Enterprise Fund of the State of Oregon

Department of Energy

Small Scale Energy Loan Program

Financial Statements

(Together with Independent Auditors Report)

Years Ended June 30, 2014 and 2013

Michael Kaplan
Director

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INTRODUCTORY SECTION

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Oregon
Kate Brown, Governor

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July 24, 2015

The Honorable Kate Brown
Governor of the State of Oregon
State Capitol
Salem, OR 97310

Dear Governor Brown,

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, 2014 and June 30, 2013. 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 the late 2019 – 2021 biennium. 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, 2014 and June 30, 2013. 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
Director

Anthony L. Buckley
Chief Financial Officer

FINANCIAL SECTION

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Office of the Secretary of State

Jeanne P. Atkins
Secretary of State

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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Michael Kaplan, Director, Oregon Department of Energy

Report on the Financial Statements

We have audited the accompanying financial statements of the Small Scale Energy Loan Program (SELP), enterprise funds of the State of Oregon, Department of Energy, as of and for the year ended June 30, 2014 and June 30, 2013, 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, enterprise funds of the State of Oregon, Department of Energy, as of June 30, 2014 and June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Small Scale Energy Loan Program, enterprise funds of the State of Oregon, Department of Energy, are intended to present the financial position, the changes in financial position and cash flows that are only attributable to the Small Scale Energy Loan Program. They do not purport to, and do not, present fairly the financial position of the Oregon Department of Energy or the State of Oregon as of June 30, 2014, the changes in their financial position, or their cash flows for the year 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 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 the purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate 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 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2015, on our consideration of the Oregon 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 Oregon Department of Energy's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
July 2, 2015

STATE OF OREGON

DEPARTMENT OF ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

STATEMENT OF NET POSITION

JUNE 30, 2014 AND JUNE 30, 2013

	2014	Restated 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,652,486	$ 5,111,712
Cash and Cash Equivalents--Restricted	19,468,617	15,388,486
Accounts Receivable	23,880	6,996
Loan Interest Receivable	1,022,381	826,590
State Owned Property for Resale	750,000	-
Due from Other Funds/Agencies	1,078,264	1,080,135
Total Current Assets	24,995,628	22,413,919
Noncurrent Assets:		
Cash and Cash Equivalents--Restricted	12,854,154	14,866,166
Loans Receivable (Net)	212,362,837	208,242,430
Total Noncurrent Assets	225,216,991	223,108,596
Total Assets	$ 250,212,619	$ 245,522,515
DEFERRED OUTFLOWS OF RESOURCES		
Bond Refunding	18,083	30,877
Total Deferred Outflows of Resources	18,083	30,877
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 265,053	$ 87,728
Bond Interest Payable	2,850,085	3,066,713
Due to Other Funds/Agencies	20,182	5,306
Compensated Absences Payable	20,349	25,412
Unearned Revenue	937,946	932,052
Bonds Payable	20,497,147	16,708,471
Total Current Liabilities	24,590,762	20,825,682
Noncurrent Liabilities:		
Compensated Absences Payable	10,483	13,683
Borrower Deposit Liability	5,558,190	3,952,975
Other Postemployment Benefits Obligation (Net)	13,835	13,290
Bonds Payable	228,618,971	230,904,686
Total Noncurrent Liabilities	234,201,479	234,884,634
Total Liabilities	258,792,241	255,710,316
NET POSITION (DEFICIT)		
Restricted for Debt Service	2,076,164	1,060
Unrestricted (deficit)	(10,637,703)	(10,157,984)
TOTAL NET POSITION	(8,561,539)	(10,156,924)

The accompanying notes are an integral part of these 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, 2014 AND JUNE 30, 2013

	2014	Restated 2013
OPERATING REVENUES		
Interest on Loans	$ 10,831,308	$ 9,739,590
Interest on Cash Balances	163,050	226,748
Application and Disbursement Fees	4,803	5,335
Loan Fees	153,253	335,207
Holding Cost Fees	5,076	176,337
Other Fees and Charges	58,958	1,174,186
Gain (Loss) on Foreclosed Property	-	397,900
Miscellaneous Revenue	964,317	40,807
TOTAL OPERATING REVENUES	12,180,765	12,096,110
OPERATING EXPENSES		
Bond Interest	9,395,992	10,016,809
Bond Expenses	181,106	154,256
Special Payments	144,777	1,189,692
Salaries and Other Personal Services	663,147	709,540
Services and Supplies	603,622	759,745
Bad Debt Expense	675,000	260,289
TOTAL OPERATING EXPENSES	11,663,644	13,090,331
OPERATING INCOME (LOSS)	517,121	(994,221)
NONOPERATING REVENUES (EXPENSES)		
Transfers from Other Funds/Agencies	1,078,264	1,080,135
CHANGE IN NET POSITION	1,595,385	85,914
NET POSITION - BEGINNING	(10,156,924)	(8,384,534)
Restatement of beginning net position due to GASB 65		(1,858,304)
Net Position as Restated	(10,156,924)	(10,242,838)
NET POSITION (DEFICIT) - ENDING	$ (8,561,539)	$ (10,156,924)

