

Enterprise Fund of the State of Oregon

**Department of Energy**  
**Small Scale Energy Loan Program**

For the Fiscal Years Ended  
June 30, 2013 and June 30, 2012

**Michael Kaplan**  
Acting Director



**OREGON**  
DEPARTMENT OF  
**ENERGY**

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# INTRODUCTORY SECTION

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# Oregon

John A. Kitzhaber, MD, Governor

## Department of Energy

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August 4, 2014



The Honorable John A. Kitzhaber, MD  
Governor of the State of Oregon  
State Capitol  
Salem, OR 97310

Dear Governor Kitzhaber,

We are pleased to submit the Annual Financial Report of the Oregon Department of Energy's Small Scale Energy Loan Program Funds (SELP), for the fiscal years ending June 30, 2013 and June 30, 2012. The financial statements, included on pages 5 - 28, present only the enterprise activities of the agency. These activities are reported as a separate fund of the agency and an annual financial report is issued for these activities in accordance with the agency's Indentures of Trust.

The agency's management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. The objective of this report is to provide assurance that the financial statements are free of any material misstatements.

The Department has identified and is actively managing a forecasted deficit issue faced by the Enterprise Fund in the coming years. It is currently forecasted that the program will begin experiencing periodic deficit shortfalls beginning in late 2019. The forecasted deficit is not relevant to the periods covered in the accompanying financial statements. However, in acknowledging the deficit issue, at this time, it is important to note that management has undertaken steps which it believes will mitigate and possibly cure the forecasted deficit. Management has implemented a targeted marketing strategy focused on underwriting high-quality, public sector energy projects.

The Secretary of State Audits Division has audited the financial records, books of account, and transactions to the agency's Enterprise Fund for the years ending June 30, 2013 and June 30, 2012. The auditors used generally accepted government auditing standards in conducting the engagement. Their unqualified opinion on the Enterprise Fund financial statements is included in the Financial Section of this report.

Respectfully submitted,

Michael Kaplan  
Acting Director

Anthony L. Buckley  
Chief Investment Officer



## FINANCIAL SECTION

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**Office of the Secretary of State**

Kate Brown  
Secretary of State

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**Audits Division**

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Independent Auditor's Report

The Honorable John Kitzhaber  
Governor of Oregon

Michael Kaplan, Acting Director  
Oregon Department of Energy

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Small Scale Energy Loan Program, enterprise funds of the State of Oregon, Department of Energy, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on the 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 Small Scale Energy Loan Program as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years 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 of the Small Scale Energy Loan Program are intended to present the financial position, the changes in financial position and cash flows that are attributable to the transactions of the Small Scale Energy Loan Program. They do not purport to, and do not, present fairly the financial position of the Department of Energy or the State of Oregon as of June 30, 2013 and 2012, the changes in their financial position, or, where applicable, their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Small Scale Energy Loan Program's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2014, on our consideration of the Department of Energy's internal control over financial reporting relating to the Small Scale Energy Loan Program 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* in considering the Department of Energy's internal control over financial reporting and compliance relating to the Small Scale Energy Loan Program.

*Office of the Secretary of State, Audits Division*

*Office of the Secretary of State, Audits Division*

State of Oregon  
July 21, 2014

STATE OF OREGON  
DEPARTMENT of ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
ENTERPRISE FUND  
BALANCE SHEETS  
JUNE 30, 2013 AND JUNE 30, 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 5,111,712	\$ 4,338,196
Cash and Cash Equivalents--Restricted	15,388,486	26,690,521
Accounts Receivable	6,996	27,316
Loan Interest Receivable	826,590	2,490,643
State Owned Property for Resale	-	802,100.00
Due from Other Funds/Agencies	1,080,135	1,077,349
<i>Total Current Assets</i>	<u>22,413,919</u>	<u>35,426,125</u>
<i>Noncurrent Assets:</i>		
Cash and Cash Equivalents--Restricted	14,866,166	12,235,400
Deferred Bond Issuance Costs	1,749,482	1,858,303
Loans Receivable (Net)	208,242,430	203,791,721
<i>Total Noncurrent Assets</i>	<u>224,858,078</u>	<u>217,885,424</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 247,271,997</u></u>	<u><u>\$ 253,311,549</u></u>
<b>LIABILITIES AND NET POSITION</b>		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 87,728	\$ 34,670
Bond Interest Payable	3,066,713	3,055,704
Due to Other Funds/Agencies	5,306	-
Compensated Absences Payable	25,412	26,055
Deferred Income	932,052	175,785
Bonds Payable	16,708,471	16,827,755
<i>Total Current Liabilities</i>	<u>20,825,682</u>	<u>20,119,969</u>
<i>Noncurrent Liabilities:</i>		
Compensated Absences Payable	13,683	13,422
Borrower Deposit Liability	3,952,975	6,199,771
Other Postemployment Benefits Obligation (Net)	13,290	11,191
Bonds Payable	230,873,809	235,351,730
<i>Total Noncurrent Liabilities</i>	<u>234,853,757</u>	<u>241,576,114</u>
<b>TOTAL LIABILITIES</b>	<u>255,679,439</u>	<u>261,696,083</u>
<i>Net Position:</i>		
Unrestricted	(8,407,442)	(8,384,534)
<i>Total Net Position (Deficit)</i>	<u>(8,407,442)</u>	<u>(8,384,534)</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 247,271,997</u></u>	<u><u>\$ 253,311,549</u></u>

