Enterprise Fund of the State of Oregon

Department of Energy

Small Scale Energy Loan Program

Financial Statements

(Together with Independent Auditors Report)

Year Ended June 30, 2017

Janine Benner
Director

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INTRODUCTORY SECTION

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Oregon

Kate Brown, Governor

Department of Energy
550 Capitol St NE
Salem, OR 97301-2567
Phone: 503-378-4040
Toll Free: 1-800-221-8035
FAX: 503-373-7806
www.oregon.gov/energy

August 6, 2018

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 year ending June 30, 2017. The financial statements, included on pages 8 - 26, 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 2021. The forecasted deficit is not relevant to the period covered in the accompanying financial statements. Management is currently working with other state officials to remedy the deficit.

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, 2017. 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,

Janine Benner, Director
Oregon Department of Energy

Blake Johnson, Chief Operating Officer
Oregon Department of Energy

FINANCIAL SECTION

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Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State

Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Janine Benner, Director, Oregon Department of Energy

Report on the Financial Statements

We have audited the accompanying financial statements of the Small Scale Energy Loan Program, an enterprise fund of the State of Oregon, Department of Energy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of the Small Scale Energy Loan Program, an enterprise fund of the State of Oregon, Department of Energy, as of June 30, 2017, and the 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.

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 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 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 statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Emphasis of Matter
As discussed in Note 1, the financial statements present only the Small Scale Energy Loan Program, an enterprise fund of the State of Oregon, Department of Energy, and are intended to present the financial position, the changes in financial position, and cash flows of only that portion that is 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 State of Oregon, as of June 30, 2017, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2018 on our consideration of the Department of Energy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is soley to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Energy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Energy's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
August 1, 2018

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF NET POSITION
June 30, 2017

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	12,166,923
Cash and Cash Equivalents--Restricted		6,659,365
Securities Lending Collateral		157,396
Loan Interest Receivable		1,113,572
Total Current Assets		20,097,256
Noncurrent Assets:		
Cash and Cash Equivalents--Restricted		1,722,714
Loans Receivable (Net)		153,577,713
Total Noncurrent Assets		155,300,427
Total Assets	$	175,397,683
DEFERRED OUTFLOWS OF RESOURCES		
Bond Refunding	$	3,686,728
Related to Pensions		128,560
Total Deferred Outflows of Resources	$	3,815,287
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	43,400
Bond Interest Payable		2,019,481
Due to Other Funds/Agencies		13,526
Compensated Absences Payable		11,471
Unearned Revenue		603,863
Obligations under Securities Lending		157,396
Pension-Related Debt		4,200
Bonds Payable		15,730,000
Total Current Liabilities		18,583,338
Noncurrent Liabilities:		
Compensated Absences Payable		6,177
Borrower Deposit Liability		1,722,714
Other Postemployment Benefits Obligation (Net)		13,954
Pension-Related Debt		85,511
Net Pension Liability		256,548
Bonds Payable		168,895,440
Total Noncurrent Liabilities		170,980,343
Total Liabilities	$	189,563,681
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	$	2,438
Total Deferred Inflows of Resources	$	2,438
NET POSITION (DEFICIT)		
Restricted for Debt Service	$	6,659,365
Unrestricted (deficit)		(17,012,514)
TOTAL NET POSITION	$	(10,353,149)

The accompanying notes are an integral part of these financial statements

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

OPERATING REVENUES	
Interest on Loans	$ 8,558,788
Other Fees and Charges	64,240
TOTAL OPERATING REVENUES	8,623,028
OPERATING EXPENSES	
Bond Interest	5,881,168
Bond Expenses	389,257
Salaries and Other Personal Services	336,860
Services and Supplies	467,800
Bad Debt Expense	2,825,300
TOTAL OPERATING EXPENSES	9,900,384
OPERATING INCOME (LOSS)	(1,277,356)
NONOPERATING REVENUES (EXPENSES)	
Interest on Cash Balances	215,992
Interest Expense-Pension Related Debt	(6,419)
CHANGE IN NET POSITION	(1,067,783)
NET POSITION - BEGINNING	(9,285,366)
NET POSITION (DEFICIT) - ENDING	$ (10,353,149)

The accompanying notes are an integral part of these financial statements

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$	64,240
Cash Credited to Borrowers Deposit Liability		20,848
Cash Disbursed from Borrowers Deposit Liability		(27,519)
Cash Paid to Vendors for Goods and Services		(447,029)
Payments to Employees for Services		(369,171)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		(758,631)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Bonds		72,214,118
Principal Paid on Bonds		(88,062,922)
Interest Paid on Bonds		(6,407,820)
Bond Issue Costs Paid		(669,267)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		(22,925,890)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Cash Balances		215,449
Loan Principal Repayments		13,633,744
Loan Interest Received		8,793,845
NET CASH PROVIDED BY INVESTING ACTIVITIES		22,643,038
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,041,483)
CASH AND CASH EQUIVALENTS - BEGINNING		21,590,485
CASH AND CASH EQUIVALENTS - ENDING	$	20,549,002
Cash and Cash Equivalents		12,166,923
Cash and Cash Equivalents--Restricted		8,382,079
TOTAL CASH AND CASH EQUIVALENTS	$	20,549,002