The accompanying notes are an integral part of these 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, 2014 AND JUNE 30, 2013

	2014	Restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 182,371	$ 1,752,192
Cash Received from Tax Credits	954,258	0
Loan Principal Repayments	14,124,325	18,663,373
Loan Interest Received	10,314,614	11,333,528
Loans Disbursed to Borrowers	(19,524,865)	(23,367,383)
Cash Credited to Borrowers on Deposit Gross of Withdrawals	1,722,931	(1,420,414)
Cash Paid to Vendors for Goods and Services	(631,951)	(740,164)
Cash Paid to EEAST Grantees	-	(1,189,692)
Cash Paid for Employees	(679,110)	(699,880)
Sale of State Property held for Resale	-	1,200,000
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	6,462,573	5,531,560
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Bonds	18,856,576	12,820,912
Principal Paid on Bonds	(16,708,471)	(16,827,755)
Interest Paid on Bonds	(10,243,424)	(10,639,831)
Bond Issue Costs Paid	(1,546)	(86,736)
Transfer from Other Funds	1,080,135	1,077,349
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(7,016,730)	(13,656,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Cash Balances	163,050	226,748
NET CASH PROVIDED BY INVESTING ACTIVITIES	163,050	226,748
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(391,107)	(7,897,753)
CASH AND CASH EQUIVALENTS - BEGINNING	35,366,364	43,264,117
CASH AND CASH EQUIVALENTS - ENDING	$ 34,975,257	$ 35,366,364
Cash and Cash Equivalents	2,652,486	5,111,712
Cash and Cash Equivalents--Restricted	32,322,771	30,254,652
TOTAL CASH AND CASH EQUIVALENTS	$ 34,975,257	$ 35,366,364

The accompanying notes are an integral part of these financial statements

Continued on next page…

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, 2014 AND JUNE 30, 2013

	2014	Restated 2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 517,121	$ (994,221)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Bad Debt	675,000	260,289
Interest Received on Cash Balances Reported as Operating Revenue	(163,050)	(226,748)
Bond Interest Expense and Debt Service Amortization Reported as Operating Expense	9,612,620	10,136,205
(Increase)/Decrease in Assets:		
Accounts Receivable	(16,884)	20,320
Loan Interest Receivable	(195,791)	1,664,052
Loan Receivable	(4,795,406)	(4,711,000)
Foreclosed and Deeded Property	(750,000)	802,100
Increase/(Decrease) in Liabilities:		
Accounts Payable	(39,303)	64,068
Compensated Absences Payable	(8,263)	(381)
Unearned Revenue	(111,822)	(70,115)
Due to Other Funds/Agencies	14,875	5,306
Net OPEB Obligation	545	2,099
Borrower Deposits	1,722,931	(1,420,414)
TOTAL ADJUSTMENTS	5,945,452	6,525,781
NET CASH PROVIDED (USED) BY OPERATIONS	$ 6,462,573	$ 5,531,560

The accompanying notes are an integral part of these financial statements

STATE OF OREGON
DEPARTMENT of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Notes to the Financial Statements
ENTERPRISE FUND
JUNE 30, 2014 AND JUNE 30, 2013

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.

In March 2012, GASB issued Statement No 65, Items Previously Reported as Assets and Liabilities ("GASB 65"). GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows resources. In addition, it limits the use of the term "deferred" In Fiscal year 2014 SELP implemented GASB 65, which required SELP to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2013 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof. As a result, SELP reduced its fiscal year 2013 beginning net position balance by excluding the previously reported prior year carrying value of $1,858,303 of deferred bond issuance costs on its Statement of Net Position and included $130,406.35 to Bond Expenses , which was previously capitalized as Bond Issuance Costs in Fiscal year 2013 in its Statements of Net Position. In addition, the Deferred Loss on Refunding in fiscal years 2014 and 2013 amounting to $18,083 and $30,877 respectively which prior to the implementation of GASB 65 was reported as a liability is now reported as a deferred outflows of resources.

GASB Statement No 67, Financial Reporting for Pension Plans (an amendment to GASB Statement No 25) build upon the existing framework for financial reports of defined benefit pension plans and enhances note disclosures and required supplementary information for both defined benefit and defined contribution plans. This standard did not materially affect the SELP's financial statements because the scope of the standard included only defined benefit and defined contribution pension plans and not employers contributing to the plans.
The implementation of GASB Statement No 70, Accounting and Financial Reporting for

Nonexchange Guarantees did not have financial impact on the financial statements of SELP. SELP will evaluate the impact to its financial statements of the three standards which are effective for the fiscal year ending June 2015 (GASB Statement 68- Accounting and Financial Reporting for Pensions, GASB Statement No 69, Government Combinations and Disposals of Government Operations and GASB Statement No 71, Pension Transition for Contribution Made Subsequent to the Measurement Date The three new accounting standards.

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 2013 legislative session created the Alternative Fuel Vehicle Revolving Loan Fund (AFVRLF). This is a revolving loan fund dedicated to financing alternative fuel vehicle fleet purchases and/or modifying an existing fleet vehicle to consume alternative fuel.