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 POSITION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Interest on Loans	\$ 9,739,590	\$ 11,549,239
Interest on Cash Balances	226,748	222,268
Application and Disbursement Fees	5,335	10,379
Loan Fees	335,207	278,449
Holding Cost Fees	176,337	297,581
Other Fees and Charges	1,174,186	21,425
Gain (Loss) on Foreclosed Property	397,900	-
Miscellaneous Revenue	40,807	53,756
<b>TOTAL OPERATING REVENUES</b>	<u>12,096,110</u>	<u>12,433,097</u>
<b>OPERATING EXPENSES</b>		
Bond Interest	10,016,809	10,102,916
Bond Expenses	23,850	22,265
Special Payments	1,189,692	2,313,974
Salaries and Other Personal Services	709,540	725,363
Services and Supplies	759,745	559,680
Amortization of Deferred Bond Issuance Costs	239,228	226,419
Bad Debt Expense	260,289	5,281,845
<b>TOTAL OPERATING EXPENSES</b>	<u>13,199,153</u>	<u>19,232,462</u>
<b>OPERATING INCOME (LOSS)</b>	(1,103,043)	(6,799,365)
Transfers from Other Funds/Agencies	1,080,135	661,298
<b>CHANGE IN NET POSITION</b>	<u>(22,908)</u>	<u>(6,138,067)</u>
NET POSITION - BEGINNING	(8,384,534)	(2,246,467)
<b>NET POSITION (DEFICIT) - ENDING</b>	<u>\$ (8,407,442)</u>	<u>\$ (8,384,534)</u>

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, 2013 AND JUNE 30, 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 1,752,192	\$ 731,457
Loan Principal Repayments	18,663,373	19,743,100
Loan Interest Received	11,333,528	11,222,080
Loans Disbursed to Borrowers	(23,367,383)	(28,184,430)
Cash Credited to Borrowers on Deposit Net of Withdrawals	(1,420,414)	3,369,960
Cash Paid to Vendors for Goods and Services	(740,164)	(310,537)
Cash Paid to EEAST Grantees	(1,189,692)	(2,313,974)
Cash Paid for Employees	(699,880)	(705,837)
Sale of State Property held for Resale	1,200,000	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>5,531,560</b>	<b>3,551,819</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Bonds	12,820,912	21,208,234
Principal Paid on Bonds	(16,827,755)	(21,332,957)
Interest Paid on Bonds	(10,639,831)	(10,461,188)
Bond Issue Costs Paid	(86,736)	(61,904)
Transfer from Other Funds	1,077,349	661,671
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(13,656,061)</b>	<b>(9,986,144)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Cash Balances	226,748	222,268
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>226,748</b>	<b>222,268</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(7,897,753)</b>	<b>(6,212,057)</b>
CASH AND CASH EQUIVALENTS - BEGINNING	43,264,117	49,476,174
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>\$ 35,366,364</b>	<b>\$ 43,264,117</b>
Cash and Cash Equivalents	5,111,712	4,338,196
Cash and Cash Equivalents--Restricted	30,254,652	38,925,921
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 35,366,364</b>	<b>\$ 43,264,117</b>

*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, 2013 AND JUNE 30, 2012

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
OPERATING INCOME (LOSS)	\$ (1,103,043)	\$ (6,799,365)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i>		
Bad Debt	260,289	5,281,845
Amortization of Deferred Bond Issue Costs	239,228	226,419
Interest Received on Cash Balances		
Reported as Operating Revenue	(226,748)	(222,268)
Bond Interest Expense and Debt Service Amortization		
Reported as Operating Expense	10,005,799	10,097,214
<i>(Increase)/Decrease in Assets:</i>		
Accounts Receivable	20,320	69,868
Loan Interest Receivable	1,664,052	(306,256)
Loan Receivable	(4,711,000)	(7,357,386)
Foreclosed and Deeded Property	802,100	(802,100)
		-
<i>Increase/(Decrease) in Liabilities:</i>		
Accounts Payable	64,068	10,558
Compensated Absences Payable	(381)	2,737
Deferred Income	(70,115)	(20,903)
Due to Other Funds/Agencies	5,306	-
Net OPEB Obligation	2,099	1,496
Borrower Deposits	(1,420,414)	3,369,960
TOTAL ADJUSTMENTS	<u>6,634,603</u>	<u>10,351,184</u>
<b>NET CASH PROVIDED (USED) BY OPERATIONS</b>	<u>\$ 5,531,560</u>	<u>\$ 3,551,819</u>

