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Secretary of State

State of Oregon

**DEPARTMENT OF ENERGY**

**Small Scale Energy Loan Program**

For the Fiscal Years Ended June 30, 2005 and 2004



**Audits Division**

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**Audits Division**

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*Auditing for a Better Oregon*

The Honorable Ted Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301-4047

Michael Graine, Director  
Department of Energy  
625 Marion Street NE  
Salem, Oregon 97301-3742

This report presents the results of our annual audits of the Department of Energy (department), Small Scale Energy Loan Program (SELP).

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the fiscal years ended June 30, 2005 and 2004 are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the department's internal control and compliance with applicable laws, regulations, contracts, and grant agreements and other matters. Our report on the results of those reviews is included in the Other Reports section of this report. We noted no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Similarly, we did not note any material weaknesses in internal control over financial reporting.

We appreciated the cooperation and assistance of the department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

Charles A. Hibner, CPA  
Director



# TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	2
Financial Statements	
Balance Sheets – June 30, 2005 and June 30, 2004.....	5
Statements of Revenues, Expenses and Changes in Fund Net Assets – For the Fiscal Years Ended June 30, 2005 and June 30, 2004.....	7
Statements of Cash Flows – For the Fiscal Years Ended June 30, 2005 and June 30, 2004 .....	8
Notes to Financial Statements.....	10
OTHER REPORTS	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters .....	24



**FINANCIAL SECTION**



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*Auditing for a Better Oregon*

The Honorable Ted Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301-4047

Michael Grainey, Director  
Department of Energy  
625 Marion Street NE  
Salem, Oregon 97301-3742

## **INDEPENDENT AUDITOR'S REPORT**

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 (department), as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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. The financial statements do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Small Scale Energy Loan Program as of June 30, 2005 and 2004, and the respective changes in its financial position and its cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006 on our consideration of the Small Scale Energy Loan Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits. That report is separately presented in the Other Reports section as listed in the table of contents.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury". The signature is fluid and cursive, with a long horizontal stroke at the end.

Bill Bradbury  
Secretary of State

April 7, 2006



STATE OF OREGON  
DEPARTMENT OF ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
ENTERPRISE FUND  
BALANCE SHEETS  
JUNE 30, 2005 AND JUNE 30, 2004

<b><u>ASSETS</u></b>	<u>2005</u>	<u>2004</u>
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 4,895,545	\$ 3,683,865
Cash and Cash Equivalents—Restricted	29,365,993	64,755,862
Accounts Receivable	34,856	90,646
Loan Interest Receivable	<u>3,220,253</u>	<u>2,825,232</u>
<i>Total Current Assets</i>	<u>37,516,647</u>	<u>71,355,605</u>
<i>Noncurrent Assets:</i>		
Cash and Cash Equivalents—Restricted	3,241,438	3,337,066
Arbitrage Rebate Receivable	5,003	—
Deferred Bond Issuance Costs	393,219	413,588
Loans Receivable (Net)	102,637,412	104,591,076
Other Receivables	21,193	21,279
Capital Assets	<u>233,612</u>	<u>242,770</u>
<i>Total Noncurrent Assets</i>	<u>106,531,877</u>	<u>108,605,779</u>
<b>Total Assets</b>	<b><u>\$ 144,048,524</u></b>	<b><u>\$ 179,961,384</u></b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 16,419	\$ 38,509
Matured Bonds Payable	70,900	85,975
Bond Interest Payable	2,264,759	3,301,067
Compensated Absences Payable	39,707	49,073
Deferred Income	200,677	227,315
Bonds Payable	<u>14,970,000</u>	<u>44,660,000</u>
<i>Total Current Liabilities</i>	<u>17,562,462</u>	<u>48,361,939</u>
<i>Noncurrent Liabilities:</i>		
Arbitrage Rebate Liability	5,003	—
Compensated Absences Payable	17,017	—
Borrowers' Reserve Fund Liability	3,241,438	3,337,066
Bonds Payable	<u>104,781,143</u>	<u>110,682,582</u>
<i>Total Noncurrent Liabilities</i>	<u>108,044,601</u>	<u>114,019,648</u>
<b>Total Liabilities</b>	<b><u>125,607,063</u></b>	<b><u>162,381,587</u></b>
<i>Net Assets:</i>		
Invested in Capital Assets	233,612	242,770
Restricted for Debt Service	13,542,146	13,896,114
Unrestricted	<u>4,665,703</u>	<u>3,440,913</u>
<i>Total Net Assets</i>	<u>18,441,461</u>	<u>17,579,797</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 144,048,524</u></b>	<b><u>\$ 179,961,384</u></b>

