Enterprise Fund of the State of Oregon

Department of Energy

Small Scale Energy Loan Program

For the Fiscal Years Ended

June 30, 2011 and June 30, 2010

Bob Repine
Acting Director

OREGON
DEPARTMENT OF
ENERGY

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FINANCIAL SECTION

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The Honorable John Kitzhaber
Governor of Oregon

Bob Repine, Acting Director
Oregon Department of Energy

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Small Scale Energy Loan Program (SELP), an enterprise fund of the State of Oregon, Department of Energy (department), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the SELP, an enterprise fund of the State of Oregon, Department of Energy, are intended to present the financial position, and the changes in financial position, and cash flows that are attributable to the transactions of the SELP. They do not purport to, and do not, present fairly the financial position of the department or the State of Oregon, as of June 30, 2011 and 2010, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the SELP as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, on our consideration of the SELP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is separately presented in the other report section as listed in the table of contents.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SELP financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

March 16, 2012

STATE OF OREGON

DEPARTMENT of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

BALANCE SHEETS

JUNE 30, 2011 AND JUNE 30, 2010

	2011	2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,915,354	$ 3,165,363
Cash and Cash Equivalents--Restricted	37,152,248	31,150,571
Accounts Receivable	97,184	49,147
Loan Interest Receivable	2,184,387	1,184,632
Due from Other Funds/Agencies	1,077,723	516,587
Total Current Assets	43,426,896	36,066,300
Noncurrent Assets:		
Cash and Cash Equivalents--Restricted	9,408,572	7,489,961
Deferred Bond Issuance Costs	1,827,417	1,218,366
Loans Receivable (Net)	201,434,335	158,037,640
Total Noncurrent Assets	212,670,324	166,745,967
TOTAL ASSETS	$ 256,097,220	$ 202,812,267
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 24,113	$ 19,957
Bond Interest Payable	2,878,953	2,556,989
Compensated Absences Payable	24,248	37,858
Deferred Income	68,230	86,452
Bonds Payable	21,097,957	14,169,532
Total Current Liabilities	24,093,501	16,870,788
Noncurrent Liabilities:		
Compensated Absences Payable	12,492	19,503
Borrower Deposit Liability	2,958,269	1,532,089
Other Postemployment Benefits Obligation (Net)	9,695	8,419
Bonds Payable	231,269,730	182,237,082
Total Noncurrent Liabilities	234,250,186	183,797,093
TOTAL LIABILITIES	258,343,687	200,667,881
Net Assets:		
Invested in Capital Assets	-	-
Restricted for Debt Service	884,272	505,736
Unrestricted	(3,130,739)	1,638,650
Total Net Assets (Deficit)	(2,246,467)	2,144,386
TOTAL LIABILITIES AND NET ASSETS	$ 256,097,220	$ 202,812,267

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

STATE OF OREGON

DEPARTMENT of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	2011	2010
OPERATING REVENUES		
Interest on Loans	$ 10,616,474	$ 7,974,911
Interest on Cash Investments	288,576	282,724
Application and Disbursement Fees	36,193	22,367
Loan Fees	495,453	513,198
Holding Cost Fees	575,492	594,340
Other Fees and Charges	140,023	22,663
Miscellaneous Revenue	31,321	14,657
TOTAL OPERATING REVENUES	12,183,532	9,424,860
OPERATING EXPENSES		
Bond Interest	9,878,965	8,268,977
Bond Expenses	23,028	21,681
EEAST Special Payments	578,821	-
Salaries and Other Personal Services	745,951	854,872
Services and Supplies	581,370	446,853
Amortization of Deferred Bond Issuance Costs	204,978	153,005
Depreciation Expense	-	22,039
Bad Debt Expense	5,638,995	8,473,865
TOTAL OPERATING EXPENSES	17,652,108	18,241,292
OPERATING INCOME (LOSS)	(5,468,576)	(8,816,432)
Transfers from Other Funds/Agencies	1,077,723	816,587
CHANGE IN NET ASSETS	(4,390,853)	(7,999,845)
NET ASSETS - BEGINNING	2,144,386	10,144,231
NET ASSETS (DEFICIT) - ENDING	$ (2,246,467)	$ 2,144,386

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

STATE OF OREGON
DEPARTMENT of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 1,230,444	$ 1,166,960
Loan Principal Repayments	14,863,811	13,400,688
Loan Interest Received	9,598,498	8,120,350
Loans Disbursed to Borrowers	(63,899,501)	(47,386,469)
Cash Credited to Borrowers on Deposit Net of Withdrawals	1,426,180	(22,004)
Cash Paid to Vendors for Goods and Services	(596,559)	(460,277)
Cash Paid to EEAST Grantees	(578,821)	0
Cash Paid for Employees	(768,980)	(846,598)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(38,724,928)	(26,027,350)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Bonds	84,890,816	50,951,545
Principal Paid on Bonds	(29,104,532)	(12,580,000)
Interest Paid on Bonds	(9,928,287)	(8,313,373)
Bond Issue Costs Paid	(267,953)	(178,841)
Transfer from Other Funds	516,587	300,000
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	46,106,631	30,179,331
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Cash Investments	288,576	282,724
NET CASH PROVIDED BY INVESTING ACTIVITIES	288,576	282,724
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,670,279	4,434,705
CASH AND CASH EQUIVALENTS - BEGINNING	41,805,895	37,371,190
CASH AND CASH EQUIVALENTS - ENDING	$ 49,476,174	$ 41,805,895
Cash and Cash Equivalents	2,915,354	3,165,363
Cash and Cash Equivalents--Restricted	46,560,820	38,640,532
TOTAL CASH AND CASH EQUIVALENTS	$ 49,476,174	$ 41,805,895