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

STATE OF OREGON  
DEPARTMENT of ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
Notes to the Financial Statements  
ENTERPRISE FUND  
JUNE 30, 2013 AND JUNE 30, 2012

**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). All applicable GASB pronouncements have been applied including: GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The implementation of statements No. 62 and No. 63 did not have financial impact on the financial statements of SELP.

**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 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 2011 legislative session created the Clean Energy Deployment Fund (CEDF) as part of the SELP program. The CEDF was created to use funds from the EEAST and CEDF programs to support energy efficiency or clean energy projects for K-12 public schools including school bus fleets.

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 position, 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 position, financial position and cash flows.

## **Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

### **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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these funds are included on the Balance Sheet. Total net positions are segregated into the categories of Invested in Capital Assets, Restricted Net Position, and Unrestricted Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Positions present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. 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, 2013 and 2012 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.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**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. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from State service.

**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.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**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 Deposit Liability 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 Treasury's website at [http://www.oregon.gov/treasury/divisions/investment/pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/divisions/investment/pages/Oregon-Short-Term-Fund-(OSTF).aspx).

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

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, 2013, the book balance of cash and cash equivalents held by the Treasury was \$35,362,464. The unadjusted bank balance was \$35,392,441, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

At June 30, 2012, the book balance of cash and cash equivalents held by the Treasury was \$43,258,793. The unadjusted bank balance was \$43,211,464, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

At June 30, 2013, the bank balance of cash and cash equivalents held by Wells Fargo in its capacity as the State's trustee was \$3,900. 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, 2012, the bank balance of cash and cash equivalents held by Wells Fargo in its capacity as the State's trustee was \$5,323. 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, 2013 and 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
SELP Loan Fund	\$ 1,652,545	\$11,289,793
SELP Sinking Fund		
Program Account	10,764,144	9,997,391
Principal & Interest	7,212,822	7,586,974
Extraordinary Expense	6,030,642	6,030,642
Borrower Deposit Liability	8,831,624	6,199,434
EEAST Loan Offset Grant Fund	755,312	2,154,559
Clean Energy Deployment Fund	<u>115,375</u>	<u>0</u>
TOTALS	<u>\$35,362,464</u>	<u>\$43,258,793</u>

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**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:

<u>Borrower Type</u>	<u>Loans</u>	<u>June 30, 2013</u>	<u>Loans</u>	<u>June 30, 2012</u>
Commercial and residential	110	\$ 76,215,503	130	\$ 84,390,659
Cities, counties, school and special districts	40	32,364,071	36	29,825,574
State agencies	39	108,420,060	38	96,876,551
Not-for-profit organizations	5	5,346,353	6	6,542,203
Total Loans Receivable	194	\$222,345,987	210	\$217,634,987
State agency loans		<u>(108,420,060)</u>		<u>( 96,876,551)</u>
Net credit risk exposure		<u>\$113,925,927</u>		<u>\$120,758,436</u>

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 2013 and 2012, 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 six percent of the gross loans receivable in 2013 and six percent in 2012.

The following table details Net Loans Receivable as of June 30, 2013 and 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Loans Receivable	\$ 222,345,987	\$ 217,634,987
Allowance for uncollectible principal	<u>( 14,103,556)</u>	<u>( 13,843,267)</u>
Net Loans Receivable	<u>\$ 208,242,431</u>	<u>\$ 203,791,720</u>

**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 \$799,550,000, of which \$238,495,000 was outstanding at June 30, 2013. 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. \$4,119,618 was outstanding as of the end fiscal year 2012, and \$3,151,862 was outstanding as of June 30, 2013. The lottery bonds are payable from lottery revenues transferred to SELP from the Department of Administrative Services over the life of the bonds.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