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



STATE OF OREGON  
DEPARTMENT OF ENERGY  
**SMALL SCALE ENERGY LOAN PROGRAM**  
**ENTERPRISE FUND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004

	<u>2005</u>	<u>2004</u>
<b><u>OPERATING REVENUES</u></b>		
Interest on Loans	\$ 6,176,565	\$ 8,079,173
Interest on Cash and Investments	715,911	497,162
Application and Disbursement Fees	16,324	10,870
Loan Fees	142,386	102,650
Holding Cost Fees	277,955	337,140
Miscellaneous	47,253	243,561
<b>Total Operating Revenues</b>	<u>7,376,394</u>	<u>9,270,556</u>
<b><u>OPERATING EXPENSES</u></b>		
Bond Interest and Debt Service Expense	5,256,080	7,387,454
Personal Services	697,696	685,081
Services and Supplies	452,591	434,127
Amortization of Deferred Bond Issuance Costs	77,509	60,689
Depreciation Expense	30,854	-
Bad Debt Expense	-	71,645
Bond Refunding Loan Receivable Write-Downs	-	22,418
<b>Total Operating Expenses</b>	<u>6,514,730</u>	<u>8,661,414</u>
<b>Operating Income/Change in Net Assets</b>	861,664	609,142
<b>Net Assets—Beginning</b>	17,579,797	16,886,106
Prior Period Adjustment	-	84,549
<b>Net Assets—Beginning—As Restated</b>	<u>17,579,797</u>	<u>16,970,655</u>
<b>Net Assets—Ending</b>	<u>\$ 18,441,461</u>	<u>\$ 17,579,797</u>

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

STATE OF OREGON  
DEPARTMENT OF ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
ENTERPRISE FUND

**STATEMENTS OF CASH FLOWS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004

<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>	<u>2005</u>	<u>2004</u>
Cash Received from Customers	\$ 533,726	\$ 894,304
Loan Principal Repayments	12,116,479	23,875,602
Loan Interest Received	5,755,969	6,877,233
Loans Disbursed to Borrowers	(10,162,815)	(7,164,477)
Cash Paid to Vendors for Goods and Services	(460,629)	(419,812)
Cash Paid for Employees	(690,045)	(681,785)
Cash Disbursed on Borrower Deposits and Matured Bonds	<u>(110,703)</u>	<u>(239,681)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>6,981,982</u>	<u>23,141,384</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>		
Proceeds from Bonds	8,867,069	19,245,865
Principal Paid on Bonds	(44,660,000)	(12,430,000)
Interest Paid on Bonds	(6,090,897)	(7,417,236)
Bond Issue Costs Paid	<u>(71,190)</u>	<u>(70,015)</u>
<b>Net Cash Used By Non-Capital Financing Activities</b>	<u>(41,955,018)</u>	<u>(671,386)</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Acquisition of Capital Assets	<u>(21,696)</u>	<u>(165,213)</u>
<b>Net Cash Used By Capital and Related Financing Activities</b>	<u>(21,696)</u>	<u>(165,213)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest Received on Cash and Investments	<u>720,915</u>	<u>238,939</u>
<b>Net Cash Provided By Investing Activities</b>	<u>720,915</u>	<u>238,939</u>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	(34,273,817)	22,543,724
<b>Cash and Cash Equivalents—Beginning</b>	<u>71,776,793</u>	<u>49,233,069</u>
<b>Cash and Cash Equivalents—Ending</b>	<u>\$ 37,502,976</u>	<u>\$ 71,776,793</u>
Cash and Cash Equivalents	4,895,545	3,683,865
Cash and Cash Equivalents—Restricted	<u>32,607,431</u>	<u>68,092,928</u>
<b>Total Cash and Cash Equivalents</b>	<u>\$ 37,502,976</u>	<u>\$ 71,776,793</u>

