deposits and Investments and Derivatives in Notes 2 & 3 to the financial statements summarize the valuations for the year ended June 30, 2019.

The disclosure of Custodial Liabilities in Note 4C to the financial statements summarizes the custodial liabilities for unclaimed property for the year ended June 30, 2019.

The disclosure for Contingencies in Note 12 to the financial statements summarizes the contingencies for the year ended June 30, 2019.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Common School Fund's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, in a separate letter dated November 25, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Common School Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Common School Fund's auditors.

Other Matters

This report is intended solely for the information and use of the State Lands Board, the Director, Oregon Secretary of State Audits Division, and management of Common School Fund and is not intended to be and should not be used by anyone other than these specified parties.

If you should have any questions or comments, we would be pleased to discuss this report with you at your convenience.

Respectfully,

Merina + Co

Merina+Co
Certified Public Accountants and Consultants

Oregon
Kate Brown, Governor

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M E M O R A N D U M

Date: February 4, 2020

To: Governor Kate Brown
Secretary of State Bev Clarno
State Treasurer Tobias Read

From: Vicki L. Walker
Director

Subject: South Slough Reserve's Forest and Fire Management Project

Background Information

Since the fall of 2019, the South Slough Reserve has been undertaking an exciting multi-benefit forestry project at its visitor center. This update provides a summary of the key accomplishments to date and explains how the project is enhancing education opportunities at the reserve.

The Visitor Center was constructed in the mid-1980s on cleared forest land at the top of a ridge overlooking the South Slough estuary. The forest surrounding the Visitor Center was never thinned; it grew back incredibly dense and tall and eventually blocked the view from the observation deck to the water.

In spring of 2018, the Reserve received a grant of $137,000 from the National Oceanic and Atmospheric Administration for improvements at the Visitor Center, which included:

- replacing the observation deck,
- forestry work to re-establish a view corridor from the observation deck to the slough,
- renovating the gutter system on the building, and
- installing a demonstration raingarden to capture rainwater runoff and provide interpretive information on ecologically and culturally significant native plants.

Dr. Alice Yeates (PhD) was hired as the Reserve's stewardship coordinator in the summer of 2019. As the project lead, she has contributed invaluable expertise and experience in forest ecology, science education, and collaborative project management.

With input from a technical advisory group, Dr. Yeates developed a comprehensive Forest Enhancement Plan that expanded the project focus to reduce fire risk, improve forest health, increase wildlife habitat, and enhance education and outreach opportunities. The advisory team included representatives from OSU extension, Oregon Department of Forestry (ODF), Bureau of Land Management (BLM), Department of State Lands (DSL) and Coos Watershed Association.

The Plan was approved by the South Slough Reserve Management Commission in August 2019.

During the planning process, Dr. Yeates coordinated site visits with the advisory team to complete fire assessments and develop a plan to reduce fire risk. After implementation commenced, two representatives from OSU Forestry and Natural Resources Extension conducted an additional site visit to reassess fire risk after the first phase of work was completed; they identified additional management actions to further protect the building and surrounding areas.

Forest Enhancement Project and Raingarden Project work began in November 2019 and included the following:

Reserve staff worked with the Coos Forest Protective Association (CFPA) and a local tree service to thin a 0.75-acre area of dense regrowth forest within a 200-foot radius of the South Slough Reserve's visitor center. The CFPA work crews pruned lower tree limbs, removed dead Port-Orford-cedar trees, and thinned the dense understory shrubs and trees.

The Department of State Lands believes these fire prevention activities are an excellent example of the work envisioned by Senate Bill 1536, a bill introduced by Governor Brown in the 2020 Session. Among many objectives, SB 1536 hopes to reduce wildfire risks by demonstrating defensible space on public and private lands. South Slough Reserve is proud to showcase how fire and landscape mitigation on public land can meet those objectives.

In addition to reducing fire risk, these thinning activities will promote diversity and habitat complexity, and benefit a myriad of animals including songbirds, bats and insect pollinators.

Through partnership and creative thinking, the Reserve was able to expand the positive impacts of this project by donating and utilizing many of the felled trees.

- 120 logs of approximately 10 ft. in length were equally divided between the Coquille Indian Tribe and the Confederated Tribes of the Coos, Lower Umpqua and Siuslaw Indian (CTCLUSI) for cultural use. Attached is a letter from the CTCLUSI about this donation.