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

STATE OF OREGON
DEPARTMENT of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENTS OF CASH FLOWS (continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (5,468,576)	$ (8,816,432)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Bad Debt	5,638,995	8,473,865
Loan Receivable Write-off	-	(18,087,571)
Depreciation	-	22,039
Amortization of Deferred Bond Issue Costs	204,978	153,005
Interest Received on Cash Investments Reported as Operating Revenue	(288,576)	(282,724)
Bond Interest Expense and Debt Service Amortization Reported as Operating Expense	9,878,965	8,268,977
(Increase)/Decrease in Assets:		
Accounts Receivable	(48,038)	(266)
Loan Interest Receivable	(999,755)	165,395
Loan Receivable	(49,035,690)	(15,898,210)
Increase/(Decrease) in Liabilities:		
Accounts Payable	4,156	953
Compensated Absences Payable	(20,621)	14,152
Deferred Income	(18,222)	(19,956)
Net OPEB Obligation	1,276	1,427
Borrower Deposits	1,426,180	(22,004)
TOTAL ADJUSTMENTS	(33,256,352)	(17,210,918)
NET CASH PROVIDED (USED) BY OPERATIONS	$ (38,724,928)	$ (26,027,350)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Oregon Department of Energy Small Scale Energy Loan Program (SELP) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). Under GASB Statement 20, SELP does not apply private-sector standards of accounting and financial reporting issued after November 30, 1989 for proprietary fund activities, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

A. Reporting Entity

The Small Scale Energy Loan Program (SELP) was created through the adoption of Oregon Constitution Article XI-J by statewide vote in May 1980 and is implemented under the provisions of Oregon Revised Statutes Chapter 470. Article XI-J authorizes the sale of State General Obligation Bonds to finance fixed-rate, secured loans for the development of energy conservation, renewable energy and recycling projects within Oregon. SELP was designed as a self-supporting loan program that is part of the State of Oregon and the Department of Energy (Department). The 2009 legislative session created the Energy Efficiency and Sustainable Technology program (EEAST) as part of the SELP program. The EEAST program was created as a new finance tool to assist investment in energy efficiency and renewable energy projects with the repayment of loans made through the customer's utility bill. The Department is in the pilot phase of the EEAST program implementation.

The financial statements and footnotes include only the bonded debt financial activity of the Department of Energy loan program. The Department operates other governmental fund programs, which are not included in this report.

B. Basis of Presentation

The accounts of the Department are organized on the basis of funds, each of which is a separate accounting entity. The funds utilize a separate set of self balancing accounts to record the assets, liabilities, net assets, revenues, and expenses of their program activities. SELP is classified as a proprietary fund. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. SELP is accounted for as an Enterprise Fund. Enterprise funds are used for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods and services to the general public on a continuing basis is intended to be financed or recovered primarily through user charges. Enterprise fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liabilities are incurred. All assets and liabilities associated with the operations of these funds are included on the Balance Sheet. Total net assets are segregated into the categories of Invested in Capital Assets, Restricted Net Assets, and Unrestricted Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how SELP finances and meets the cash flow needs of its proprietary activities.

D. Budgetary Process

The Oregon Legislature approves budgets for a biennial period. Operating expenses are subject to budget limitation and bond related expenses are subject to administrative limitation. The Emergency Board of the Legislature approves any increase in the budget that may be necessary during the interim. Both types of limitation are funded from revenues of self-supporting activities and lapse at the end of the biennium. Budgets are adopted on a basis that differs from generally accepted accounting principles and financial reporting standards. For budgetary purposes, transactions related to the treatment of bond proceeds, loan disbursements and other operating revenues and expenditures are recorded on a cash basis and converted to the accrual basis for financial reporting purposes.

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash held in the State Treasury and cash on deposit outside the State Treasury. All SELP monies are held in the Oregon Short Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. The OSTF pool operates as a demand deposit account and funds held in the OSTF are considered cash equivalents.

F. Restricted Assets

Use of all cash and cash equivalents of SELP are restricted as to purpose and use by Article XI-J of the Oregon Constitution, Bond Indenture, and State statute. SELP’s funds are restricted to funding loans and paying bond debt service and operating costs. Individual borrower reserve accounts have been established to meet certain loan requirements and the balances of these accounts as of June 30, 2011 and 2010 were sufficient to meet all contractual agreements. Any cash on deposit with a fiscal agent is held on behalf of bondholders and is the result of unclaimed monies from matured bonds and coupons.

G. Capital Assets

Capital assets are reported at historical cost or estimated historical cost if the original cost cannot be determined. Capital assets costing less than $5,000 and having an estimated useful life of less than one year are not capitalized. Maintenance that does not add to the value of assets or significantly extend asset lives is expensed rather than capitalized.

Depreciation or amortization of capital assets is charged as an expense against operations over the estimated useful life using the straight-line method of depreciation. Once placed into service the estimated useful life of capital assets will be determined using criteria outlined in the Oregon Accounting Manual (OAM), section 15.60.20.108. Capital assets are recorded net of accumulated depreciation.

H. Receivables

Receivables reported are amounts due that represent revenues earned or accrued in the applicable period. Types of receivables included in this classification relate to interest, loans receivable, and other miscellaneous receivables. Interest receivable on loans is recorded at the net recoverable amount by management policy. Loans receivable are recorded net of an allowance for uncollectible accounts based on a percentage of receivables as determined by management.

I. Operating Revenues and Expenses

Operating revenues include interest and fees on program loans as well as earnings on cash and any investments related to SELP's loan program. Administrative expenses and bond program related expenses are considered operating expenses.

J. Compensated Absences

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for accumulated sick pay benefits, as employees may not convert accrued sick leave into cash at termination.

K. Arbitrage Rebate Liability

Internal Revenue Code Section 148(f) requires issuers of tax-exempt bonds to rebate income from the investment of bond proceeds that exceeds limits established for each bond issue. These limits are based on the bond yield calculated for federal tax purposes for each bond issue and are subject to certain exceptions. Arbitrage rebate payments are due not later than 60 days after the end of the fifth anniversary of each bond issue and every five years thereafter in an amount equal to at least 90 percent of the calculated arbitrage liability. Final arbitrage rebate payments are due not later than 60 days after the final retirement of all bonds in an issue in an amount equal to 100 percent of the calculated arbitrage liability. SELP records arbitrage rebate as a reduction of investment revenue.