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
STATEMENT OF CASH FLOWS (continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

OPERATING INCOME (LOSS)	$	(1,277,356)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Bad Debt Expense		2,825,300
Interest Receipts Reported as Operating Revenue		(8,793,845)
Amortization of Bond Premium and Discount		(777,962)
Loss on Refunding		58,468
Bond Interest Expense Reported as Operating Expense		6,407,820
Bond Issuance Costs Reported as Operating Expense		386,616
Public Employees Retirement Contribution		(6,419)
Short-Term Fund Lending Cost		545
(Increase)/Decrease in Assets:		
Loan Interest Receivable		334,326
Securities Lending Collateral		703,966
Increase/(Decrease) in Liabilities:		
Accounts Payable		21,628
Bond Interest Payable		192,842
Compensated Absences Payable		5,098
Unearned Revenue		(99,268)
Due to Other Funds/Agencies		(1,125)
Net OPEB Obligation		118
Borrower Deposits		(6,671)
Pension-Related Debt		(4,216)
Net Pension Liability		99,342
Obligations under Security Lending		(703,966)
(Increase)/Decrease in Deferred Outflows of Resources		
Related to Pensions		(88,030)
Increase/(Decrease) in Deferred Inflows of Resources		
Related to Pensions		(35,839)
TOTAL ADJUSTMENTS		518,725
NET CASH PROVIDED (USED) BY OPERATIONS	$	(758,631)

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, 2017

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).

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 2011 legislative session created the Clean Energy Deployment Fund (CEDF) *under Oregon Revised Statutes Chapter 470*. The 2013 legislative session also created the Alternative Fuel Vehicle Revolving Loan Fund (AFVRLF) *under Oregon Revised Statutes Chapter 469*. 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 2017 financial statements and footnotes include only the financial activity of the funds associated with the Small Scale Local Energy Loan Program, Clean Energy Deployment Program and Alternative Fuel Vehicle Revolving Loan Program.

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 position is segregated into the categories of Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents 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 - demand accounts), 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

Restricted cash and cash equivalents are restricted as to purpose and use by Article XI-J of the Oregon Constitution, Bond Indenture, and State statute. SELP's funds that are restricted pertain to bond debt service. Individual borrower reserve accounts have been established to meet certain loan requirements and the balances of these accounts as of June 30, 2017 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. SELP's policy for applying resources for payment of expense is to first use funds that are restricted for payment of bond debt service and non-restricted to program related expense.

G. 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 as discussed in note 3.

H. Compensated Absences

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 300 hours accrued vacation leave at termination effective September 11, 2015. 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.

I. 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.

J. 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.

K. Operating Revenues and Expenses

Operating revenues include loan 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. All deferred charges in relations to bond issuance are expensed.

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 gain or loss on debt refunding are reclassified and reported as deferred outflows of resources or deferred inflows of resources in accordance with GASB Statement No. 65. The bonds-outstanding method of discount and deferred charge amortization most closely approximates the effective-interest method.

NOTE 2. CASH AND CASH EQUIVALENTS

All 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, 2017, the book balance of SELP cash and cash equivalents held by the Treasury was $20,549,002. The unadjusted bank balance was $20,437,534, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

The following table itemizes cash balances by funds at June 30, 2017:

SELP Sinking Fund	
Principal & Interest	$ 7,817,920
Extraordinary Expense	986,397
Borrower Revenue Loss Reserve	1,722,714
Bond Debt Services	6,659,365
Program Admin	287,918
Clean Energy Deployment Fund	52,904
Alt. Fuel Vehicle Revolving Loan Fund	3,021,784
TOTAL	$20,549,002

Securities Lending: In accordance with State of Oregon investment policies, state agencies may participate in securities lending. SELP is involved in securities lending only with cash balances invested in the Oregon Short-Term Fund (OSTF). As of June 30, 2017, the amount of the fair value of all securities on loan from OSTF allocated to SELP's Enterprise Funds was $572,374. OSTF securities on loan in total included U.S. Treasury securities (60.01%), U.S. Agency securities (10.09%), and domestic fixed income securities (29.90%). The amount allocated to SELP's Enterprise Funds of the fair value of all investments purchase with cash collateral received for those securities on loan was $157,436. Additional information about the Oregon Short-Term Fund and securities lending can be found in the Oregon Short-Term Fund financial statements at www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-%28OSTF%29.aspx.