The following table provides a summary of bond transactions as presented on the balance sheets for the fiscal years ended June 30, 2013 and June 30, 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Bonds Payable-beginning	\$ 246,564,618	\$ 246,847,575
Bonds issued—G.O.	11,910,000	21,050,000
Bonds issued—Lottery Bonds	0	0
Bonds matured and defeased	<u>( 16,827,755)</u>	<u>( 21,332,957)</u>
Bonds Payable-ending	241,646,863	246,564,618
Premium on Bonds Payable	6,096,011	5,819,384
Discount on Bonds Payable	<u>( 129,717)</u>	<u>( 157,364)</u>
Deferred Loss on Bond Refunding	<u>( 30,877)</u>	<u>( 47,153)</u>
Net Bonds Payable	<u>\$ 247,582,280</u>	<u>\$ 252,179,485</u>

**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, 2013, for each fiscal year during the next five years period ending June 30, 2018, and in five year increments thereafter:

<u>Years Ending June 30</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total Debt Service</u>
2014	\$ 16,708,472	\$ 10,243,424	\$ 26,951,896
2015	20,107,147	9,535,341	29,642,488
2016	20,151,742	8,747,143	28,898,885
2017	17,009,501	7,927,939	24,937,440
2018	15,190,000	7,221,511	22,411,511
2019-2023	76,655,000	25,433,561	102,088,561
2024-2028	49,535,000	11,834,992	61,369,992
2029-2033	26,030,000	2,354,569	28,384,569
2034	<u>260,000</u>	<u>8,450</u>	<u>268,450</u>
TOTALS	<u>\$241,646,862</u>	<u>\$83,306,930</u>	<u>\$324,953,792</u>

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

The following table summarizes the outstanding bond issues by series as of June 30, 2013:

**SCHEDULE OF DEBT ISSUED AND OUTSTANDING**  
**General Obligation Bonds**

Series	Issue Date	Original Issue				Bonds Outstanding				
		Final Maturity	From	Coupon Interest Range To	Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1998 D	Oct-98	Jan-28	4.100%	4.800%	14,535,000	4,135,000	0	140,000	3,995,000	170,000
1999 B	Apr-99	Jan-15	4.000%	4.750%	9,100,000	725,000	0	230,000	495,000	240,000
2000 A	Apr-00	Jul-17	4.500%	5.500%	7,320,000	1,880,000	0	270,000	1,610,000	285,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	1,005,000	0	125,000	880,000	130,000
2001 D	Oct-01	Apr-16	2.300%	4.500%	4,000,000	1,430,000	0	335,000	1,095,000	350,000
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	3,810,000	0	985,000	2,825,000	1,045,000
2002 A	May-02	Oct-12	3.000%	4.250%	10,950,000	1,305,000	0	1,305,000	0	0
2004 A	Apr-04	Jul-16	2.000%	3.500%	11,035,000	920,000	0	170,000	750,000	180,000
2004 C	Nov-04	Oct-17	4.000%	5.000%	3,850,000	1,145,000	0	275,000	870,000	280,000
2004 D	Nov-04	Oct-17	4.000%	5.000%	8,845,000	1,455,000	0	245,000	1,210,000	255,000
2005 A	Aug-05	Oct-20	3.000%	4.375%	1,470,000	980,000	0	90,000	890,000	95,000
2005 B	Aug-05	Oct-21	4.230%	5.290%	4,500,000	2,625,000	0	345,000	2,280,000	360,000
2006 A	May-06	Apr-22	5.500%	5.750%	12,000,000	7,080,000	0	645,000	6,435,000	680,000
2006 B	Nov-06	Oct-22	4.000%	5.000%	24,200,000	21,565,000	0	1,150,000	20,415,000	1,195,000
2006 C	Nov-06	Oct-22	5.160%	5.510%	3,750,000	3,150,000	0	220,000	2,930,000	230,000
2007 A	May-07	Oct-28	4.000%	4.375%	8,000,000	7,300,000	0	280,000	7,020,000	290,000
2007 B	May-07	Oct-23	4.000%	4.500%	10,570,000	8,260,000	0	740,000	7,520,000	780,000
2007 C	May-07	Oct-22	5.030%	5.380%	5,000,000	3,225,000	0	510,000	2,715,000	180,000
2008 A	Apr-08	Oct-23	4.600%	5.000%	18,000,000	15,700,000	0	1,400,000	14,300,000	1,500,000
2008 B	Oct-08	Oct-29	4.000%	6.000%	15,445,000	14,585,000	0	470,000	14,115,000	505,000
2009 A	Nov-09	Apr-31	3.000%	5.000%	23,850,000	23,850,000	0	770,000	23,080,000	795,000
2009 B	Nov-09	Apr-29	3.000%	5.000%	16,430,000	11,580,000	0	165,000	11,415,000	280,000
2009 C	Nov-09	Apr-20	1.910%	4.710%	3,525,000	3,180,000	0	350,000	2,830,000	360,000
2010 A	Jul-10	Apr-32	3.000%	4.000%	33,015,000	33,015,000	0	1,005,000	32,010,000	1,095,000
2010 B	Jul-10	Apr-26	1.100%	4.800%	10,000,000	9,565,000	0	530,000	9,035,000	565,000