L. Bond Expenses

Bond issuance costs are capitalized as deferred charges and amortized over the term of the related bond issue. Bond premiums and discounts arising from the sale of a particular bond issue are deferred and charged or credited to interest expense over the term of the bond issue, using the bonds-outstanding method of amortization. Deferred amounts related to debt refunding are reflected as a reduction to bonds payable and are amortized over the shorter of the term of the refunding or refunded bonds using the bonds-outstanding method of amortization. The bonds-outstanding method of discount and deferred charge amortization most closely approximates the effective-interest method.

M. Borrower's Reserve Accounts

SELP holds reserve investments for certain borrowers in accordance with contractual obligations. All interest earned on these reserve accounts is credited to the borrower's account when received. Funds in the reserve account in excess of contractual requirements are remitted to the borrowers upon request.

N. Comparative Data

Comparative financial statements are presented in order to provide an understanding of the changes in SELP's financial position and operations.

NOTE 2. CASH AND CASH EQUIVALENTS

SELP deposits are held in demand accounts with the State Treasurer and are classified as cash and cash equivalents. The State's investment policies are governed by Oregon Revised Statutes, and the Oregon Investment Council. The State Treasurer is the investment officer for the Oregon Investment Council and is responsible for the funds entrusted to the Oregon State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as would a prudent investor, exercising reasonable care, skill and caution.

The State Treasurer maintains the Oregon Short Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Investments in the OSTF are further governed by portfolio guidelines recommended by the Oregon Short Term Fund Board, with Oregon Investment Council approval, establishing diversification percentages and specifying the types and maturities of investments. The OSTF pool operates as a demand deposit account and earnings are allocated on a pro-rata basis on daily account balances. A separate financial report for the OSTF may be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, OR 97301-3896 or from the Treasurer's website at http://www.ost.state.or.us/About/Investment/.

The custodial credit risk for cash deposits is the risk that, in the event of a bank failure, the State's deposits may not be recovered, or the State will not be able to recover collateral securities that are in the possession of an outside party. The 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 deposits in the OSTF. Balances that exceed the Federal Deposit Insurance (FDIC) amount of $250,000 are covered by a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon State Treasury.

At June 30, 2011, the book balance of cash and cash equivalents held by the Treasury was $49,056,513. The unadjusted bank balance was $49,766,994, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

At June 30, 2010, the book balance of cash and cash equivalents held by the Treasury was $41,389,724. The unadjusted bank balance was $41,537,623, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

At June 30, 2011, the bank balance of cash and cash equivalents held by Wells Fargo in its capacity as the State's trustee was $419,661. These funds represent lottery bond debt service reserves and are held in the State's name and invested in the OSTF through Wells Fargo.

At June 30, 2010, the bank balance of cash and cash equivalents held by Wells Fargo in its capacity as the State's trustee was $416,171. These funds represent lottery bond debt reserves and are held in the State's name and invested in the OSTF through Wells Fargo.

Bond Indenture and State statute require SELP cash be segregated into separate funds. The 2009 Legislative Assembly created additional funds to further assist investment in energy efficiency and renewable energy projects under the Energy Efficiency and Sustainable Technology program (EEAST), which is part of SELP.

The following table itemizes cash balances by funds at June 30, 2011 and 2010:

	June 30, 2011	June 30, 2010
SELP Loan Fund	$17,950,978	$11,261,500
SELP Sinking Fund		
Program Account	8,570,411	9,357,269
Principal & Interest	9,091,816	8,507,319
Extraordinary Expense	6,030,642	5,541,701
Borrower's Reserves	2,958,269	1,532,089
EEAST Loan Offset Grant Fund	4,450,227	5,003,700
EEAST Supplemental Fund	4,170	186,146
TOTALS	$49,056,513	$41,389,724

NOTE 3. LOANS RECEIVABLE

The composition of the loans receivable portfolio includes state agency loans. The loan portfolio value and associated statewide concentration of credit risk is:

Borrower Type	Loans	June 30, 2011	Loans	June 30, 2010
Commercial and residential	154	$ 78,168,388	161	$ 63,978,260
Cities, counties, school and special districts	29	33,488,867	39	31,453,448
State agencies	41	91,470,878	40	57,598,831
Not-for-profit organizations	7	7,280,229	7	8,342,133
Total Loans Receivable	231	$210,408,362	247	$161,372,672
State agency loans		(91,470,878)		(57,598,831)
Net credit risk exposure		$ 118,937,484		$103,773,841

SELP uses the allowance method to estimate uncollectible loans receivable. The allowance for loans is based primarily upon a percentage of new loans made during the fiscal year. The allowance is periodically adjusted by management to accommodate changes in economic conditions, non-performing assets, historical loss experience, industry practice, risk rating assigned and other conditions that may affect the ultimate collectability of the loans. In 2011 and 2010, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan portfolio based on segmented risk category analysis. The current loss allowance associated with the loan portfolio represents approximately four percent of the gross loans receivable in 2011 and two percent in 2010.

The following table details Net Loans Receivable as of June 30, 2011 and 2010:

	June 30, 2011	June 30, 2010
Loans Receivable	$210,408,362	$161,372,672
Allowance for uncollectible principal	(8,974,027)	(3,335,032)
Net Loans Receivable	$ 201,434,335	$ 158,037,640

A loan representing approximately 14% of SELP's 2009 loan portfolio filed a voluntary Chapter 11 bankruptcy petition on January 28, 2009. The SELP loan of $20,000,000 represented 1/6 of the total debt associated with the project construction. During fiscal year 2010, the bankruptcy court rejected plans for reorganization and the case was converted to Chapter 7 proceedings. The court appointed trustee determined that it was in the best interests of the bankruptcy estate to sell the plant assets and an auction was held on December 9, 2009. SELP received a small payment in liquidation and wrote off the loan as uncollectible on June 3, 2010 in the amount of $18,087,571.

During the fiscal year 2011, SELP sold bonds to refund the outstanding 1998 Series C and E and 1999 Series A to reduce the interest costs of the program. Federal arbitrage law restricts the amount SELP can earn on loan funded by tax-exempt bonds. When the savings to the borrowers is large, SELP reduces the prospective interest rate on outstanding loans to comply with the federal requirement. When the amount of savings to the borrower is small or the remaining life of the loan is less than two years, SELP shares the savings with borrowers by reducing the principal balance of their loans. The 2011 refunding resulted in four borrowers receiving interest rate reductions. The net benefit to the program will be recognized by SELP over the remaining term of the respective loans through lower interest earnings and lower interest payments to bondholders over the remaining life of the new bonds.