NOTE 3. LOANS RECEIVABLE

The composition of the loans receivable portfolio includes component unit loans. The loan portfolio value and associated statewide concentration of credit risk at June 30, 2017 is as follows:

Borrower Type	Number of Loans	Balance Outstanding
Commercial and residential	50	$ 34,428,211
Cities, counties, school and special districts	32	24,247,157
Discreetly presented component Units (OSU, PSU, OIT, WOU, EOU, SOU & U of O)	29	103,252,409
Not-for-profit organizations	3	529,733
Total Loans Receivable	114	162,457,510
Component Unit loans		(103,252,409)
Net credit risk exposure		$ 59,205,101

SELP uses the allowance method to estimate uncollectible loans receivable. 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 fiscal year 2017 the allowance account was adjusted to reflect a change in collectability for several accounts. 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 5.5% of the gross loans receivable in 2017.

The following table details Net Loans Receivable as of June 30, 2017:

Loans Receivable	$162,457,510
Allowance for uncollectible accounts	(8,879,797)
Net Loans Receivable	$ 153,577,713

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 $881,710,000 of which $173,895,000 was outstanding at June 30, 2017. 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.

The following table provides a summary of bond transactions as presented on the Statement of Net Position for the fiscal year ended June 30, 2017:

Bonds Payable-beginning	$192,385,000
Bonds new originated	64,820,000
Bonds matured & refunded	(83,310,000)
Bonds Payable-ending	173,895,000
Premium on Bonds Payable	10,733,802
Discount on Bonds Payable	(3,362)
Net Bonds Payable	$184,625,440

On February 21, 2017, the Oregon Department of Energy issued $64.8 million in 2017 Series E and F XI-J General Obligation Bonds with an average interest rate of 3.9 percent. These bonds refunded $67.1 million of various series outstanding general obligation bonds with an average interest rate of 4.6 percent. The current and advanced refunding's were undertaken to reduce the total debt service payments over the next 14 years by $6.7 million and resulted in an economic gain of $5.7 million.

The Department of Energy SELP program has defeased certain general obligation bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the liability for defeased debt is not included in the department's financial statements. On June 30, 2017, $67.1 million of debt outstanding is considered defeased.

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, 2017, for each of the next five fiscal years, and in five year increments thereafter:

Years Ending June 30	Bond Principal	Bond Interest	Total Debt Service
2018	$ 15,730,000	$ 6,945,870	$ 22,675,870
2019	16,085,000	6,331,951	22,416,951
2020	15,545,000	5,729,790	21,274,790
2021	18,265,000	5,119,151	23,384,151
2022	13,660,000	4,448,956	18,108,956
2023-2027	52,940,000	14,825,259	67,765,259
2028-2032	38,405,000	4,599,332	43,004,332
2033-2034	3,265,000	155,775	3,420,775
TOTALS	$173,895,000	$48,156,084	$222,051,084

The following table summarizes the outstanding bond issues by series as of June 30, 2017:

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
2000 A	Apr-00	Jul-17	4.500%	5.500%	$ 7,320,000	$ 360,000	$ -	$ -	$ 360,000	$ 360,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	320,000	-	-	320,000	155,000
2001 E	Oct-01	Oct-16	3.150%	4.850%	1,600,000	1,000,000	-	1,000,000	-	-
2005 A	Aug-05	Oct-20	3.000%	4.375%	1,470,000	590,000	-	590,000	-	-
2005 B	Aug-05	Oct-21	4.230%	5.290%	4,500,000	1,235,000	-	225,000	1,010,000	235,000
2006 A	May-06	Apr-22	5.500%	5.750%	12,000,000	4,485,000	-	645,000	3,840,000	680,000
2006 B	Nov-06	Oct-22	4.000%	5.000%	24,200,000	13,665,000	-	13,665,000	-	-
2006 C	Nov-06	Oct-22	5.160%	5.510%	3,750,000	2,200,000	-	270,000	1,930,000	285,000
2007 A	May-07	Oct-28	4.000%	4.375%	8,000,000	6,100,000	-	5,745,000	355,000	355,000
2007 B	May-07	Oct-23	4.000%	4.500%	10,570,000	5,040,000	-	925,000	4,115,000	980,000
2007 C	May-07	Oct-22	5.030%	5.380%	5,000,000	2,130,000	-	225,000	1,905,000	245,000
2008 A	Apr-08	Oct-23	4.600%	5.000%	18,000,000	9,500,000	-	1,800,000	7,700,000	2,000,000