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**SCHEDULE OF DEBT ISSUED AND OUTSTANDING (Con't)**

**General Obligation Bonds**

Original Issue						Bonds Outstanding				
Series	Issue Date	Final Maturity	Coupon Interest Range			Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
			From	To	Amount					
2011 A	Mar-11	Apr-32	2.500%	4.625%	16,400,000	15,900,000	0	735,000	15,165,000	765,000
2011 B	Mar-11	Jan-32	4.000%	4.750%	22,460,000	20,525,000	0	2,075,000	18,450,000	2,125,000
2012D	Mar-12	Jan-27	2.000%	3.000%	4,435,000	4,435,000	0	200,000	4,235,000	240,000
2012E	Mar-12	Jan-34	3.000%	3.250%	4,020,000	4,020,000	0	0	4,020,000	140,000
2012F	Mar-12	Jan-28	0.350%	3.600%	2,520,000	2,520,000	0	100,000	2,420,000	140,000
2012G	Mar-12	Jul-23	0.750%	3.200%	10,075,000	10,075,000	0	0	10,075,000	0
2012N	Aug-12	Oct-32	2.500%	3.000%	11,910,000	0	11,910,000	0	11,910,000	465,000
Defeased/ Matured	98-04				79,285,000					
	Pre-98				373,955,000					
Total General Obligation Bonds issued					\$799,550,000	\$242,445,000	\$11,910,000	\$15,860,000	\$238,495,000	\$15,720,000

**SCHEDULE OF DEBT ISSUED AND OUTSTANDING**

**Lottery Revenue Bonds**

**Allocation to SELP issued by Department of Administrative Services**

Original Issue						Bonds Outstanding				
Series	Issue Date	Final Maturity	Coupon Interest Range			Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
			From	To	Amount					
2010 B	May-10	Apr-17	1.080%	3.700%	5,472,107	4,119,618	0	967,755	3,151,863	988,471
Total Allocation of Lottery Revenue Bonds issued					\$5,472,107	\$4,119,618	\$ 0	967,755	\$3,151,863	\$988,471

**Early Bond Redemptions**

SELP did not exercise any optional bond redemptions during this fiscal year.

On August 2, 2012, SELP issued the following par amount General Obligation Alternate Energy Project Bond: \$11,910,000 in 2012 Series N with an average interest rate of 3.24 percent.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**NOTE 5. CHANGES IN LONG TERM LIABILITIES**

Long term liability activity for June 30, 2013 is as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Bonds Payable	\$246,564,617	\$11,910,000	\$16,827,754	\$241,646,863	\$16,708,471
Deferred Loss on Bond Refunding	(47,153)	0	(16,276)	(30,877)	0
Discount of Bonds Sold	(157,364)	0	(27,647)	(129,717)	0
Premium on Bonds Sold	5,819,384	954,582	677,955	6,096,011	0
Borrower's Deposit Liability	6,199,772	4,938,652	7,185,449	3,952,975	0
OPEB Liability	11,191	2,099	0	13,290	0
Compensated Absences Payable	<u>39,477</u>	<u>0</u>	<u>382</u>	<u>39,095</u>	<u>25,412</u>
<b>TOTALS</b>	<b><u>\$258,429,924</u></b>	<b><u>\$17,805,333</u></b>	<b><u>\$24,647,617</u></b>	<b><u>\$251,587,640</u></b>	<b><u>\$16,733,883</u></b>

**NOTE 6. COMMITMENTS**

As of June 30, 2013 and June 30, 2012, SELP had committed but undisbursed loan funds of \$1,316,045 and \$10,667,115, 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 \$336,500 and \$622,678 as of June 30, 2013 and June 30, 2012, respectively. Remaining lottery revenue bond proceeds of \$1,008 and \$180,855 as of June 30, 2013 and 2012, 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, 2013, 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. SELP did not purchase any capital assets in fiscal year 2013 and had no depreciation.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**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 8.80% through June 30, 2013. The amounts contributed by SELP representing the employer contributions for the years ended June 30, 2013, 2012, and 2011 were \$10,067, \$14,082, and \$5,406 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, 2013 was 7.44%. The amounts contributed by SELP for the years ended June 30, 2013, 2012, and 2011 were \$27,789, \$22,134, and \$8,783, respectively, equal to the required contributions for the year.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

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, 2013, 2012 and 2011, were \$26,998, \$27,451, and \$29,085, 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 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 0.09% of PERS-covered salary to fund the normal cost portion of RHIA benefits. In addition, SELP contributed an additional 0.50% 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, 2013, 2012 and 2011, were \$602, \$933, and \$1,510, 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. PERS members 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.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

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 0.05% of PERS-covered salary to fund the normal cost portion of RHIPA benefits. In addition, SELP contributed an additional 0.11% 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, 2013, 2012 and 2011 totaled \$163, \$253, and \$416, 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, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. 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 for dishonesty. Faithful performance coverage is provided for key positions in state government that are required by law to be covered. Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. 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.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**NOTE 11. DEFEASED DEBT**

During fiscal year ended June 2013, there were no bonds that were defeased.