NOTE 4. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, it has issued State of Oregon General Obligation (G.O.) bonds totaling $766,590,000, of which $241,775,000 was outstanding at June 30, 2011. G.O. bonds are secured by the full faith and credit of the State. Bond proceeds are loaned to individual residents, businesses, nonprofit organizations, state agencies, school districts and local governments in Oregon for energy conservation, renewable resource energy, recycling and alternate fuels projects. In addition, the 2009 Legislative Assembly directed a portion of the proceeds of the May 2010 lottery revenue bond sale to SELP for use in the EEAST program. $5,472,107 was issued during fiscal year 2010, and $5,072,575 was outstanding as of June 30, 2011. The lottery bonds are payable from lottery revenues transferred to SELP from the Department of Administrative Services over the life of the bonds.

The following table provides a summary of bond transactions as presented on the balance sheets for the fiscal years ended June 30, 2011 and June 30, 2010:

	June 30, 2011	June 30, 2010
Bonds Payable-beginning	$194,077,107	$157,380,000
Bonds issued—G.O.	81,875,000	43,805,000
Bonds issued—Lottery Bonds	0	5,472,107
Bonds matured and defeased	(29,104,532)	(12,580,000)
Bonds Payable-ending	246,847,575	194,077,107
Premium on Bonds Payable	5,780,507	2,636,242
Discount on Bonds Payable	(193,651)	(297,657)
Deferred Loss on Bond Refunding	(66,744)	(9,078)
Net Bonds Payable	$ 252,367,687	$ 196,406,614

Debt Service Requirements to Maturity

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2011, for each fiscal year during the next five years period ending June 30, 2016, and in five year increments thereafter:

Years Ending June 30	Bond Principal	Bond Interest	Total Debt Service
2012	21,097,958	10,458,838	31,556,796
2013	16,527,755	9,951,231	26,478,986
2014	15,723,471	9,319,255	25,042,726
2015	18,172,148	8,639,977	26,812,125
2016	18,176,742	7,888,501	26,065,243
2017-2021	73,359,501	28,973,419	102,332,920
2022-2026	45,515,000	14,567,820	60,082,820
2027-2031	35,665,000	4,920,826	40,585,826
2032	2,610,000	115,119	2,725,119
TOTALS	$246,847,575	$94,834,986	$341,682,561

The following table summarizes the outstanding bond issues by series as of June 30, 2011:

SCHEDULE OF DEBT ISSUED AND OUTSTANDING
General Obligation Bonds

Original Issue						Bonds Outstanding				
		Final	Coupon Interest Range			Beginning			Ending	Due Within
Series	Dated Date	Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
1998 A	Mar-98	Jan-14	3.900%	4.900%	3,000,000	1,060,000	0	1,060,000	0	0
1998 C	Oct-98	Jul-19	3.500%	4.800%	5,500,000	3,445,000	0	3,160,000	285,000	285,000
1998 D	Oct-98	Jan-28	4.100%	4.800%	14,535,000	4,385,000	0	120,000	4,265,000	130,000
1998 E	Oct-98	Jan-17	3.650%	4.900%	2,000,000	975,000	0	975,000	0	0
1999 A	Oct-99	Jan-17	4.750%	5.100%	25,995,000	12,070,000	0	12,070,000	0	0
1999 B	Apr-99	Jan-15	4.000%	4.750%	9,100,000	1,155,000	0	210,000	945,000	220,000
2000 A	Apr-00	Jul-17	4.500%	5.500%	7,320,000	2,375,000	0	240,000	2,135,000	255,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	1,485,000	0	235,000	1,250,000	245,000
2001 D	Oct-01	Apr-16	2.300%	4.500%	4,000,000	2,060,000	0	310,000	1,750,000	320,000
2001 E	Oct-01	Oct-16	3.150%	4.850%	1,600,000	1,500,000	0	0	1,500,000	0
2001 F	Oct-01	Oct-16	3.150%	6.000%	11,500,000	5,865,000	0	885,000	4,980,000	935,000

SCHEDULE OF DEBT ISSUED AND OUTSTANDING-continued

General Obligation Bonds

Original Issue						Bonds Outstanding				
			Coupon Interest Range			Beginning			Ending	Due Within
Series	Dated Date	Final Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
2002 A	May-02	Oct-12	3.000%	4.250%	10,950,000	3,750,000	0	1,195,000	2,555,000	1,250,000
2004 A	Apr-04	Jul-16	2.000%	3.500%	11,035,000	3,815,000	0	1,430,000	2,385,000	1,465,000
2004 C	Nov-04	Oct-17	4.000%	5.000%	3,850,000	1,905,000	0	415,000	1,490,000	345,000
2004 D	Nov-04	Oct-17	4.000%	5.000%	8,845,000	3,085,000	0	950,000	2,135,000	680,000
2005 A	Aug-05	Oct-20	3.000%	4.375%	1,470,000	1,155,000	0	85,000	1,070,000	90,000
2005 B	Aug-05	Oct-21	4.230%	5.290%	4,500,000	3,275,000	0	315,000	2,960,000	335,000
2006 A	May-06	Apr-22	5.500%	5.750%	12,000,000	9,180,000	0	1,100,000	8,080,000	1,000,000
2006 B	Nov-06	Oct-22	4.000%	5.000%	24,200,000	23,625,000	0	955,000	22,670,000	1,105,000
2006 C	Nov-06	Oct-22	5.160%	5.510%	3,750,000	3,560,000	0	200,000	3,360,000	210,000
2007 A	May-07	Oct-28	4.000%	4.375%	8,000,000	7,820,000	0	255,000	7,565,000	265,000
2007 B	May-07	Oct-23	4.000%	4.500%	10,570,000	9,615,000	0	655,000	8,960,000	700,000
2007 C	May-07	Oct-22	5.030%	5.380%	5,000,000	4,195,000	0	465,000	3,730,000	505,000
2008 A	Apr-08	Oct-23	4.600%	5.000%	18,000,000	18,000,000	0	1,000,000	17,000,000	1,300,000
2008 B	Oct-08	Oct-29	4.000%	6.000%	15,445,000	15,445,000	0	420,000	15,025,000	440,000
2009 A	Nov-09	Apr-31	3.000%	5.000%	23,850,000	23,850,000	0	0	23,850,000	0
2009 B	Nov-09	Apr-29	3.000%	5.000%	16,430,000	16,430,000	0	0	16,430,000	4,850,000
2009 C	Nov-09	Apr-20	1.910%	4.710%	3,525,000	3,525,000	0	0	3,525,000	345,000
2010 A	Jul-10	Apr-32	3.000%	4.000%	33,015,000	0	33,015,000	0	33,015,000	0
2010 B	Jul-10	Apr-26	1.100%	4.800%	10,000,000	0	10,000,000	0	10,000,000	435,000
2011 A	Mar-11	Apr-32	2.500%	4.625%	16,400,000	0	16,400,000	0	16,400,000	500,000
2011 B	Mar-11	Jan-32	4.000%	4.750%	22,460,000	0	22,460,000	0	22,460,000	1,935,000
Defeased/ Matured	98-04				42,790,000					
	Pre-98				373,955,000					
Total General Obligation Bonds issued					$766,590,000	$188,605,000	$81,875,000	$28,705,000	$241,775,000	$20,145,000