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

STATE OF OREGON  
DEPARTMENT OF ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS (continued)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004

	2005	2004
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Operating Income	\$ 861,664	\$ 609,142
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>		
Bad Debt	-	71,645
Depreciation	30,854	-
Loan Receivable Write-downs	-	22,418
Amortization of Deferred Bond Issue Costs	77,509	60,689
Interest Received on Investments		
Reported as Operating Revenue	(715,911)	(517,342)
Bond Interest and Debt Service Expense		
Reported as Operating Expense	5,256,080	7,387,454
<i>(Increase)/Decrease in Assets:</i>		
Accounts Receivable	55,791	21,663
Loan Interest Receivable	(395,022)	(1,429,256)
Loan Receivable	1,953,664	16,711,125
Other Receivables	86	3,433
Arbitrage Receivable	(5,003)	198,071
<i>Increase/(Decrease) in Liabilities:</i>		
Accounts Payable	(8,040)	11,566
Matured Bonds Payable	(15,075)	-
Compensated Absences	7,651	3,142
Deferred Income	(26,638)	227,315
Borrowers Reserves	(95,628)	(239,681)
Total Adjustments	6,120,318	22,532,242
<b>Net Cash Provided By Operations</b>	<b>\$ 6,981,982</b>	<b>\$ 23,141,384</b>

STATE OF OREGON  
DEPARTMENT of ENERGY  
SMALL SCALE ENERGY LOAN PROGRAM  
Notes to the Financial Statements  
ENTERPRISE FUND  
JUNE 30, 2005 AND JUNE 30, 2004

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 implemented through Oregon Revised Statutes Chapter 470. The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants.

Article XI-J authorizes the sale of State General Obligation Bonds to finance secured loans for the development of small-scale energy conservation and renewable energy projects within Oregon. SELP is a self-supporting program that is part of the State of Oregon and its Department of Energy. The Department of Energy operates other programs, which have no impact on the bond-related activity of SELP.

**B. Basis of Presentation**

The accounts of the Department of Energy are organized on the basis of funds, which are considered a separate accounting entity with a self-balancing set of accounts. The State accounts for SELP as an enterprise fund. Enterprise funds are used for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods and services to the general public on a continuing basis is intended to be financed or recovered primarily through user charges. Enterprise fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. Under GASB Statement 20, SELP does not apply FASB pronouncements issued after November 30, 1989, for proprietary activities, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

**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 presented on the accrual basis using the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liabilities are incurred. All assets and liabilities associated with the operations of these funds are included on the Balance Sheet. Total net assets are segregated into the categories of

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

Enterprise Fund

June 30, 2005 and June 30, 2004

capital assets, restricted net assets; and unrestricted net assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how SELP finances and meets the cash flow needs of its proprietary activities.

### **D. Budgetary Process**

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

### **E. Cash and Cash Equivalents**

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

### **F. Restricted Assets**

Use of all cash, cash equivalents, and investments 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, 2005 and 2004 were sufficient to meet all contractual agreements. 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. Donated capital assets are reported at their fair market value at the time received. 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.

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

Enterprise Fund

June 30, 2005 and June 30, 2004

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 is five years.

### **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 their 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. The allowance for uncollectible accounts at June 30, 2005 and 2004 was \$2,355,954.

### **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. Non-operating revenues and expenses include any gain or loss on the disposition of investments.