**NOTE 12. INTERFUND TRANSACTIONS**

During fiscal years ended June 2013 and 2012, 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 \$1,080,135 and \$1,077,349, respectively, and were recorded as a transfer as of the end of each fiscal year.

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.

SELP foreclosed its security interest associated with a \$1.4 million solar project loan in Bend and on December 16, 2011 and took possession of real estate and equipment that serviced as collateral for the loan as a result of a Deschutes County sheriff sale. On December 15, 2012, the property sold for \$1.2 million dollars. SELP realized a gain of \$398 thousand from this transaction.

SELP has declared a \$12 million loan to a Millersburg solar component manufacturer in default and as of May 28, 2013, foreclosed on the property through a sheriff's sale. The outstanding principal balance, at the time of foreclosure, was approximately \$11.2 million. The Department has a first lien position on project equipment and associated real estate. SELP feels the loss the program will sustain on this loan is approximately \$10.4 million. SELP management's opinion is the allowance for doubtful accounts is adequate to support any losses the department may realize.

SELP has two borrowers with a total of four loans in forbearance. Of these two borrowers, three of the four loans in forbearance are from one borrower. These borrowers are 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 2.63% 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.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**NOTE 14. SUBSEQUENT EVENTS**

The following subsequent events occurred after June 30, 2013:

A borrower that produces solar modules was sold in August and has undergone a reorganization. The borrower has an outstanding loan for \$10 million dollars and was in forbearance of its loan agreement until February, 2014. SELP has a \$5 million dollar loan guarantee provided by the City of Portland and first lien position on security interest in equipment and intellectual property that SELP believes would satisfy the loan balance in the event of liquidation. At this time, it cannot be determined if a loss will be realized nor can we estimate the amount of a potential loss.

SELP listed the property from the \$12 million loan to the Millersburg solar component manufacturer in December, 2013, once we had legal authority transferred to the department. The loan was written off against the allowance for doubtful accounts less the value of the land. SELP realized a \$10.4 million loss on this loan. On July 16, 2014, SELP held an auction/sale at the Millersburg property and will realize between \$80 thousand to \$90 thousand dollars on the sale of the specialty equipment.

A borrower that was developing a zinc air battery for electric vehicles voluntarily surrendered its collateral to SELP in October, 2012. The guarantor of the loan has filed bankruptcy. The principal amount of the loan was \$1.97 million and does not reflect any accrued interest on the loan. This principal balance does reflect legal fees charged to the account and any payments from the sale of the collateral of office and specialty lab equipment. The principal amount of the loan was written off against the allowance for doubtful accounts. Since the value of the remaining equipment is undeterminable at this point, any sales will be posted as miscellaneous income.

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. SELP's loan was 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. On May 6, 2014, the property sale was approved by the bankruptcy trustee in the amount of \$825 thousand. SELP posted the balance of the loan in the amount of \$174 thousand against the allowance for doubtful accounts.

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 the 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.

**Notes to the Financial Statements (Continued)**

Enterprise Fund

June 30, 2013 and June 30, 2012

**Bond Sale**

On June 26<sup>th</sup>, 2014, SELP issued the following State of Oregon General Obligation Alternative Energy Project Bonds to finance future energy projects:

	<u>Par Amount</u>
2014 Series E – Tax Exempt	\$ 15,260,000
2014 Series F – Taxable QECB	\$ 2,080,000

**SUPPLEMENTARY  
INFORMATION**

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STATE OF OREGON  
DEPARTMENT of ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
ENTERPRISE FUND  
COMBINING SCHEDULE OF SELP PROGRAM BALANCE SHEET ACTIVITIES  
JUNE 30, 2013