Continued on next page

	Original Issue					Bonds Outstanding				
		Final	Coupon Interest Range			Beginning			Ending	Due Within
	Issue Date	Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
2008 B	Oct-08	Oct-29	4.000%	6.000%	15,445,000	12,505,000	-	11,155,000	1,350,000	655,000
2009 A	Nov-09	Apr-31	3.000%	5.000%	23,850,000	20,630,000	-	18,650,000	1,980,000	900,000
2009 B	Nov-09	Apr-29	3.000%	5.000%	16,430,000	7,500,000	-	3,710,000	3,790,000	475,000
2009 C	Nov-09	Apr-20	1.910%	4.710%	3,525,000	1,710,000	-	400,000	1,310,000	420,000
2010 A	Jul-10	Apr-32	3.000%	4.000%	33,015,000	28,560,000	-	18,540,000	10,020,000	1,375,000
2010 B	Jul-10	Apr-26	1.100%	4.800%	10,000,000	7,245,000	-	670,000	6,575,000	705,000
2011A	Mar-11	Apr-32	2.500%	4.625%	16,400,000	12,765,000	-	870,000	11,895,000	925,000
2011B	Mar-11	Jan-32	4.000%	4.750%	22,460,000	11,695,000	-	1,675,000	10,020,000	510,000
2012D	Mar-12	Jan-27	2.000%	3.000%	4,435,000	3,495,000	-	265,000	3,230,000	270,000
2012E	Mar-12	Jan-34	3.000%	3.250%	4,020,000	3,590,000	-	150,000	3,440,000	155,000
2012F	Mar-12	Jan-28	0.350%	3.600%	2,520,000	2,000,000	-	145,000	1,855,000	145,000
2012G	Mar-12	Jul-23	0.750%	3.200%	10,075,000	7,255,000	-	-	7,255,000	965,000
2012N	Aug-12	Oct-32	2.500%	3.000%	11,910,000	10,475,000	-	515,000	9,960,000	530,000
2014E	Jun-14	Apr-34	3.750%	5.000%	15,260,000	14,375,000	-	525,000	13,850,000	550,000
2014F	Jun-14	Oct-29	0.400%	3.900%	2,080,000	1,960,000	-	120,000	1,840,000	120,000
2017E	Feb-17	Apr-31	2.000%	5.000%	48,080,000	-	48,080,000	545,000	47,535,000	-
2017F	Feb-17	Apr-29	4.250%	4.750%	16,740,000	-	16,740,000	285,000	16,455,000	1,735,000
Defeased/ Matured					527,055,000					
Total General Obligation Bonds issued					$881,710,000	$192,385,000	$ 64,820,000	$ 83,310,000	$173,895,000	$ 15,730,000

NOTE 5. CHANGES IN OTHER LONG TERM LIABILITIES

Long term liability activity for June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable	$ 12,551	$ 5,097	$ -	$ 17,648	$11,471
Borrower's Deposit Liability	1,729,385	18,863	25,534	1,722,714	-
OPEB Obligation	13,836	118	-	13,954	-
Pension Related Debt	93,927	4,200	8,416	89,711	4,200
Net Pension Liability	157,206	99,342	-	256,548	-
TOTALS	$2,006,905	$ 127,620	$ 33,950	$2,100,575	$15,671

NOTE 6. COMMITMENTS

As of June 30, 2017, SELP had committed but undisbursed loan funds of $52,905 for various alternative energy, energy efficiency and alternate fuel projects within the state of Oregon. Funds are committed pursuant to legal agreements with borrowers. There were no additional general obligation bond funds that were legally designated for future energy project loans pursuant to federal tax code and the bond indenture as of June 30, 2017.

NOTE 7. EMPLOYEE RETIREMENT PLANS

The Oregon Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for SELP employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Oregon Revised Statutes (ORS), Chapters 238 and 238A.
PERS is a cost-sharing multiple-employer defined benefit pension plan. The Tier One/Tier Two Retirement Benefit Plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the member's IAP account. The pension plans provide pension benefits, death benefits and disability benefits.

PERS issues a separate financial report that includes audited financial statements and required supplementary information. The report is available publicly and may be found at: http://www.oregon.gov/pers/Pages/financials/actuarial-financial-informaton.aspx

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2017, were 12.31 percent for Tier One/Tier Two General Service members, 6.51 percent for OPSRP Pension Program General Service members, and 6 percent for OPSRP IAP.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the State of Oregon and its component units reported a liability of $4.07 billion for its proportionate share of the net pension liability. SELP's allocated amount of the proportionate share of the net pension liability was $256,548. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, rolled forward to June 30, 2016. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the State's proportion was 27.1 percent, which was an increase of 1.5 percent from its proportion measured as of June 30, 2015. As part of the State of Oregon, SELP's funds were allocated .00273808 percent of the State's proportionate share in the plan.