SCHEDULE OF DEBT ISSUED AND OUTSTANDING

Lottery Revenue Bonds
Allocation to SELP issued by Department of Administrative Services

Original Issue						Bonds Outstanding				
			Coupon Interest Range			Beginning			Ending	Due Within
Series	Dated Date	Final Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
2010 B	May-10	Apr-17	1.080%	3.700%	5,472,107	5,472,107	0	399,532	5,072,575	952,958
Total Allocation of Lottery Revenue Bonds issued					$5,472,107	$5,472,107	$ 0	$399,532	$5,072,575	$952,958

Early Bond Redemptions and Debt Refunding

SELP exercised the following optional bond redemptions with loan prepayments and other funds on hand and through current debt refunding:

Bond Series	Amount Redeemed	Date Redeemed
General Obligation 1998 A	$ 285,000	9/1/2010
General Obligation 1998A	$ 530,000	1/1/2011
General Obligation 1998C	$ 2,885,000	Refunded 4/18/2011
General Obligation 1998E	$ 855,000	Refunded 4/18/2011
General Obligation 1999A	$10,380,000	Refunded 4/18/2011

On March 29, 2011, SELP issued the following par amount General Obligation Alternate Energy Project Bonds: $16,400,000 in 2011 Series A with an average interest rate of 4.46 percent and $22,460,000 in 2011 Series B with an average interest rate of 4.96 percent. 2011 Series A was used to refund General Obligation Alternate Energy Project Bonds 1998 Series C and 2011 Series B was used to refund General Obligation Alternate Energy Project Bonds 1998 Series E, and General Obligation Alternate Energy Project Bonds 1999 Series A. The balance of the net proceeds of 2011 Series A and B after payment of issuance costs will be used for new energy conservation and energy efficiency project loans. The current refunding reduces SELP's total bond debt service payments over the next 8 years by $1,378,164 and resulted in an economic gain on a present value basis of $985,150. Of the subsequent savings, 30.82 percent was passed on to related SELP borrowers to comply with federal arbitrage regulations, and is more fully described in Note 3.

NOTE 5. CHANGES IN LONG TERM LIABILITIES

Long term liability activity for June 30, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net Bonds Payable	$196,406,614	$85,388,844	$29,427,771	$252,367,687	$21,097,957
Arbitrage Rebate Liability	0	0	0	0	0
Borrower's Deposit Liability	1,532,089	1,693,502	267,322	2,958,269	0
OPEB Liability	8,419	1,276	0	9,695	0
Compensated Absences Payable	57,361	0	20,621	36,740	24,248
TOTALS	$198,004,483	$87,083,622	$29,715,714	$255,372,391	$21,122,205

NOTE 6. COMMITMENTS

As of June 30, 2011 and June 30, 2010, SELP had committed but undisbursed loan funds of $15,245,219 and $10,255,585, respectively, for various alternative energy, energy efficiency and alternate fuel projects within the state of Oregon. Funds are committed pursuant to legal agreements with borrowers. Additional general obligation bond funds were legally designated for future energy project loans pursuant to federal tax code and the bond indenture in the amounts of $2,705,759 and $19,717 as of June 30, 2011 and June 30, 2010, respectively. Remaining lottery revenue bond proceeds of $4,450,227 and $5,472,107 as of June 30, 2011 and 2010, respectively, were committed for the EEAST program as loan offset grant funds pursuant to the 2009 legislative assembly.

NOTE 7. CAPITAL ASSETS

As of June 30, 2011, SELP capital assets consisted of the accumulated costs of developing a new database for the program. The Data Processing Software was placed into service in January 2005. The new database ran concurrently with the old from October 2004 through December 2005. SELP has no outstanding debt related to capital assets.

A summary of SELP's capital asset activity is presented in the following table:

	Beginning Balance	Additions	Deletions	Ending Balance
Data Processing Software	$ 264,466	$ 0	$ 0	$ 264,466
Less: Accumulated Depreciation	(264,466)	(0)	0	(264,466)
Total Net Capital Assets	$ 0	$(0)	$ 0	$ 0

NOTE 8. EMPLOYEE RETIREMENT PLANS

The Oregon Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for State government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the Public Employees Retirement Board (Board), as required by Oregon Revised Statutes (ORS), Chapters 238 and 238A. PERS issues a separate financial report that includes audited financial statements and required supplementary information. The report is available publicly and may be obtained by contacting the Fiscal Services Division, Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281.

PERS Pension

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

SELP is required by statute to contribute actuarially computed amounts as determined by the Board. The funding policies provide for monthly employer contributions. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employees salary was 2.06% through June 30, 2011. The amounts contributed by SELP representing the employer contributions for the years ended June 30, 2011, 2010, and 2009 were $5,406, $7,338, and $25,031, respectively, equal to the required contributions each year.