- Additional Port-Orford-cedar logs were split on site and staff are constructing benches to be installed along the trails. Remaining logs are being milled at a local sawmill and will be used in education programs for building wildlife boxes.

- Western hemlock and Sitka spruce logs will be used in an upcoming stream restoration project.

- The Reserve made efforts to donate firewood from the removed Douglas fir trees to Oregon Coast Community Action for its energy assistance program, but it was not possible at this time. Future forestry projects will work towards this.

The demonstration raingarden was completed by Reserve staff and volunteers in January 2020 and enriched with a diversity of native pollinator food plants and culturally important plants donated by CTCLUSI. The garden incorporates an ADA-accessible path for all visitors to access the observation deck and will include interpretive signage and bench seating.

Education and Outreach
Staff at the South Slough Reserve recognize that clear communication is an important element of any land management activity. For this project, staff obtained approval from the local tribes and the Reserve management commission, conducted public site tours and presentations, and created interpretive signage to help visitors understand the forestry work and visualize the project objectives.

The project also created a large gathering area along the trail for school groups and community programs. The area will be enhanced with native flowering shrubs and wildlife boxes. Reserve staff are working with local tribes to incorporate culturally significant plants and develop education materials. Participants of the Reserve's inaugural *Second Saturday Stewards* program will plant shrubs and install wildlife boxes on February 8, 2020.

The project area will serve as a demonstration site for workshops and community classes to educate the public on how to reduce fire risk on their own property. Reserve staff are currently working with Oregon State University Extension agents to host a spring workshop focused on creating defensible space for reducing risk of wildfire. Outreach opportunities the Reserve plans to complete in the future will educate others on how to promote these important tasks in reducing wildfire risk and being good stewards of the land.

After many years of dense forests enclosing the Visitor Center, Reserve visitors are now able to view the South Slough estuary and obtain a sense of connection with the surrounding watershed. Through these efforts the area has been, and will continue to be, enhanced to benefit all those that belong to the South Slough community in a way that promotes an increased understanding of its ecology and cultural importance, and the benefits of managing our land in a multifaceted and inclusive manner.

CONFEDERATED TRIBES OF
COOS, LOWER UMPQUA & SIUSLAW INDIANS

TRIBAL GOVERNMENT OFFICES

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Ms. Vicki Walker, Director
Oregon Department of State Lands
775 Summer St. NE
Salem, Oregon 97301-1279

Thursday, January 23, 2020

Dear Ms. Walker,

The Confederated Tribes of the Coos, Lower Umpqua, and Siuslaw Indians (Tribe) would like to extend their utmost luuwii (thanks) to the Department of State Lands (DSL) and the South Slough National Estuarine Research Reserve (SSNERR) for their continued partnership in protecting the Tribe's cultural resources and traditional cultural practices on ancestral lands that are now managed by DSL. Recently, SSNERR donated some Port Orford cedar (*Chamaecyparis lawsoniana*) logs (láləmł in the Hanis Coos language) that were being removed from the SSNERR's Visitor Center to the Tribe. These donated logs will be used in many upcoming cultural activities, from paddle and cedar box making to plank splitting and carving demonstrations. Cedar, much like salmon, is the life-blood of our culture; it provides us with medicine, clothing, housing, and transportation. Without cedar, we wouldn't be who we are as Tribal people.

As inherent stewards of these lands and waters of Coos Bay, we appreciate the SSNERR for respecting our cultural lifeways and allowing us to continue to gather and manage culturally significant resources on these lands for our cultural and ceremonial purposes. We are so blessed to be able to continue our traditions in the same places our ancestors have for millennia. We are also so very grateful to be able to collaborate on the various projects that are being implemented in the South Slough of Coos Bay; thus perpetuating our role as cultural stewards. From water quality monitoring to cultural tours in our traditional cedar dugout canoes, we thoroughly enjoy our many adventures together and look forward to the ones that are yet to come.

So, again, luuwii for the gift of cedar!

Gǽlæ de Luwæ (With a Good Heart),

Chairman Doc Slyter
Doc Slyter

cc (via email): Alice Yeates, SSNERR Stewardship Coordinator