The financial statements and footnotes include only the bonded debt financial activity of the Department of Energy loan programs. 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.

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 Statement of Net Position. 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, 2014 and 2013 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. As results of implementing GASB 65, all deferred charges in relations to bond issuance will be expensed.

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.

L. Bond Expenses

GASB Statement No. 65*, Items previously reported as Assets and Liabilities*, identifies the specific items previously reported as assets and liabilities that should be reclassified and reported as deferred outflows of resources or deferred inflows of resources. The reclassifications are necessary to report financial statement elements in accordance with definitions in GASB Concepts Statement No 4. Accordingly, deferred Bond issuance costs are expensed when the bond is issued. Bond premiums and discounts arising from the sale of a particular bond issue as well as deferred debt refunding are reclassified and reported as deferred outflows of resources or deferred inflows of resources in accordance to GASB Statement No. 65. 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.

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, 2014, the book balance of cash and cash equivalents held by the Treasury was $34,971,511. The unadjusted bank balance was $34,950,545, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

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, 2014, the bank balance of cash and cash equivalents held by Wells Fargo in its capacity as the State's trustee was $3,747. 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, 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 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, 2014 and 2013:

	June 30, 2014	June 30, 2013
SELP Loan Fund	$ 3,889,972	$ 1,652,545
SELP Sinking Fund		
Principal & Interest	8,241,782	10,737,559
Extraordinary Expense	6,030,642	6,030,642
Borrower Revenue Loss Reserve	6,819,765	8,831,624
Bond Debt Services	8,157,618	7,212,822
Program Admin	63,135	26,585
EEAST Loan Offset Grant Fund	752,204	755,312
Clean Energy Deployment Fund	68,887	115,375
Alt. Fuel Vehicle Revolving Loan Fund	947,505	0
EEAST Cash and Cash Equivalents- Wells Fargo	3,747	3,900
TOTALS	$34,975,257	$35,366,364

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, 2014	Loans	June 30, 2013
Commercial and residential	97	$ 56,761,001	110	$ 76,215,503
Cities, counties, school and special districts	39	32,500,278	40	32,364,071
State agencies	39	120,133,817	39	108,420,060
Not-for-profit organizations	5	5,105,310	5	5,346,353
Total Loans Receivable	180	$214,500,406	194	$222,345,987
State agency loans		(120,133,817)		(108,420,060)
Net credit risk exposure		$ 94,366,589		$113,925,927

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, and industry practice, risk rating assigned and other conditions that may affect the ultimate collectability of the loans. In 2014 and 2013, 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 one percent of the gross loans receivable in 2014 and six percent in 2013.

The following table details Net Loans Receivable as of June 30, 2014 and 2013:

	June 30, 2014	June 30, 2013
Loans Receivable	$214,500,406	$222,345,987
Allowance for uncollectible principal	(2,137,569)	(14,103,556)
Net Loans Receivable	$ 212,362,837	$ 208,242,431

NOTE 4. CAPITAL ASSETS

As of June 30, 2014, SELP Capital Assets consisted of the accumulated costs of developing a new database for the program. The Data Processing Software was place into service in January2005. 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 2014 and had no depreciation.

A Summary of SELP's capital Assets activity is presented in the following table

	Beginning Balance	Additions	Deletion	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 5. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, it has issued State of Oregon General Obligation (G.O.) bonds totaling $816,890,000 of which $ 240,115,000 was outstanding at June 30, 2014. 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. $3,151,862 was outstanding as of the end fiscal year 2013, and $2,163,391 was outstanding as of June 30, 2014. 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 Statement of Net Positions for the fiscal years ended June 30, 2014 and June 30, 2013:

	June 30, 2014	Restated June 30, 2013
Bonds Payable-beginning	$241,646,863	$246,564,618
Bonds issued—G.O.	17,340,000	11,910,000
Bonds matured	(16,708,472)	(16,827,755)
Bonds Payable-ending	242,278,391	241,646,863
Premium on Bonds Payable	6,947,292	6,096,011
Discount on Bonds Payable	(109,565)	(129,717)
Net Bonds Payable	$249,116,118	$ 247,613,157

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, 2014, for each fiscal year during the next five years period ending June 30, 2019, and in five year increments thereafter:

Years Ending June 30	Bond Principal	Bond Interest	Total Debt Service
2015	$ 20,497,147	$ 10,079,908	$ 30,577,055
2016	20,766,742	9,440,290	30,207,032
2017	17,654,502	8,595,646	26,250,148
2018	15,860,000	7,861,768	23,721,768
2019	16,160,000	7,181,763	23,341,673
2020-2024	76,135,000	24,652,698	100,787,698
2025-2029	52,630,000	11,199,840	63,829,840
2030-2034	22,575,000	1,891,940	24,466,940
TOTALS	$242,278,391	$80,903,853	$323,182,155

The following table summarizes the outstanding bond issues by series as of June 30, 2014:

SCHEDULE OF DEBT ISSUED AND OUTSTANDING
General Obligation Bonds

Original Issue						Bonds Outstanding				
		Final	Coupon Interest Range			Beginning			Ending	Due Within
Series	Issue Date	Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
1998 D	Oct-98	Jan-28	4.100%	4.800%	14,535,000	3,995,000	0	170,000	3,825,000	180,000
1999 B	Apr-99	Jan-15	4.000%	4.750%	9,100,000	495,000	0	240,000	255,000	255,000
2000 A	Apr-00	Jul-17	4.500%	5.500%	7,320,000	1,610,000	0	285,000	1,325,000	305,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	880,000	0	130,000	750,000	135,000
2001 D	Oct-01	Apr-16	2.300%	4.500%	4,000,000	1,095,000	0	350,000	745,000	365,000
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	2,825,000	0	1,045,000	1,780,000	1,110,000
2004 A	Apr-04	Jul-16	2.000%	3.500%	11,035,000	750,000	0	180,000	570,000	185,000
2004 C	Nov-04	Oct-17	4.000%	5.000%	3,850,000	870,000	0	280,000	590,000	290,000
2004 D	Nov-04	Oct-17	4.000%	5.000%	8,845,000	1,210,000	0	255,000	955,000	260,000
2005 A	Aug-05	Oct-20	3.000%	4.375%	1,470,000	890,000	0	95,000	795,000	100,000
2005 B	Aug-05	Oct-21	4.230%	5.290%	4,500,000	2,280,000	0	360,000	1,920,000	380,000
2006 A	May-06	Apr-22	5.500%	5.750%	12,000,000	6,435,000	0	680,000	5,755,000	655,000
2006 B	Nov-06	Oct-22	4.000%	5.000%	24,200,000	20,415,000	0	1,195,000	19,220,000	1,245,000
2006 C	Nov-06	Oct-22	5.160%	5.510%	3,750,000	2,930,000	0	230,000	2,700,000	245,000
2007 A	May-07	Oct-28	4.000%	4.375%	8,000,000	7,020,000	0	290,000	6,730,000	310,000
2007 B	May-07	Oct-23	4.000%	4.500%	10,570,000	7,520,000	0	780,000	6,740,000	825,000
2007 C	May-07	Oct-22	5.030%	5.380%	5,000,000	2,715,000	0	180,000	2,535,000	195,000
2008 A	Apr-08	Oct-23	4.600%	5.000%	18,000,000	14,300,000	0	1,500,000	12,800,000	1,600,000
2008 B	Oct-08	Oct-29	4.000%	6.000%	15,445,000	14,115,000	0	505,000	13,610,000	535,000
2009 A	Nov-09	Apr-31	3.000%	5.000%	23,850,000	23,080,000	0	795,000	22,285,000	815,000
2009 B	Nov-09	Apr-29	3.000%	5.000%	16,430,000	11,415,000	0	280,000	11,135,000	2,000,000
2009 C	Nov-09	Apr-20	1.910%	4.710%	3,525,000	2,830,000	0	360,000	2,470,000	375,000
2010 A	Jul-10	Apr-32	3.000%	4.000%	33,015,000	32,010,000	0	1,095,000	30,915,000	1,170,000
2010 B	Jul-10	Apr-26	1.100%	4.800%	10,000,000	9,035,000	0	565,000	8,470,000	595,000

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SCHEDULE OF DEBT ISSUED AND OUTSTANDING (Continued from previous page)

General Obligation Bonds

Original Issue						Bonds Outstanding				
		Final	Coupon Interest Range			Beginning			Ending	Due Within
Series	Issue Date	Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
2011 A	Mar-11	Apr-32	2.500%	4.625%	16,400,000	15,165,000	0	765,000	14,400,000	800,000
2011 B	Mar-11	Jan-32	4.000%	4.750%	22,460,000	18,450,000	0	2,125,000	16, 325,000	2,230,000
2012D	Mar-12	Jan-27	2.000%	3.000%	4,435,000	4,235,000	0	240,000	3,995,000	245,000
2012E	Mar-12	Jan-34	3.000%	3.250%	4,020,000	4,020,000	0	140,000	3,880,000	145,000
2012F	Mar-12	Jan-28	0.350%	3.600%	2,520,000	2,420,000	0	140,000	2,280,000	140,000
2012G	Mar-12	Jul-23	0.750%	3.200%	10,075,000	10,075,000	0	0	10,075,000	930,000
2012N	Aug-12	Oct-32	2.500%	3.000%	11,910,000	11,910,000	0	465,000	11,445,000	475,000
2014E	Jun-14	Apr-34	3.750%	5.000%	15,260,000	0	15,260,000	0	15,260,000	390,000
2014F	Jun-14	Oct-29	0.400%	3.900%	2,080,000	0	2,080,000	0	2,080,000	0
Defeased/ Matured	98-04				90,235,000					
	Pre-98				373,955,000					
Total General Obligation Bonds issued					$816,890,000	$238,495,000	$17,340,000	$15,720,000	$240,115,000	$19,485,000

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	Issue 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	3,151,863	0	988,471	2,163,391	1,012,147
Total Allocation of Lottery Revenue Bonds issued					$5,472,107	$3,151,863	$ 0	988,755	$2,163,391	$1,012,147