Oregon Public Service Retirement Plan

The 2003 Oregon Legislature created the Oregon Public Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program, a defined benefit program, and the Individual Account Program (IAP), a defined contribution plan. SELP employees hired after August 28, 2003 participate in OPSRP after completing six months of service. OPSRP is administered by the Public Employees Retirement Board under the guidelines of ORS Chapter 238A.

The OPSRP Pension Program provides for a monthly pension benefit payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement.

SELP is required by statute to contribute actuarially computed amounts as determined by the Board. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee’s salary for the fiscal year ended June 30, 2011 was 2.84%. The amounts contributed by SELP for the years ended June 30, 2011, 2010, and 2009 were $8,783, $6,605, and $9,669, respectively, equal to the required contributions for the year.

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. PERS members retain their existing PERS accounts, but beginning January 1, 2004, any future member contributions were deposited in the member's IAP account, rather than into the member's PERS account. All covered employees are required by state statute to contribute a percentage of their salary to the IAP. Current law permits employers to pay the 6.00% employee contribution, which SELP does. The amount contributed by SELP for the years ended June 30, 2011, 2010 and 2009, were $29,085, $34,422, and $31,827, respectively, equal to the required contributions for the year.

NOTE 9. OTHER POSTEMPLOYMENT BENEFIT PLANS

SELP employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by Oregon Revised Statutes (ORS) 238.410 and the Public Employees Benefit Board (PEBB) established by ORS 243.302. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281.

Retirement Health Insurance Account

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer defined benefit OPEB plan which provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Legislature has sole authority to amend the benefit provisions and funding policy for the RHIA plan.

SELP is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. For Tier One and Tier Two members, SELP contributed 0.10% of PERS-covered salary to fund the normal cost portion of RHIA benefits. In addition, SELP contributed an additional 0.19% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. The RHIA employer contribution is embedded within the total PERS contribution rate. SELP's actual contribution for the years ended June 30, 2011, 2010 and 2009, were $1,510, $1,651, and $2,131, respectively.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (RHIPA) is a single–employer defined benefit OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and the health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retire state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired on or after September 29, 1991. The Legislature has sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

SELP is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. For Tier One and Tier Two members, SELP contributed 0.06% of PERS-covered salary to fund the normal cost portion of RHIPA benefits. In addition, SELP contributed an additional 0.02% of all PERS-covered salary to amortize the unfunded actuarial accrued liability. The RHIPA contribution is embedded within the total PERS contribution rate. SELP's actual contribution for the years ended June 30, 2011, 2010 and 2009 totaled $ 416, $456, and $576, respectively.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is an agent multiple-employer plan which offers healthcare assistance to eligible retired employees and their beneficiaries. Retired employees not eligible for Medicare are eligible for PEBB coverage if the retiree is receiving a service or disability benefit from PERS or another state system, is eligible to receive a retirement allowance from PERS and has reached the earliest retirement age under ORS Chapter 238, or is eligible to receive a service allowance or pension under any system offered by the state and has attained the earliest retirement age under that system.

The PEBB plan funding policy provides for employer contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB activity is reported as part of the State of Oregon's Comprehensive Annual Financial Report and does not issue a separate financial report.

ORS 243 assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. As the administrator of the PEBB Plan, PEBB has the authority to determine post-retirement benefit increases and decreases.

NOTE 10. RISK FINANCING

The Department of Administrative Services, State Services Division, administers property and casualty insurance 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; and employees, elected officials, and members of commissions and boards for honesty. Faithful performance coverage is provided for key positions in state government that are required by law to be covered. For the State of Oregon, the amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

As part of a state agency, SELP participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide risk charges are based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.

NOTE 11. DEFEASED DEBT

On August 24, 2006, the balance of 2001 Series B bonds were legally defeased in the amount of $8,715,000. Pursuant to tax law requirements, the balance of unexpended proceeds were placed into escrow until the optional call date. The escrowed securities and earnings thereon was sufficient to pay principal and interest of the defeased bonds as it became due and payable through the Escrow Agent. The bonds were redeemed on the optional call date of January 1, 2011 in the amount of $5,285,000. These bonds represented Private Activity Bonds (PAB) issued on May 1, 2001 for a project that did not proceed.

NOTE 12. INTERFUND TRANSACTIONS

During fiscal years ended June 2011 and 2010, under advice from the Department of Administrative Services (DAS), SELP established receivables representing the lottery revenue to be used for lottery bond debt service to be paid by SELP during the subsequent fiscal year. Transfers of lottery revenue were made from DAS in August of each year in the amounts of $1,077,723 and $516,587, respectively, and were recorded as a transfer as of the end of each fiscal year.

The Department transferred $300,000 on May 20, 2010 from other agency funds to SELP to provide additional resources to the EEAST program at the direction of the 2009 legislative assembly. Among the sources of the Other Funds revenue to the Department are assessments on energy and petroleum suppliers. Interfund transactions between other funds of the Department and SELP were reported as transfers.

NOTE 13. LITIGATION, TROUBLED DEBT RESTRUCTURINGS AND DELINQUENCIES

During the ordinary course of business, SELP becomes involved in litigation regarding its lending activities. The program is represented in these actions by the Attorney General of the State of Oregon. SELP makes every reasonable effort to work with borrowers that experience financial difficulties making payments under existing loan agreements.

A borrower in Oregon City that produced newsprint and specialty paper products filed a voluntary Chapter 11 bankruptcy petition on December 31, 2009. SELP loaned the borrower $4.5 million in 2004 with a current principal balance of a little under $1 million. The case was converted to Chapter 7 on April 1, 2011 as a result of a petition filed by one of the other creditors. The Attorney General is assisting SELP in the bankruptcy proceedings, settlement negotiations and the ongoing liquidation proceedings. SELP's loan is secured through a first lien position on real estate associated with the project and management expects to recover the loan value through the eventual sale and asset liquidation without a material loss to the program.