### **J. Compensated Absences**

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

### **K. Arbitrage Rebate Liability**

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

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

Enterprise Fund

June 30, 2005 and June 30, 2004

### **L. Bond Expenses**

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

### **M. Borrower's Reserve Accounts**

SELP holds reserve investments for certain municipal borrowers. 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 INVESTMENTS**

SELP funds are held in demand accounts with the State Treasurer. The State's investment policies are governed by statute, and are overseen by the Oregon Investment Council. The State Treasurer is the investment officer responsible for the funds on deposit in the 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. Investments in the Oregon Short Term Fund (OSTF) are further governed by portfolio guidelines issued by the Oregon Short Term Fund Board. Earnings on the OSTF are allocated on a pro-rata basis on daily account balances.

### **A. Cash Deposits**

At June 30, 2005, the book balance of cash and cash equivalents was \$37,502,976. The unadjusted bank balance was \$37,526,870 of which \$37,455,970 was held in demand accounts with the State Treasurer invested in the Oregon Short Term Fund (OSTF) and \$70,900 was held by the State's fiscal agent. State Treasurer demand deposit accounts and time certificate of deposit investments of the OSTF are held in state banks and insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with State statute. Deposits in the OSTF in excess of FDIC coverage and the statutory collateralization requirement are not collateralized and are uninsured; thus, the deposits are considered exposed to custodial credit risk.

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

Enterprise Fund

June 30, 2005 and June 30, 2004

Securities in the Short Term Fund are held by the Treasury’s agent in the name of the State of Oregon. They consist of government securities, certificates of deposit, banker’s acceptances, and other short-term commercial paper. A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report can be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street, NE, Suite 100, Salem, Oregon 97301-3896 or from their web site at <http://www.ost.state.or.us/About/Boards/OSTF/Financial%20Statements/index.htm>.

At June 30, 2004, the book balance of cash and cash equivalents was \$71,776,793. The bank balance was \$71,796,485 of which \$71,710,510 was held in demand accounts with the State Treasurer invested in the Oregon Short Term Fund (OSTF) and \$85,975 was held by the State’s fiscal agent.

The Bank of New York, in its capacity as the State’s fiscal agent, holds SELP funds for redemption of bonds and coupons that have matured but have not yet been redeemed. On June 30, 2005 and 2004 the balance in the bond and coupon account was \$70,900 and \$85,975, respectively. The funds are backed by the faith and credit of Bank of New York, and are insured up to \$100,000 per bondholder for registered bonds.

Bond Indenture and State statute require SELP cash be segregated into the Loan Fund and the Sinking Fund. The following table itemizes cash balances at June 30, 2005 and 2004, respectively.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
	<u>Cash</u>	<u>Cash</u>
Loan Fund	\$ 16,570,492	\$ 17,024,352
Sinking Fund		
Program Account	6,285,021	4,009,532
Principal & Interest	7,854,759	9,571,951
Redemption Account	-	31,625,000
Extraordinary Expense	3,480,366	6,122,917
Borrower’s Reserves	3,241,438	3,337,066
Fiscal Agent Cash	<u>70,900</u>	<u>85,975</u>
<b>TOTALS</b>	<u>\$ 37,502,976</u>	<u>\$ 71,776,793</u>

**NOTE 3. LOANS RECEIVABLE**

The loan and contract receivable portfolio includes state agency loans. All mortgaged property is located within the state of Oregon. The loan portfolio value and associated statewide concentration of credit risk is:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Loans and contracts receivable	\$ 104,993,366	\$ 106,947,030
State agency loans	<u>17,825,179</u>	<u>20,629,252</u>
<b>Net credit risk exposure</b>	<u>\$ 87,168,187</u>	<u>\$ 86,317,778</u>

## Notes to the Financial Statements (Continued)

Enterprise Fund

June 30, 2005 and June 30, 2004

SELP uses the allowance method to estimate uncollectible loans and contracts receivable. The allowance for loans and contracts is based primarily upon a percentage of new loans made during the fiscal year. Management periodically adjusts the allowance to accommodate changes in economic conditions, non-performing assets, historical loss experience, industry practice and other conditions that may affect the ultimate collectibility of the loans and contracts. In 2005 and 2004, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan and contract portfolio.