	Energy Loan	EEAST	CEDF	Total
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 5,107,812	\$ 3,900	\$ -	\$ 5,111,712
Cash and Cash Equivalents--Restricted	14,517,799	755,312	115,375	15,388,486
Accounts Receivable	6,996	-	-	6,996
Loan Interest Receivable	826,590	-	-	826,590
Due from Other Funds/Agencies	-	1,080,135	-	1,080,135
<i>Total Current Assets</i>	<u>20,459,197</u>	<u>1,839,347</u>	<u>115,375</u>	<u>22,413,919</u>
<i>Noncurrent Assets:</i>				
Cash and Cash Equivalents--Restricted	14,866,166	-	-	14,866,166
Deferred Bond Issuance Costs	1,731,207	18,275	-	1,749,482
Loans Receivable (Net)	208,242,430	-	-	208,242,430
<i>Total Noncurrent Assets</i>	<u>224,839,803</u>	<u>18,275</u>	<u>-</u>	<u>224,858,078</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 245,299,000</u></u>	<u><u>\$ 1,857,622</u></u>	<u><u>\$ 115,375</u></u>	<u><u>\$ 247,271,997</u></u>
<b>LIABILITIES AND NET POSITION</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 65,819	\$ -	\$ 21,909	\$ 87,728
Bond Interest Payable	3,042,822	23,891	-	3,066,713
Due to Other Funds/Agencies	5,306	-	-	5,306
Compensated Absences Payable	25,412	-	-	25,412
Deferred Income	932,052	-	-	932,052
Bonds Payable	15,720,000	988,471	-	16,708,471
<i>Total Current Liabilities</i>	<u>19,791,411</u>	<u>1,012,362</u>	<u>21,909</u>	<u>20,825,682</u>
<i>Noncurrent Liabilities:</i>				
Compensated Absences Payable	13,683	-	-	13,683
Borrower Deposit Liability	3,952,975	-	-	3,952,975
Other Postemployment Benefits Obligation (Net)	13,290	-	-	13,290
Bonds Payable	228,710,418	2,163,391	-	230,873,809
<i>Total Noncurrent Liabilities</i>	<u>232,690,366</u>	<u>2,163,391</u>	<u>-</u>	<u>234,853,757</u>
<b>TOTAL LIABILITIES</b>	<u>252,481,777</u>	<u>3,175,753</u>	<u>21,909</u>	<u>255,679,439</u>
<i>Net Position:</i>				
Unrestricted	(7,182,777)	(1,318,131)	93,466	(8,407,442)
<i>Total Net Position (Deficit)</i>	<u>(7,182,777)</u>	<u>(1,318,131)</u>	<u>93,466</u>	<u>(8,407,442)</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 245,299,000</u></u>	<u><u>\$ 1,857,622</u></u>	<u><u>\$ 115,375</u></u>	<u><u>\$ 247,271,997</u></u>

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 SLP PROGRAM REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Energy Loan	EEAST	CEDF	Total
<b>OPERATING REVENUES</b>				
Interest on Loans	\$ 9,739,590	\$ -	\$ -	\$ 9,739,590
Interest on Cash Balances	214,148	12,550	50	226,748
Application and Disbursement Fees	5,335	-	-	5,335
Loan Fees	335,207	-	-	335,207
Holding Cost Fees	176,337	-	-	176,337
Other Fees and Charges	1,174,186	-	-	1,174,186
Gain/Loss on Foreclosed Property	397,900	-	-	397,900
Miscellaneous Revenue	40,807	-	-	40,807
<b>TOTAL OPERATING REVENUES</b>	<u>12,083,510</u>	<u>12,550</u>	<u>50</u>	<u>12,096,110</u>
<b>OPERATING EXPENSES</b>				
Bond Interest	9,906,728	110,081	-	10,016,809
Bond Expenses	23,850	-	-	23,850
Special Payments	-	1,189,692	-	1,189,692
Salaries and Other Personal Services	709,540	-	-	709,540
Services and Supplies	635,932	17,230	106,583	759,745
Amortization of Deferred Bond Issuance Costs	228,418	10,810	-	239,228
Bad Debt Expense	260,289	-	-	260,289
<b>TOTAL OPERATING EXPENSES</b>	<u>11,764,757</u>	<u>1,327,813</u>	<u>106,583</u>	<u>13,199,153</u>
<b>OPERATING INCOME (LOSS)</b>	318,753	(1,315,263)	(106,533)	(1,103,043)
Transfers from Other Funds/Agencies	-	880,135	200,000	1,080,135
<b>CHANGE IN NET POSITION</b>	<u>318,753</u>	<u>(435,128)</u>	<u>93,467</u>	<u>(22,908)</u>
<b>NET POSITION - BEGINNING</b>	(9,269,041)	884,507	-	(8,384,534)
<b>NET POSITION (DEFICIT) - ENDING</b>	<u>\$ (8,950,288)</u>	<u>\$ 449,379</u>	<u>\$ 93,467</u>	<u>\$ (8,407,442)</u>