NOTE 6. CHANGES IN LONG TERM LIABILITIES

Long term liability activity for June 30, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	$241,646,863	$17,340,000	$16,708,471	$242,278,391	$20,497,147
Discount of Bonds Sold	(129,717)	0	(20,151)	(109,565)	0
Premium on Bonds Sold	6,096,011	1,515,031	663,749	6,947,293	0
Borrower's Deposit Liability	3,952,975	2,951,312	1,346,097	5,558,190	0
OPEB Liability	13,290	545	0	13,835	0
Compensated Absences Payable	39,095	0	8,263	30,832	20,349
TOTALS	$251,618,517	$21,806,888	$18,706,429	$254,718,976	$20,517,496

NOTE 7. COMMITMENTS

As of June 30, 2014 and June 30, 2013, SELP had committed but undisbursed loan funds of $3,109,597 and $1,316,045, 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 $336,500 as of June 30, 2014 and June 30, 2013, respectively. Remaining lottery revenue bond proceeds of $805 and $1,008 as of June 30, 2014 and 2013, respectively, were committed for the EEAST program as loan offset grant funds pursuant to the 2009 legislative assembly.

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 9% through June 30, 2014. The amounts contributed by SELP representing the employer contributions for the years ended June 30, 2014, 2013, and 2012 were $7,203, $10,067, and $14,082 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, 2014 was 7.45%. The amounts contributed by SELP for the years ended June 30, 2014, 2013, and 2011 were $28,206, $27,789, and $22,134, 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, 2014, 2013 and 2012, were $25,174, $26,998, and $27,451, 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 0.10% of PERS-covered salary to fund the normal cost portion of RHIA benefits. In addition, SELP contributed an additional 0.49% 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, 2014, 2013 and 2012, were $373, $602, and $933, 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 retired 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 0.07% of PERS-covered salary to fund the normal cost portion of RHIPA benefits. In addition, SELP contributed an additional 0.20% 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, 2014, 2013 and 2012 totaled $101, $163, and $253, 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.

NOTE 11. INTERFUND TRANSACTIONS

During fiscal years ended June 2014 and 2013, 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 $1,078,264 and $1,080,135, 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 12. 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. 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 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.

SELP has two borrowers with a total of four loans in forbearance in amount $5,601,523.41. Of these two borrowers, three of the four loans in forbearance totaling $5,310,633.21 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 2.61% 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.

NOTE 13. SUBSEQUENT EVENTS

The following subsequent events occurred after June 30, 2014:

Legal Update:

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 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.

SUPPLEMENTARY INFORMATION

STATE OF OREGON

DEPARTMENT of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

COMBINING STATEMENTS OF NET POSITION

JUNE 30, 2014 AND JUNE 30, 2013

	Energy Loan		EEAST		CEDF		AFVRLF		**TOTAL**	
	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
ASSETS										
Current Assets:										
Cash and Cash Equivalents	$ 2,648,739	$ 5,107,812	$ 3,747	$ 3,900	$ -	$ -	$ -	$ -	$ 2,652,486	$ 5,111,712
Cash and Cash Equivalents--Restricted	17,700,022	14,517,799	752,204	755,312	68,887	115,375	947,504	-	19,468,617	15,388,486
Accounts Receivable	23,880	6,996	-	-	-	-	-	-	23,880	6,996
Loan Interest Receivable	1,022,381	826,590	-	-	-	-	-	-	1,022,381	826,590
State Owned Property for Resale	750,000	-	-	-	-	-	-	-	750,000	-
Due from Other Funds/Agencies	-	-	1,078,264	1,080,135	-	-	-	-	1,078,264	1,080,135
Total Current Assets	22,145,022	20,459,197	1,834,215	1,839,347	68,887	115,375	947,504	-	24,995,628	22,413,919
Noncurrent Assets:										
Cash and Cash Equivalents--Restricted	12,854,154	14,866,166	-	-	-	-	-	-	12,854,154	14,866,166
Loans Receivable (Net)	212,362,837	208,242,430	-	-	-	-	-	-	212,362,837	208,242,430
Total Noncurrent Assets	225,216,991	223,108,596	-	-	-	-	-	-	225,216,991	223,108,596
TOTAL ASSETS	$ 247,362,013	$ 243,567,793	$ 1,834,215	$ 1,839,347	$ 68,887	$ 115,375	$ 947,504	$ -	$ 250,212,619	$ 245,522,515
DEFERRED OUTFLOWS OF RESOURCES										
Loss on Debt Refunding	18,083	30,877	-	-	-	-	-	-	18,083	30,877
Total Deferred Outflows of Resources	$ 18,083	$ 30,877	$ -	$ -	$ -	$ -	$ -	$ -	$ 18,083	$ 30,877
LIABILITIES AND NET POSITION										
Current Liabilities:										
Accounts Payable	$ 260,425	$ 65,819	$ -	$ -	$ 4,000	$ 21,909	$ 628	-	265,053	87,728
Bond Interest Payable	2,832,619	3,042,822	17,466	23,891	-	-	-	-	2,850,085	3,066,713
Due to Other Funds/Agencies	(124,740)	5,306	144,778	-	-	-	145	-	20,182	5,306
Compensated Absences Payable	20,349	25,412	-	-	-	-	-	-	20,349	25,412
Unearned Revenue	937,946	932,052	-	-	-	-	-	-	937,946	932,052
Bonds Payable	19,485,000	15,720,000	1,012,147	988,471	-	-	-	-	20,497,147	16,708,471
Total Current Liabilities	23,411,599	19,791,411	1,174,391	1,012,362	4,000	21,909	773	-	24,590,762	20,825,682
Noncurrent Liabilities:										
Compensated Absences Payable	10,483	13,683	-	-	-	-	-	-	10,483	13,683
Borrower Deposit Liability	5,558,190	3,952,975	-	-	-	-	-	-	5,558,190	3,952,975
Other Postemployment Benefits Obligation (Net)	13,835	13,290	-	-	-	-	-	-	13,835	13,290
Bonds Payable	227,467,727	228,741,295	1,151,244	2,163,391	-	-	-	-	228,618,971	230,904,686
Total Noncurrent Liabilities	233,050,235	232,721,243	1,151,244	2,163,391	-	-	-	-	234,201,479	234,884,634
TOTAL LIABILITIES	256,461,834	252,512,654	2,325,635	3,175,753	4,000	21,909	773	-	258,792,241	255,710,316
Net Position:										
Restricted for Debt Service	2,076,164	1,060	-	-	-	-	-	-	2,076,164	1,060
Unrestricted	(11,176,176)	(8,915,044)	(473,145)	(1,336,406)	64,887	93,466	946,731	-	(10,637,703)	(10,157,984)
Total Net Position (Deficit)	$ (9,100,012)	$ (8,913,984)	$ (473,145)	$ (1,336,406)	$ 64,887	$ 93,466	$ 946,731	$ -	$ (8,561,539)	$ (10,156,924)