In June 2011, SELP initiated foreclosure proceedings on a $1.4 million solar project in Bend with a current principal balance of approximately $1.2 million. The Department has a first lien position on the project real estate and management does not expect a large loss to the program as a result of this default.

SELP has declared a $12 million loan to a Millersburg solar component manufacturer in default and has initiated foreclosure proceedings. The current principal balance of the loan is approximately $11.2 million plus accrued interest and fees. The Attorney General is assisting SELP in the ongoing legal proceedings and settlement negotiations with the borrower. The Department has a first lien position on project equipment and associated real estate. Management is hopeful that a settlement or loan restructure can be reached with the borrower, but the program could sustain an undeterminable amount of loss in the event of eventual liquidation.

In addition to delinquent loans, two other borrowers with a total of five loans are currently operating under agreements to forbear against issuing notices of default or commencing foreclosure litigation to enforce security interests. While these loans are not currently being restructured, SELP is providing temporary modifications to their loan agreements while the borrowers work through various barriers to timely loan repayment. The loans under forbearance agreements represent approximately 4.75% of the loan portfolio in terms of loan value. The borrowers working under these arrangements are currently complying with the terms of their respective agreements.

During the fiscal year ended June 30, 2010, an agreement was reached between SELP and a borrower to restructure their loan in response to a corresponding decrease in project revenue. The borrower considered refinancing the loan with a different lender but wished to avoid prepayment penalties associated with the SELP loan. Because of the positive payment history with the program, SELP provided assistance to the borrower by reducing the interest rate on the loan, and adjusting the monthly payment to more closely align with project revenues, and extending the original term of the loan. The revised interest rate is commensurate with the current market conditions for debt with similar risk and loan guarantees. The new loan maturity was extended a little over 4 years on a loan balance of $949,149. Interest revenue under the restructured loan will exceed the original scheduled interest by approximately $19,000 through revised loan maturity. SELP management considers this loan a performing asset as the borrower is in full compliance with the terms of the restructured loan agreement.

NOTE 14. SUBSEQUENT EVENTS

The following subsequent events occurred after June 30, 2011:

Legal Update

In November 2011, lump sum payments were received in a legal settlement and release of the two loans for a biodiesel plant in Portland that was declared in default during fiscal year 2010. A judgment of foreclosure was recorded on June 22, 2010 with a money award entered against the borrower and LLC member guarantor. The final settlement resulted in a loss to the program of approximately $35,000.

SELP foreclosed its security interest associated with a $1.2 million solar project loan in Bend and on December 15, 2011 took possession of real estate and equipment that serviced as collateral for the loan as a result of a Deschutes County sheriff sale. The Department is intending on contracting with the Department of Administrative Services (DAS) facilities Real Property section to secure and manage the acquired property on behalf of the Department with the intention of leasing the facility to the existing facility operators for a non-specified period of time. SELP is being assisted by Department of Justice general council with real estate expertise to facilitate the DAS contract, property lease and the search for a buyer of the property as the real estate market recovers. Management does not expect a significant loss to the program as a result of the acquisition and eventual sale of this property.

Loan settlement and property sale negotiations continue in regard to borrowers in bankruptcy and involved in foreclosure proceedings. As a result of further risk analysis associated with the composition of the loan portfolio, the current status of ongoing negotiations with borrowers in default, and the likelihood of ultimate collectability, SELP recognized an additional bad debt contingency of $4.5 million retroactive to June 30, 2011 in conformity with GASB 56.

SELP loans are financed with State of Oregon General Obligation debt and as such, the full faith and credit of the State of Oregon is pledged for the payment of principal and interest on the bonds when due. While the bonds are secured by general ad valorem taxes which may be levied against all taxable property within Oregon, the State has not imposed property taxes for many years, and does not expect that a levy will be required to pay the outstanding bonds. In event that loan repayments and other resources available to SELP are not sufficient to pay the bonds issued for delinquent loans, management anticipates that the State will either use its general fund to pay the bonds or use other resources to assist SELP with bond payments.

Bond Sale

On March 14, 2012, SELP issued the following State of Oregon General Obligation Alternate Energy Project Bonds to finance future energy projects:

	Par Amount
2012 Series D – Tax Exempt	$ 4,435,000
2012 Series E – Tax Exempt	4,020,000
2012 Series F – Taxable	2,500,000
2012 Series G – Taxable	10,000,000

SUPPLEMENTARY INFORMATION

STATE OF OREGON

DEPARTMENT of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

COMBINING SCHEDULE OF SELP PROGRAM BALANCE SHEET ACTIVITIES

JUNE 30, 2011

	Energy Loan	EEAST	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 2,911,184	$ 4,170	$ 2,915,354
Cash and Cash Equivalents--Restricted	32,702,021	4,450,227	37,152,248
Accounts Receivable	97,184	-	97,184
Loan Interest Receivable	2,184,387	-	2,184,387
Due from Other Funds/Agencies	-	1,077,723	1,077,723
Total Current Assets	37,894,776	5,532,120	43,426,896
Noncurrent Assets:			
Cash and Cash Equivalents--Restricted	8,988,911	419,661	9,408,572
Deferred Bond Issuance Costs	1,786,043	41,374	1,827,417
Loans Receivable (Net)	201,434,335	-	201,434,335
Total Noncurrent Assets	212,209,289	461,035	212,670,324
TOTAL ASSETS	$ 250,104,065	$ 5,993,155	$ 256,097,220
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts Payable	$ 20,178	$ 3,935	$ 24,113
Bond Interest Payable	2,846,816	32,137	2,878,953
Arbitrage Rebate Liability	-	-	-
Compensated Absences Payable	24,248	-	24,248
Deferred Income	68,230	-	68,230
Bonds Payable	20,144,999	952,958	21,097,957
Total Current Liabilities	23,104,471	989,030	24,093,501
Noncurrent Liabilities:			
Arbitrage Rebate Liability	-	-	-
Compensated Absences Payable	12,492	-	12,492
Borrower Deposit Liability	2,958,269	-	2,958,269
Other Postemployment Benefits Obligation (Net)	9,695	-	9,695
Bonds Payable	227,150,112	4,119,618	231,269,730
Total Noncurrent Liabilities	230,130,568	4,119,618	234,250,186
TOTAL LIABILITIES	253,235,039	5,108,648	258,343,687
Net Assets:			
Invested in Capital Assets	-	-	-
Restricted for Debt Service	-	884,272	884,272
Unrestricted	(3,130,974)	235	(3,130,739)
Total Net Assets (Deficit)	(3,130,974)	884,507	(2,246,467)
TOTAL LIABILITIES AND NET ASSETS	$ 250,104,065	$ 5,993,155	$ 256,097,220