For the year ended June 30, 2017, SELP recognized pension expense of ($16,414). At June 30, 2017, SELP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between contributions and proportionate share of contributions	$ 6,560	$ 2,438
Differences between expected and actual experience	8,488	
Changes in Assumptions	54,716	
Net difference between projected and actual earnings on investments	50,683	
Subtotal	120,447	2,438
Net Deferred Outflows (Inflows) of Resources before contributions subsequent to the measurement date	118,009	
Contributions subsequent to the measurement date	0	
Net Deferred Outflows (Inflows) of Resources	$ 118,009	

NOTE 8. 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 Statute 243, and the Public Employees Benefit Board (PEBB) established by ORS 243.061. 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 0.08 percent of PERS-covered salary to fund the normal cost portion of RHIA benefits. In addition, SELP contributed an additional 0.45 percent 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, 2017, 2016 and 2015, were $1,089, $970, and $325, 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 0.09 percent of PERS-covered salary to fund the normal cost portion of RHIPA benefits. In addition, SELP contributed an additional 0.35 percent 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, 2017, 2016 and 2015 totaled $863, $770, and $228, 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 a single-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 9. 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 10. INTERFUND TRANSACTIONS

Amounts reported as due to other funds at year end represent administrative costs due from SELP to other funds within the Department of Energy.

NOTE 11. 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.

At the end of fiscal year 2017, three loans carried delinquent balances that represented 3.79 percent of outstanding loan principal and three loans were in forbearance representing 1.19 percent of outstanding loan principal. When in forbearance, SELP agrees not to issue notices of default or commence foreclosure litigation to enforce security interests against a borrower. There were no material troubled debt restructurings.

NOTE 12. SUBSEQUENT EVENTS

The following subsequent events occurred after June 30, 2017:

HB 3470 (2017) abolished the Alternative Fuel Vehicle Revolving Loan Fund and transferred the $3 million fund balance, accounted for on SELP's financial statements, to the state's General Fund.

All loans under forbearance were paid off.

The Oregon Department of Energy executed a troubled debt restructuring representing $4.5 million with an irrigation district that has been subject to prolonged drought. The restructuring is anticipated to better align the irrigation district's cash flow with required debt service but will reduce near-term program revenue. As a consequence of the restructuring, two of the three loans that were reported as delinquent under Note 11, are no longer delinquent.

In January 2017 the Oregon Department of Energy called upon a $5 million municipal loan guaranty from the City of Portland as a result of payment default on a guaranteed $8 million solar manufacturing loan. On July 11, 2018 a Stipulated General Judgement and Judgement of Foreclosure was issued against the borrower in favor of Multnomah Country. The judgement gives the county the right to seize and sell borrower assets to satisfy outstanding borrower tax liability. The Department filed cross-claims against the borrower as part of Multnomah County's legal action and will receive proceeds from Multnomah County's future auction of borrower assets if the auction generates sales in excess of the judgement amount owed the county. However the Department of Energy does not anticipate the auction will generate proceeds in excess of the judgement and anticipates a $4.6 million loan loss on the credit. The anticipated loan loss includes a reimbursement of $641,835 in department expense incurred in July and August, 2017 to protect the department's interest in loan collateral while the borrower was pursuing additional capital.

Legal Update:

The Department of Energy has engaged legal counsel to work through the payment default, municipal guaranty, and subsequent legal issues related to loan recovery related to the $8 million solar manufacturing loan.

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 STATEMENT OF NET POSITION
JUNE 30, 2017

	Energy Loan	CEDF	AFVRLF	**TOTAL**
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 9,092,234	$ 52,905	$ 3,021,784	12,166,923
Cash and Cash Equivalents--Restricted	6,659,365	-	-	6,659,365
Securities Lending Collateral	157,396	-	-	157,396
Loan Interest Receivable	1,113,572	-	-	1,113,572
Total Current Assets	17,022,567	52,905	3,021,784	20,097,256
Noncurrent Assets:				
Cash and Cash Equivalents--Restricted	1,722,714	-	-	1,722,714
Loans Receivable (Net)	153,577,713	-	-	153,577,713
Total Noncurrent Assets	155,300,427	-	-	155,300,427
TOTAL ASSETS	$ 172,322,994	$ 52,905	$ 3,021,784	$ 175,397,683
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Debt Refunding	$ 3,686,728	$ -	$ -	$ 3,686,728
Related to Pensions	128,560			128,560
Total Deferred Outflows of Resources	$ 3,815,287	$ -	$ -	$ 3,815,287
LIABILITIES AND NET POSITION				
Current Liabilities:				
Accounts Payable	$ 43,400	$ -	$ -	$ 43,400
Bond Interest Payable	2,019,481	-	-	2,019,481
Due to Other Funds/Agencies	13,526	-	-	13,526
Compensated Absences Payable	11,471	-	-	11,471
Unearned Revenue	603,863	-	-	603,863
Obligations under Securities Lending	157,396	-	-	157,396
Pension-Related Debt	4,200	-	-	4,200
Bonds Payable	15,730,000	-	-	15,730,000
Total Current Liabilities	18,583,338	-	-	18,583,338
Noncurrent Liabilities:				
Compensated Absences Payable	6,177	-	-	6,177
Borrower Deposit Liability	1,722,714	-	-	1,722,714
Other Postemployment Benefits Obligation (Net)	13,954	-	-	13,954
Pension-Related Debt	85,511	-	-	85,511
Net Pension Liability	256,548	-	-	256,548
Bonds Payable	168,895,440	-	-	168,895,440
Total Noncurrent Liabilities	170,980,343	-	-	170,980,343
TOTAL LIABILITIES	$ 189,563,681	$ -	$ -	$ 189,563,681
DEFERRED INFLOWS OF RESOURCES				
Related to Pensions	$ 2,438	$ -	$ -	$ 2,438
Total Deferred Inflows of Resources	$ 2,438	$ -	$ -	$ 2,438
Net Position:				
Restricted for Debt Service	$ 6,659,365	$ -	$ -	$ 6,659,365
Unrestricted	(20,087,203)	52,905	3,021,784	(17,012,514)
Total Net Position (Deficit)	$ (13,427,838)	$ 52,905	$ 3,021,784	$ (10,353,149)