The accompanying notes are an integral part of these financial statements

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
COMBINING REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

	Energy Loan		EEAST		CEDF		AFVRLF		Total	
				Restated		Restated		Restated		
	2014	Restated 2013	2014	2013	2014	2013	2014	2013	2014	Restated 2013
OPERATING REVENUES										
Interest on Loans	$ 10,831,308	9,739,590	$ -	-	$ -	-	$ -	-	$ 10,831,308	$ 9,739,590
Interest on Cash Balances	151,989	214,148	7,859	12,550	528	50	2,674	-	163,050	226,748
Application and Disbursement Fees	4,803	5,335	-	-	-	-	-	-	4,803	5,335
Loan Fees	153,253	335,207	-	-	-	-	-	-	153,253	335,207
Holding Cost Fees	5,076	176,337	-	-	-	-	-	-	5,076	176,337
Other Fees and Charges	58,958	1,174,186	-	-	-	-	-	-	58,958	1,174,186
Gain/Loss on Foreclosed Property	-	397,900	-	-	-	-	-	-	-	397,900
Miscellaneous Revenue	10,059	40,807	-	-	-	-	954,258	-	964,317	40,807
TOTAL OPERATING REVENUES	11,215,446	12,083,510	7,859	12,550	528	50	956,932	-	12,180,765	12,096,110
OPERATING EXPENSES									-	
Bond Interest	9,306,852	9,906,728	89,140	110,081	-	-	-	-	9,395,992	10,016,809
Bond Expenses	181,106	154,256	-	-	-	-	-	-	181,106	154,256
Special Payments	-	-	144,777	1,189,692	-	-	-	-	144,777	1,189,692
Salaries and Other Personal Services	656,239	709,540	-	-	-	-	6,908	-	663,147	709,540
Services and Supplies	564,005	635,932	7,219	17,230	29,107	106,583	3,291	-	603,622	759,745
Bad Debt Expense	675,000	260,289	-	-	-	-	-	-	675,000	260,289
TOTAL OPERATING EXPENSES	11,383,202	11,666,745	241,136	1,317,003	29,107	106,583	10,199	-	11,663,644	13,090,331
OPERATING INCOME (LOSS)	(167,756)	416,765	(233,277)	(1,304,453)	(28,579)	(106,533)	946,733	-	517,121	(994,221)
NON-OPERATING REVENUES (EXPENSES)										
Transfers from Other Funds/Agencies	1,078,264	-	-	880,135	-	200,000	-	-	1,078,264	1,080,135
CHANGE IN NET POSITION	910,508	416,765	(233,277)	(424,318)	(28,579)	93,467	946,733	-	1,595,385	85,914
NET POSITION - BEGINNING	(10,692,305)	(9,269,041)	441,914	884,507	93,467	-	-	-	(10,156,924)	(8,384,534)
Restatement beginning net position due to GASB65	-	(1,840,029)	-	(18,275)	-	-	-	-	-	(1,858,304)
Net Position as Restated	(10,692,305)	(11,109,070)	441,914	866,232	93,467	-	-	-	(10,156,924)	(10,242,838)
NET POSITION (DEFICIT) - ENDING	$ (9,781,797)	$(10,692,305)	$ 208,637	$ 441,914	$ 64,888	$ 93,467	$ 946,733	$ -	$ (8,561,539)	$ (10,156,924)