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

STATE OF OREGON

DEPARTMENT of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

COMBINING SCHEDULE OF SELP PROGRAM REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Energy Loan	EEAST	Total
OPERATING REVENUES			
Interest on Loans	$ 10,616,474	$ -	$ 10,616,474
Interest on Cash Investments	258,966	29,610	288,576
Application and Disbursement Fees	36,193	-	36,193
Loan Fees	495,453	-	495,453
Holding Cost Fees	575,492	-	575,492
Other Fees and Charges	140,023	-	140,023
Miscellaneous Revenue	31,321	-	31,321
TOTAL OPERATING REVENUES	12,153,922	29,610	12,183,532
OPERATING EXPENSES			
Bond Interest	9,744,137	134,828	9,878,965
Bond Expenses	22,524	504	23,028
EEAST Special Payments	0	578,821	578,821
Salaries and Other Personal Services	662,031	83,920	745,951
Services and Supplies	482,293	99,077	581,370
Amortization of Deferred Bond Issuance Costs	190,297	14,681	204,978
Bad Debt Expense	5,638,995	-	5,638,995
TOTAL OPERATING EXPENSES	16,740,277	911,831	17,652,108
OPERATING INCOME (LOSS)	(4,586,355)	(882,221)	(5,468,576)
Transfers from Other Funds/Agencies	-	1,077,723	1,077,723
CHANGE IN NET ASSETS	(4,586,355)	195,502	(4,390,853)
NET ASSETS - BEGINNING	1,455,381	689,005	2,144,386
NET ASSETS (DEFICIT) - ENDING	$ (3,130,974)	$ 884,507	$ (2,246,467)

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

STATE OF OREGON
DEPARTMENT of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
COMBINING SCHEDULE OF SELP PROGRAM CASH FLOW ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Energy Loan	EEAST	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	$ 1,230,444	$ -	$ 1,230,444
Loan Principal Repayments	14,863,811	-	14,863,811
Loan Interest Received	9,598,498	-	9,598,498
Loans Disbursed to Borrowers	(63,899,501)	-	(63,899,501)
Cash Credited to Borrowers on Deposit Net of Withdrawals	1,426,180	-	1,426,180
Cash Paid to Vendors for Goods and Services	(505,967)	(90,592)	(596,559)
Cash Paid to EEAST Grantees	0	(578,821)	(578,821)
Cash Paid for Employees	(677,131)	(91,849)	(768,980)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(37,963,666)	(761,262)	(38,724,928)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from Bonds	84,890,816	-	84,890,816
Principal Paid on Bonds	(28,705,000)	(399,532)	(29,104,532)
Interest Paid on Bonds	(9,810,925)	(117,362)	(9,928,287)
Bond Issue Costs Paid	(267,953)	-	(267,953)
Transfer from Other Funds	-	516,587	516,587
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	46,106,938	(307)	46,106,631
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received on Cash Investments	258,966	29,610	288,576
NET CASH PROVIDED BY INVESTING ACTIVITIES	258,966	29,610	288,576
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,402,238	(731,959)	7,670,279
CASH AND CASH EQUIVALENTS - BEGINNING	36,199,878	5,606,017	41,805,895
CASH AND CASH EQUIVALENTS - ENDING	$ 44,602,116	$ 4,874,058	$ 49,476,174
Cash and Cash Equivalents	2,911,184	4,170	2,915,354
Cash and Cash Equivalents--Restricted	41,690,932	4,869,888	46,560,820
TOTAL CASH AND CASH EQUIVALENTS	$ 44,602,116	$ 4,874,058	$ 49,476,174

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

STATE OF OREGON

DEPARTMENT of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

COMBINING SCHEDULE OF SELP PROGRAM CASH FLOW ACTIVITIES (continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Energy Loan	EEAST	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
OPERATING INCOME (LOSS)	$ (4,586,355)	$ (882,221)	$ (5,468,576)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Bad Debt	5,638,995	-	5,638,995
Loan Receivable Write-off	-	-	-
Depreciation	-	-	-
Amortization of Deferred Bond Issue Costs	190,297	14,681	204,978
Interest Received on Cash Investments			-
Reported as Operating Revenue	(258,966)	(29,610)	(288,576)
Bond Interest Expense and Debt Service Amortization			-
Reported as Operating Expense	9,744,137	134,828	9,878,965
(Increase)/Decrease in Assets:			-
Accounts Receivable	(48,038)	-	(48,038)
Loan Interest Receivable	(999,755)	-	(999,755)
Loan Receivable	(49,035,690)	-	(49,035,690)
Increase/(Decrease) in Liabilities:			-
Accounts Payable	3,096	1,060	4,156
Compensated Absences Payable	(20,621)	-	(20,621)
Deferred Income	(18,222)	-	(18,222)
Net OPEB Obligation	1,276	-	1,276
Borrower Deposits	1,426,180	-	1,426,180
TOTAL ADJUSTMENTS	(33,377,311)	120,959	(33,256,352)
NET CASH PROVIDED (USED) BY OPERATIONS	$ (37,963,666)	$ (761,262)	$ (38,724,928)

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

OTHER REPORTS

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The Honorable John Kitzhaber
Governor of Oregon

Bob Repine, Acting Director
Oregon Department of Energy

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*

We have audited the financial statements of the Small Scale Energy Loan Program (SELP), enterprise fund of the State of Oregon, Department of Energy, as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated March 16, 2012. 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.

Internal Control Over Financial Reporting

Management of the Department of Energy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the SELP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SELP’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SELP’s internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SELP's financial statements are free of 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*.

This report is intended solely for the information and use of the Department of Energy's management, others within the entity, the Governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

March 16, 2012