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Energy Loan	CEDF	AFVRLF	Total
OPERATING REVENUES				
Interest on Loans	$ 8,558,788	$ -	$ -	$ 8,558,788
Other Fees and Charges	64,240	-	-	64,240
TOTAL OPERATING REVENUES	8,623,028	-	-	8,623,028
OPERATING EXPENSES				
Bond Interest	5,881,168	-	-	5,881,168
Bond Expenses	389,257	-	-	389,257
Salaries and Other Personal Services	336,860	-	-	336,860
Services and Supplies	467,560	120	120	467,800
Bad Debt Expense	2,825,300	-	-	2,825,300
TOTAL OPERATING EXPENSES	9,900,144	120	120	9,900,384
OPERATING INCOME (LOSS)	(1,277,116)	(120)	(120)	(1,277,356)
NON-OPERATING REVENUES (EXPENSES)				
Interest on Cash Balances	182,325	580	33,087	215,992
Interest Expense-Pension Related Debt	(6,419)	-	-	(6,419)
CHANGE IN NET POSITION	(1,101,211)	460	32,967	(1,067,783)
NET POSITION - BEGINNING	(12,326,628)	52,445	2,988,817	(9,285,366)
Net Position as Restated	(12,326,628)	52,445	2,988,817	(9,285,366)
NET POSITION (DEFICIT) - ENDING	$ (13,427,838)	$ 52,905	$ 3,021,784	$ (10,353,149)

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Energy Loan	CEDF	AFVRLF	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 64,240	$ -	$ -	$ 64,240
Cash Credited to Borrowers Deposit Liability	20,848	-	-	20,848
Cash Disbursed from Borrowers Deposit Liability	(27,519)	-	-	(27,519)
Cash Paid to Vendors for Goods and Services	(446,789)	(120)	(120)	(447,029)
Payments to Employees for Services	(369,171)	-	-	(369,171)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(758,391)	(120)	(120)	(758,631)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Bonds	72,214,118	-	-	72,214,118
Principal Paid on Bonds	(88,062,922)	-	-	(88,062,922)
Interest Paid on Bonds	(6,407,820)	-	-	(6,407,820)
Bond Issue Costs Paid	(669,267)	-	-	(669,267)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(22,925,890)	-	-	(22,925,890)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received on Cash Balances	181,782	580	33,087	215,449
Loan Principal Repayments	13,633,744	-	-	13,633,744
Loan Interest Received	8,793,845	-	-	8,793,845
NET CASH PROVIDED BY INVESTING ACTIVITIES	22,609,371	580	33,087	22,643,038
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,074,910)	460	32,967	(1,041,483)
CASH AND CASH EQUIVALENTS - BEGINNING	18,549,223	52,445	2,988,817	21,590,485
CASH AND CASH EQUIVALENTS - ENDING	$ 17,474,313	$ 52,905	$ 3,021,784	$ 20,549,002