SELP was awarded a court judgment against a borrower as a result of loan delinquency during fiscal year 2003. The settlement is reported as component of other receivables originally in the amount of \$21,279 and consists of the remaining principal transferred from the loan portfolio plus accrued interest and associated court costs. As of June 30, 2005 and 2004, the receivable balance associated with the settlement was \$21,193 and \$21,279, respectively.

SELP holds agreements with three borrowers that allow for temporary modifications of the payment terms associated with their respective loans. The borrowers have complied with the terms of their applicable agreements. In exchange, SELP agrees to forbear against issuing a notice of default and enforcement of its security interests under the loan documents. The possibility exists that our ability to collect the entire amount of accrued interest from one of these borrowers has been impaired. The following table summarizes that portion of the Loan Interest Receivable collectible later than one year after the balance sheet date:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Loan Interest Receivable	\$ 3,220,253	\$ 2,825,232
Collection Later Than One Year	<u>1,651,973</u>	<u>1,010,987</u>
Collection Within One Year	<u>\$ 1,568,280</u>	<u>\$ 1,814,245</u>

During the fiscal year 2004 SELP sold bonds to refund the outstanding 1994 Series A, B, E and F bonds to reduce the interest costs of the program. Federal arbitrage law restricts the amount SELP can earn on loans funded by tax-exempt bonds. When the savings to borrowers is large, SELP reduces the interest rate on outstanding loans to comply with the federal requirement. When the amount of the savings to the borrowers is small or the remaining life of the loan is less than two years, SELP shares the savings with borrowers by reducing the principal balance of their loans. The principal reductions made to loans funded with the refunded bond series totaled \$22,418, which was recognized at June 30, 2004 as a reduction of operating income. For those borrowers receiving interest rate reductions, the cost to the program will be recognized over the remaining life of the loan through lower interest earnings. SELP will also recognize the refunding savings over the remaining life of the new bonds through lower interest payments to bondholders.

## Notes to the Financial Statements (Continued)

Enterprise Fund

June 30, 2005 and June 30, 2004

### NOTE 4. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, it has issued general obligation bonds totaling \$537,975,000, of which \$120,545,000 was outstanding at June 30, 2005. Bond proceeds are loaned to individual residents, businesses, nonprofit organizations, state agencies, school districts and local governments in Oregon for energy conservation and renewable resource energy projects. The following table provides a summary of bond transactions as presented on the balance sheets for the fiscal years ended June 30, 2005 and June 30, 2004:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Bonds Payable-beginning	\$ 156,360,000	\$ 149,520,000
Bonds issued	8,845,000	19,270,000
Bonds retired	<u>( 44,660,000)</u>	<u>(12,430,000)</u>
Bonds Payable-ending	120,545,000	156,360,000
Discount on Bonds Payable	( 730,203)	( 1,017,418)
Deferred Loss on Bond Refunding	<u>( 63,654)</u>	<u>-</u>
Net Bonds Payable	<u>\$ 119,751,143</u>	<u>\$ 155,342,582</u>

### Debt Service Requirements to Maturity

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2005, for each fiscal year during the next five years period ending June 30, 2010, and in five year increments thereafter:

<u>Years Ending June 30</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total Debt Service</u>
2006	\$ 14,970,000	\$ 5,158,739	\$ 20,128,739
2007	11,995,000	4,471,729	16,466,729
2008	11,775,000	4,049,799	15,824,799
2009	9,120,000	3,616,391	12,736,391
2010	9,480,000	3,254,124	12,734,124
2011-2015	40,830,000	10,470,416	51,300,416
2016-2020	16,035,000	2,992,476	19,027,476
2021-2025	3,650,000	1,233,969	4,883,969
2026-2028	<u>2,690,000</u>	<u>273,750</u>	<u>2,963,750</u>
TOTALS	<u>\$ 120,545,000</u>	<u>\$ 35,521,393</u>	<u>\$ 156,066,393</u>