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 SELF PROGRAM CASH FLOW ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Energy Loan	EEAST	CEDF	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 1,752,192	\$ -	\$ -	\$ 1,752,192
Loan Principal Repayments	18,663,373	-	-	18,663,373
Loan Interest Received	11,333,528	-	-	11,333,528
Loans Disbursed to Borrowers	(23,367,383)	-	-	(23,367,383)
Cash Credited to Borrowers on Deposit Net of Withdrawals	(1,420,414)	-	-	(1,420,414)
Cash Paid to Vendors for Goods and Services	(637,286)	(18,203)	(84,675)	(740,164)
Cash Paid to EEAST Grantees	-	(1,189,692)	-	(1,189,692)
Cash Paid for Employees	(699,880)	-	-	(699,880)
Sale of State Property held for Resale	1,200,000	-	-	1,200,000
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>6,824,130</u>	<u>(1,207,895)</u>	<u>(84,675)</u>	<u>5,531,560</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from Bonds	12,820,912	-	-	12,820,912
Principal Paid on Bonds	(15,860,000)	(967,755)	-	(16,827,755)
Interest Paid on Bonds	(10,528,068)	(111,763)	-	(10,639,831)
Bond Issue Costs Paid	(86,736)	-	-	(86,736)
Transfer from Other Funds	-	877,349	200,000	1,077,349
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(13,653,892)</u>	<u>(202,169)</u>	<u>200,000</u>	<u>(13,656,061)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest Received on Cash Balances	214,148	12,550	50	226,748
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>214,148</u>	<u>12,550</u>	<u>50</u>	<u>226,748</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(6,615,614)</u>	<u>(1,397,514)</u>	<u>115,375</u>	<u>(7,897,753)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>41,107,392</u>	<u>2,156,725</u>	<u>-</u>	<u>43,264,117</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 34,491,778</u>	<u>\$ 759,211</u>	<u>\$ 115,375</u>	<u>\$ 35,366,364</u>
Cash and Cash Equivalents	5,111,712	-	-	5,111,712
Cash and Cash Equivalents--Restricted	29,380,066	759,211	115,375	30,254,652
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 34,491,778</u>	<u>\$ 759,211</u>	<u>\$ 115,375</u>	<u>\$ 35,366,364</u>

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 SEMP PROGRAM CASH FLOW ACTIVITIES (continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Energy Loan</u>	<u>EEAST</u>	<u>CEDF</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
OPERATING INCOME (LOSS)	\$ 318,753	\$ (1,315,263)	\$ (106,533)	\$ (1,103,043)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i>				
Bad Debt	260,289	-	-	260,289
Amortization of Deferred Bond Issue Costs	239,228	-	-	239,228
Interest Received on Cash Balances				
Reported as Operating Revenue	(214,148)	(12,550)	(50)	(226,748)
Bond Interest Expense and Debt Service Amortization				
Reported as Operating Expense	9,885,881	119,918	-	10,005,799
<i>(Increase)/Decrease in Assets:</i>				
Accounts Receivable	20,320	-	-	20,320
Loan Interest Receivable	1,664,052	-	-	1,664,052
Loan Receivable	(4,711,000)	-	-	(4,711,000)
Foreclosed and Deeded Property	802,100	-	-	802,100
<i>Increase/(Decrease) in Liabilities:</i>				
Accounts Payable	42,160	-	21,908	64,068
Compensated Absences Payable	(381)	-	-	(381)
Deferred Income	(70,115)	-	-	(70,115)
Due to Other Funds - Agency	5,306	-	-	5,306
Net OPEB Obligation	2,099	-	-	2,099
Borrower Deposits	(1,420,414)	-	-	(1,420,414)
TOTAL ADJUSTMENTS	<u>6,505,377</u>	<u>107,368</u>	<u>21,858</u>	<u>6,634,603</u>
<b>NET CASH PROVIDED (USED) BY OPERATIONS</b>	<u>\$ 6,824,130</u>	<u>\$ (1,207,895)</u>	<u>\$ (84,675)</u>	<u>\$ 5,531,560</u>

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

## OTHER REPORTS

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**Office of the Secretary of State**

Kate Brown  
Secretary of State

Robert Taylor  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

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**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***

Independent Auditor's Report

The Honorable John Kitzhaber  
Governor of Oregon

Michael Kaplan, Acting Director  
Department of Energy

We have audited, in accordance with the 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 financial statements of the Small Scale Energy Loan Program, enterprise funds of the State of Oregon, Department of Energy, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Small Scale Energy Loan Program's basic financial statements, and have issued our report thereon dated July 21, 2014.

**Internal Control Over Financial Reporting**

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

*Office of the Secretary of State, Audits Division*

*Office of the Secretary of State, Audits Division*

State of Oregon  
July 21, 2014