Continued next page…

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS (continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	Energy Loan	CEDF	AFVRLF	Total
OPERATING INCOME (LOSS)	$ (1,277,116)	$ (120)	$ (120)	$ (1,277,356)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Bad Debt	2,825,300	-	-	2,825,300
Interest Receipts Reported as Operating Revenue	(8,793,845)	-	-	(8,793,845)
Amortization of Bond Premium and Discount	(777,962)	-	-	(777,962)
Loss on Refunding	58,468	-	-	58,468
Bond Interest Expense Reported as Operating Expense	6,407,820	-	-	6,407,820
Bond Issuance Costs Reported as Operating Expense	386,616	-	-	386,616
Public Employees Retirement Contribution	(6,419)	-	-	(6,419)
Short-Term Fund Lending Cost	545	-	-	545
(Increase)/Decrease in Assets:				
Loan Interest Receivable	334,326	-	-	334,326
Securities Lending Collateral	703,966	-	-	703,966
Increase/(Decrease) in Liabilities:				
Accounts Payable	21,628	-	-	21,628
Bond Interest Payable	192,842	-	-	192,842
Compensated Absences Payable	5,098	-	-	5,098
Unearned Revenue	(99,268)	-	-	(99,268)
Due to Other Funds/Agencies	(1,125)	-	-	(1,125)
Net OPEB Obligation	118	-	-	118
Borrower Deposits	(6,671)	-	-	(6,671)
Pension-Related Debt	(4,216)	-	-	(4,216)
Net Pension Liability	99,342	-	-	99,342
Obligations under Security Lending	(703,966)	-	-	(703,966)
(Increase)/Decrease in Deferred Outflows of Resources				
Related to Pensions	(88,030)	-	-	(88,030)
Increase/(Decrease) in Deferred Inflows of Resources				
Related to Pensions	(35,839)	-	-	(35,839)
TOTAL ADJUSTMENTS	518,725	-	-	518,725
NET CASH PROVIDED (USED) BY OPERATIONS	$ (758,391)	$ (120)	$ (120)	$ (758,631)

OTHER REPORTS

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Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State

Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

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
Janine Benner, Director, Oregon 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, an enterprise fund of the State of Oregon, Department of Energy (department), as of and for the year ended June 30, 2017, 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 August 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the department'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Small Scale Energy Loan Program'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 have not been 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 certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department'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 Findings
The department's response to the findings identified in our audit are included 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 the response.

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 department'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 department'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
August 1, 2018

Schedule of Findings and Responses

2018-1 Appropriateness of Business Decision to Cure Rent Delinquency of Borrower Not Supported

We question the appropriateness of the department's payment of rent on behalf of a delinquent borrower. Department management was not able to provide adequate documentation to support the appropriateness of paying $641,835 in delinquent rent payments on behalf of a borrower. In July 2017, department management chose to cure[1] a borrower's lease defaults under the terms of the borrower's lease with its lessor. In total, the Small Scale Energy Program (SELP) provided $641,835 for rent-lease payments and associated costs.

The borrower has a history of loan default, forbearance, and restructuring with SELP. In 2011, SELP agreed to loan the borrower $10 million. SELP restructured the loan in 2013 due to the borrower's financial difficulties. The department has identified the restructured loan as high risk since 2014, and included the loan in the allowance for doubtful accounts for fiscal year 2017. In addition to defaulting on its rent-lease payments, the borrower defaulted on its loan repayments to SELP in September 2016, and has not made any repayments since. Further, at the time department management elected to cure the lease defaults, the borrower's property tax payments were delinquent. Multnomah County had the legal right to seize the borrower's equipment for delinquent taxes.

According to department management, they paid $641,835 in rent-lease payments for the borrower in July and August of 2017 based on the borrower's verbal representation that SELP would be reimbursed out of the proceeds of a future capital investment by a private investor. Also, in an intradepartmental memo, department staff stated the expenditure was prudent because the borrower's primary investor indicated they were optimistic about the future capital investment; however, the primary investor sits on the borrower's board of directors and was not in a position to provide independent assurance. According to department management, they did not seek independent assurance to ensure they would be repaid, despite the prior history with the borrower and the current loan default. According to management, curing the borrower's lease gave SELP the best chance to recover loan funds and was an attempt to forestall the loss of the equipment as collateral for the loan.

The investment from the private investor never occurred. Additionally, Multnomah County has claimed the equipment and SELP will not be able to collect it as collateral.

SELP's cash flow projections for the last few years have shown future loan repayments are insufficient to meet future debt service requirements of its bond program. The State Debt Policy Advisory Commission recommended suspending new loan commitments, and currently, the Treasury Department is not facilitating additional SELP lending, eliminating any potential bond funding for energy projects. SELP is in a deficit position, and will likely require additional funding to meet its obligations beginning in 2021.

State guidelines specify that employees authorizing expenditures ensure the obligation is a responsible and appropriate use of funds and evaluate whether there are adequate budget resources to incur the obligation. Department management's decision to disburse public funds to pay the borrower's lease payments without verifiable evidence of the viability of the company or compelling assurances from credible parties other than the parties benefitting from the decision resulted in those monies being unavailable to fund program operations and make future debt service payments.

[1] To cure a default means to perform the obligations under the lease which are in default, to pay the costs prescribed in the lease.

We recommend department management ensure all payments from SELP are a responsible and appropriate use of funds and that the appropriateness of using state funds is adequately documented.

2018-2 Department Management Should Ensure the Allowance for Doubtful Accounts Estimate is Properly Adjusted for Subsequent Events.

Accounting standards require all information that becomes available before issuance of the financial statements be used in evaluating the conditions on which estimates are based. Financial statements should be adjusted for any changes in estimates resulting from events that provide additional evidence about conditions that existed at the Statement of Net Position date.