## Notes to the Financial Statements (Continued)

Enterprise Fund

June 30, 2005 and June 30, 2004

The following table summarizes the outstanding bond issues by series as of June 30, 2005:

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

Series	Dated Date	Original Issue				Bonds Outstanding				
		Final Maturity	Coupon From	Interest To	Range Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1994 A	May-94	Jul-09	3.500%	5.750%	2,000,000	980,000	-	980,000	-	-
1994 B	May-94	Jul-07	4.300%	5.375%	19,325,000	6,095,000	-	6,095,000	-	-
1994 C	May-94	Jul-15	3.550%	6.000%	4,015,000	2,420,000	-	2,420,000	-	-
1994 D	May-94	Jul-15	6.125%	7.950%	14,960,000	11,645,000	-	11,645,000	-	-
1994 E	Oct-94	Jul-11	4.600%	6.000%	15,000,000	9,455,000	-	9,455,000	-	-
1994 F	Oct-94	Jul-11	4.450%	6.250%	7,010,000	4,730,000	-	4,730,000	-	-
1994 G	Oct-94	Jul-06	7.200%	8.000%	1,000,000	380,000	-	380,000	-	-
1998 A	Mar-98	Jan-14	3.900%	4.900%	3,000,000	2,325,000	-	190,000	2,135,000	195,000
1998 B	Mar-98	Jan-02	3.800%	4.250%	5,930,000	-	-	-	-	-
1998 C	Oct-98	Jul-19	3.500%	4.800%	5,500,000	4,855,000	-	210,000	4,645,000	220,000
1998 D	Oct-98	Jan-28	4.100%	4.800%	14,535,000	13,370,000	-	305,000	13,065,000	315,000
1998 E	Oct-98	Jan-17	3.650%	4.900%	2,000,000	1,590,000	-	90,000	1,500,000	95,000
1998 F	Oct-98	Jan-08	3.650%	4.250%	3,970,000	2,070,000	-	465,000	1,605,000	495,000
1998 G	Oct-98	Jan-17	3.650%	4.900%	2,500,000	1,215,000	-	250,000	965,000	245,000
1998 H	Oct-98	Jan-08	3.650%	4.250%	3,050,000	1,505,000	-	300,000	1,205,000	400,000
1999 A	Oct-99	Jan-17	4.750%	5.100%	25,995,000	21,185,000	-	1,385,000	19,800,000	1,445,000
1999 B	Apr-99	Jan-15	4.000%	4.750%	9,100,000	5,355,000	-	820,000	4,535,000	910,000
1999 C	Apr-99	Jul-11	4.000%	4.600%	2,115,000	1,430,000	-	155,000	1,275,000	160,000
1999 D	Apr-99	Jan-14	5.500%	6.000%	8,840,000	3,480,000	-	1,230,000	2,250,000	1,300,000
2000 A	Apr-00	Jul-17	4.500%	5.500%	7,320,000	4,860,000	-	925,000	3,935,000	715,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	2,000,000	-	-	2,000,000	-
2001 B	May-01	Jan-17	3.700%	5.125%	11,000,000	9,900,000	-	580,000	9,320,000	605,000
2001 C	May-01	Jul-07	4.875%	5.750%	1,000,000	680,000	-	175,000	505,000	180,000
2001 D	Oct-01	Apr-16	2.300%	4.500%	4,000,000	3,705,000	-	255,000	3,450,000	260,000
2001 E	Oct-01	Oct-16	3.150%	4.850%	1,600,000	1,600,000	-	-	1,600,000	100,000
2001 F	Oct-01	Oct-16	3.150%	6.000%	11,500,000	10,245,000	-	665,000	9,580,000	595,000