The accompanying notes are an integral part of these financial statements

STATE OF OREGON

DEPARTMENT OF ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

COMBINING SCHEDULE OF CASH FLOW ACTIVITIES

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 2013

	Energy Loan		EEAST		CEDF		AFVRLF		Total	
		Restated		Restated		Restated		Restated		Restated
CASH FLOWS FROM OPERATING ACTIVITIES	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Cash Received from Customers	$ 182,371	1,752,192.00	$ -	-	$ -	-	$ -	-	$ 182,371	$ 1,752,192
Cash Received from Tax Credits	-	-	-	-	-	-	954,258	-	954,258	-
Loan Principal Repayments	14,124,325	18,663,373	-	-	-	-	-	-	14,124,325	18,663,373
Loan Interest Received	10,314,614	11,333,528	-	-	-	-	-	-	10,314,614	11,333,528
Loans Disbursed to Borrowers	(19,524,865)	(23,367,383)	-	-	-	-	-	-	(19,524,865)	(23,367,383)
Cash Credited to Borrowers on Deposit Net of Withdrawals	1,722,931	(1,420,414)	-	-	-	-	-	-	1,722,931	(1,420,414)
Cash Paid to Vendors for Goods and Services	(596,765)	(637,286)	(7,219)	(18,203)	(25,107)	(84,675)	(2,860)	-	(631,951)	(740,164)
Cash Paid to EEAST Grantees	-	-	-	(1,189,692)	-	-	-	-	-	(1,189,692)
Cash Paid for Employees	(672,544)	(699,880)	-	-	-	-	(6,566)	-	(679,110)	(699,880)
Sale of State Property held for Resale	-	1,200,000	-	-	-	-	-	-	-	1,200,000
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,550,067	6,824,130	(7,219)	(1,207,895)	(25,107)	(84,675)	944,832	-	6,462,573	5,531,560
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
Proceeds from Bonds	18,856,576	12,820,912	-	-	-	-	-	-	18,856,576	12,820,912
Principal Paid on Bonds	(15,720,000)	(15,860,000)	(988,471)	(967,755)	-	-	-	-	(16,708,471)	(16,827,755)
Interest Paid on Bonds	(10,147,859)	(10,528,068)	(95,565)	(111,763)	-	-	-	-	(10,243,424)	(10,639,831)
Bond Issue Costs Paid	(1,546)	(86,736)	-	-	-	-	-	-	(1,546)	(86,736)
Transfer from Other Funds	-	-	1,080,135	877,349	-	200,000	-	-	1,080,135	1,077,349
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(7,012,828)	(13,653,892)	(3,902)	(202,169)	-	200,000	-	-	(7,016,730)	(13,656,061)
CASH FLOWS FROM INVESTING ACTIVITIES										
Interest Received on Cash Balances	151,989	214,148	7,859	12,550	528	50	2,674	-	163,050	226,748
NET CASH PROVIDED BY INVESTING ACTIVITIES	151,989	214,148	7,859	12,550	528	50	2,674	-	163,050	226,748
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,310,772)	(6,615,614)	(3,262)	(1,397,514)	(24,579)	115,375	947,506	-	(391,107)	(7,897,753)
CASH AND CASH EQUIVALENTS - BEGINNING	34,491,778	41,107,392	759,211	2,156,725	115,375	-	-	-	35,366,364	43,264,117
CASH AND CASH EQUIVALENTS - ENDING	$ 33,181,006	$ 34,491,778	$ 755,949	$ 759,211	$ 90,796	$ 115,375	$ 947,506	$ -	$ 34,975,257	$ 35,366,364
Cash and Cash Equivalents	2,652,486	5,111,712	-	-	-	-	-	-	2,652,486	5,111,712
Cash and Cash Equivalents--Restricted	30,528,520	29,380,066	755,949	759,211	90,796	115,375	947,506	-	32,322,771	30,254,652
TOTAL CASH AND CASH EQUIVALENTS	$ 33,181,006	$ 34,491,778	$ 755,949	$ 759,211	$ 90,796	$ 115,375	$ 947,506	$ -	$ 34,975,257	$ 35,366,364

The accompanying notes are an integral part of these financial statements

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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 YEARS ENDED JUNE 30, 2014 AND JUNE 2013