Subsequent to June 30, events related to a high risk loan occurred that changed the status of the loan collateral and impacted the department's assumptions used for the Allowance for Doubtful Accounts estimate. Management did not consider these events when estimating the allowance for the loan. Consequently, the Allowance for Doubtful Accounts and Bad Debt Expense accounts were each understated by $1.9 million. Additionally, Loans Receivable, which is reported net of the allowance, and Operating Income were each overstated by $1.9 million.

We recommend department management strengthen its methodology to ensure the allowance for doubtful accounts estimate includes all relevant information to properly present the collectability of loans in accordance with generally accepted accounting principles.

Agency Response

Thank you for your annual audit of financial statements and report on internal control over financial reporting and compliance related to the Small-Scale Energy Loan Program. We appreciate your ongoing engagement and the opportunity to respond to this year's audit.

We fully agree with your recommendation that Oregon Department of Energy management ensures all payments from SELP are a responsible and appropriate use of funds and that the justification for using state funds is adequately documented.

ODOE is committed to transparency, and we accept our responsibility to document decision-making processes in ways that are meaningful and understandable to outside parties. While SELP staff did produce a memo leading up to the decision that summarizes the conclusion reached during months of meetings internally and externally, we agree that the memo could have more fully elaborated on those meetings, discussions, and options in anticipation of being read by people outside of the lending world.

ODOE's loan to SoloPower was made in 2011, when the Small-Scale Energy Loan Program and the department were under different management. The 2017 decision to pay two months of SoloPower's rent plus back rent was not one reached lightly. It was the product of months of engagement with the borrower, other creditors, and among SELP management. It was the outcome of a choice: foreclose on the loan and take the loss immediately, or help preserve an Oregon company's ability to operate in the future, secure a capital investment, and provide jobs. ODOE's decision to pay the rent allowed investment negotiations to continue, in service to the SELP program's commitment to due diligence on each decision.

This expenditure, as required by the Oregon Accounting Manual, was reviewed and approved by an approving officer; it was and is authorized by law and appropriation; and it was in accordance with state standards. State policy allows SELP to incur expenses in order to retain collateral interest. Beyond just what's legally allowed, the SELP team and ODOE management also wanted to make the right and best decision for the state, first and foremost, and for all other parties involved.

Accordingly, ODOE management spent considerable time reviewing various options for the SoloPower loan before deciding to make the lease payments. Based on these reviews and discussions with SoloPower creditors, previous ODOE management concluded that providing additional time for SoloPower to secure an investment presented the best chance for SELP to recover the loan funds invested.

Additionally, management determined that preserving the opportunity for a capital investment would not only help support a green manufacturing company in Oregon, it also had the potential to reduce the City of Portland's obligation to cover a $5 million loan guarantee while providing Multnomah County with property tax revenue.

In addition to the loan agreement, a security agreement with SoloPower signed in 2012 had sufficient provisions to ensure that, should an additional capital investment be made, ODOE would be reimbursed for any expenditures related to preserving our security interest.

Managing the program's deficit is front and center of the SELP's team work, and the team responsible for the SoloPower decision also took numerous steps to reduce the SELP deficit and improve the program's standing. In fact, since 2016, ODOE has improved SELP's financial condition from a need for $16M in capitalization beginning in 2020 to a need for $8M in capitalization in beginning in 2021. The rent-related expenditure does not materially affect the date or the amount of the SELP deficit, which will start to come due in 2021. Additionally, SELP had more than adequate budget resources through which to incur this expenditure in the fiscal year being reviewed.

We fully acknowledge that this policy decision was not without risk. ODOE management at the time approved the payment of SoloPower's rent after determining that there was an acceptable probability for investment; ODOE knew that if a recapitalization did not take place, we would be unlikely to recover the rent funds. In fact, ODOE made statements to media that confirmed this determination:

> *If the investment deal goes through, the capitol infusion would provide funding that would allow SoloPower to regain their footing and continue operations. But that infusion has to happen first, and the terms of the investment have to be amendable to the state. Further, that capitol infusion has to be secured in time to pay Multnomah County before the county rightfully starts selling equipment to cover past due property taxes. Bringing the rent current did not prevent the county from seizing and auctioning off SoloPower's equipment.*
>
> *(— Statement made to* The Oregonian, *September 15, 2017)*

As the audit report notes, SoloPower was ultimately unable to secure additional investment. ODOE prepared for that potential outcome by anticipating zero recovery of the SoloPower loan principal in program cash flow projections, which is consistent with accounting standards.

As we actively manage our portfolio of loans, SELP is occasionally faced with hard policy decisions involving potential risk and an uncertain future. Each of these scenarios is unique; even in similar situations, reasonable people presented with the same facts can reach different conclusions. Another management team may have made a different policy choice if facing the same circumstances, and that would not be unreasonable.

Thank you again for your engagement and feedback throughout this process. We look forward to continuing to work with you as we oversee this program on behalf of the state.