	Energy Loan		EEAST		CEDF		AFVRLF		Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
OPERATING INCOME (LOSS)	$ (167,756)	$ 416,765	$ (233,277)	(1,304,453)	$ (28,579)	$(106,533)	$ 946,733	-	$ 517,121	$ (994,221)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:										
Bad Debt	675,000	260,289	-	-	-	-	-	-	675,000	260,289
Reported as Operating Revenue	(151,989)	(214,148)	(7,859)	(12,550)	(528)	(50)	(2,674)	-	(163,050)	(226,748)
Reported as Operating Expense	9,523,480	10,016,287	89,140	119,918	-	-	-	-	9,612,620	10,136,205
(Increase)/Decrease in Assets:										
Accounts Receivable	(16,884)	20,320	-	-	-	-	-	-	(16,884)	20,320
Loan Interest Receivable	(195,791)	1,664,052	-	-	-	-	-	-	(195,791)	1,664,052
Loan Receivable	(4,795,406)	(4,711,000)	-	-	-	-	-	-	(4,795,406)	(4,711,000)
Foreclosed and Deeded Property	(750,000)	802,100	-	-	-	-	-	-	(750,000)	802,100
Increase/(Decrease) in Liabilities:										
Accounts Payable	(43,932)	42,160	-	-	4,000	21,908	629	-	(39,303)	64,068
Compensated Absences Payable	(8,263)	(381)	-	-	-	-	-	-	(8,263)	(381)
Unearned Revenue	(111,822)	(70,115)	-	-	-	-	-	-	(111,822)	(70,115)
Due to Other Funds- Agency	14,875	5,306		-	-	-		-	14,875	5,306
Net OPEB Obligations	545	2,099	-	-	-	-	-	-	545	2,099
Borrowers Deposit	1,722,931	(1,420,414)	-	-	-	-	-	-	1,722,931	(1,420,414)
TOTAL ADJUSTMENTS	5,862,744	6,396,555	81,281	107,368	3,472	21,858	(2,045)	-	5,945,452	6,525,781
NET CASH PROVIDED (USED) BY OPERATIONS	$ 5,694,988	$ 6,813,320	$ (151,996)	$ (1,197,085)	$ (25,107)	$ (84,675)	$ 944,688	$ -	$ 6,462,573	$ 5,531,560

The accompanying notes are an integral part of these financial statements

OTHER REPORTS

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Office of the Secretary of State

Jeanne P. Atkins
Secretary of State

Robert Taylor
Deputy Secretary of State

Audits Division

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Kate Brown, Governor of Oregon
Michael Kaplan, 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 year ended June 30, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the Small Scale Energy Loan Program basic financial statements, and have issued our report thereon dated July 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oregon 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 Oregon Department of Energy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oregon 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

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*.

Department of Energy's Response to the Finding

The department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

State of Oregon
July 2, 2015

Findings and Responses

Improve Internal Controls over Financial Reporting (Significant Deficiency)

In March 2012, the GASB issued statement 65, which requires a different accounting treatment for deferred inflows and outflows of resources. The statement also requires that costs associated with the issuance of bonds and other long-term debt be reported as an expense in the year of the transaction, rather than amortized over the life of the debt. In the draft financial statements, the department did not appropriately implement statement GASB 65 and made numerous other errors to the financial statements. Although the statements were ultimately corrected and are presented fairly in the attached report, the department's internal controls were not sufficient to prevent potential material misstatements of the financial statements.

In January 2015, the accountant who prepared the financial statements left the department shortly after preparing a draft of the financial statements. Following the accountant's departure, department staff had difficulty locating documentation to fully support accounting entries relating to implementing the new GASB standards. The Oregon Accounting Manual provides guidance on transaction documentation requirements. The department filled the position in March 2015.

In addition to incorrect implementation of GASB 65, auditors noted numerous formatting, structural, and numerical errors in the financial statements and notes to the financial statements that should have been detected and corrected prior to submitting the statement to us for review.

We recommend department management adequately review the draft financial statements and notes to ensure articulation, structure, and accuracy of financial statements prior to submission to the auditors for review. Further, we also recommend that department management ensure that accounting transactions are appropriately supported and adequate documentation is maintained in accordance with guidelines specified in the Oregon Accounting Manual.

Management Response

Management appreciates the time and effort dedicated by Secretary of State in carrying out an audit of the State Energy Loan Program (SELP) Financial Statements. We are inclined to agree with many of the auditor's comments. The departure of SELP fiscal staff early in the audit process, combined with the need to recruit and onboard a new accountant, adversely impacted management's ability to provide the auditors with the assistance and material necessary to complete the audit in a timely and efficient manner.

With regard to the findings outlined in the report the following action will be taken:

Internal Control Over Financial Reporting
Management recognizes and values the importance of having proper, effective internal controls. The deficiency in controls to adequately review the 2014 draft financial

statement and notes before submission to the auditors for review was the result of inadequate succession and support planning. As such, we have taken steps to ensure we maintain a stronger succession and support plan that will adequately mitigate the risk exposures related to changes in staffing.

Historically, the SELP fiscal and Department of Energy (ODOE) accounting staff have operated in an autonomous manner. Management will strengthen the working relationship between SELP fiscal staff and agency accounting staff, including certain SELP duties being transferred to the agency's Central Services division. Collaboration between the SELP fiscal staff and ODOE accounting staff enhances quality control and creates redundancy that ensures greater coverage for all required task. Management will also ensure that all accounting transactions have appropriate and adequate supporting documentation.

Further, we are committed to enhancing the review process and ensuring that draft statements are articulated, structured and accurate prior to sharing with the SOS audit team. Prior to the 2014 audit management utilized the services of other agency peers, its financial advisor and bond counsel to review draft financial. We failed to follow this process for the 2014 audit, but it will be a mandated step in all subsequent years.