## Notes to the Financial Statements (Continued)

Enterprise Fund

June 30, 2005 and June 30, 2004

### SCHEDULE OF DEBT ISSUED AND OUTSTANDING-continued General Obligation Bonds

Series	Dated Date	Original Issue				Bonds Outstanding				
		Final Maturity	Coupon From	Interest To	Range Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2002 A	May-02	Oct-12	3.000%	4.250%	10,950,000	10,015,000	-	955,000	9,060,000	985,000
2004 A	Apr-04	Jul-16	2.000%	3.500%	11,035,000	11,035,000	-	-	11,035,000	1,385,000
2004 B	Apr-04	Jul-07	2.000%	2.000%	4,385,000	4,385,000	-	-	4,385,000	1,710,000
2004 C	Apr-04	Jul-15	2.000%	3.750%	3,850,000	3,850,000	-	-	3,850,000	380,000
2004 D	Nov-04	Oct-17	4.000%	4.250%	8,845,000	-	8,845,000	-	8,845,000	2,275,000
Pre-1994					310,645,000	-	-	-	-	-
Total General Obligation Bonds issued					\$537,975,000	\$156,360,000	\$8,845,000	\$44,660,000	\$120,545,000	\$14,970,000

## NOTE 5. CHANGES IN LONG TERM LIABILITIES

Long term liability activity for the fiscal year is as follows:

	Beginning		Ending		Due Within
	Balance	Additions	Reductions	Balance	One Year
Net Bonds Payable	\$ 155,342,582	\$ 9,068,560	\$ 44,660,000	\$ 119,751,142	\$ 14,970,000
Arbitrage Rebate Liability	-	5,003	-	5,003	-
Borrower's Reserve Fund	3,337,066	674,265	769,893	3,241,438	-
Compensated Absences Payable	49,073	7,651	-	56,724	39,707
<b>TOTALS</b>	<u>\$ 158,728,721</u>	<u>\$ 9,755,479</u>	<u>\$ 45,429,893</u>	<u>\$ 123,054,307</u>	<u>\$ 15,009,707</u>

## NOTE 6. COMMITMENTS

As of June 30, 2005 and June 30, 2004, SELP had committed but undistributed loan funds of \$12,346,246 and \$13,672,988, respectively, for various alternative energy and energy conservation projects within the state of Oregon. Funds are committed pursuant to legal agreements with borrowers. Additional bond funds have been designated for future energy project loans pursuant to the bond indenture in the amounts of \$3,968,369 and \$3,677,031 as of June 30, 2005 and June 30, 2004, respectively.

## Notes to the Financial Statements (Continued)

Enterprise Fund

June 30, 2005 and June 30, 2004

### NOTE 7. DEBT REFUNDING

On April 22, 2004, SELP issued the following General Obligation Alternate Energy Bonds: \$11,035,000 in 2004 Series A with an average interest rate of 2.50%, \$4,385,000 in 2004 Series B with an average interest rate of 1.45%, and \$3,850,000 in 2004 Series C with an average interest rate of 3.35%. The 2004 Series A will fund \$2,000,000 of new energy project loans and the remaining \$17,270,000 was used to refund various General Obligation Alternate Energy Bonds issued in 1994. The current refunding reduced SELP's total debt service payments over 11 years by \$2,521,970 and resulted in an economic gain on a present value basis of \$2,113,747. Of the subsequent savings, 70.65% was passed on to applicable SELP borrowers to comply with federal arbitrage regulations, and is more fully described in Note 3.

On July 1, 2004 SELP called \$31,625,000 of outstanding General Obligation Alternate Energy Bonds prior to maturity. The 1994 Series A and E bonds were refunded using the proceeds of 2004 Series A; the 1994 Series B bonds were refunded using the proceeds of 2004 Series B and the 1994 Series F bonds were refunded using the proceeds of 2004 Series C. The 1994 Series C, D and G were redeemed prior to maturity with proceeds from loan prepayments and other funds on hand.

### NOTE 8. CAPITAL ASSETS

As of June 30, 2005, SELP capital assets consisted of the accumulated costs of developing a new database for the program. The Data Processing Software was placed into service in January 2005. The new database will run concurrently with the old for a minimum of one year. SELP has no outstanding debt related to capital assets.

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

	Beginning Balance	Additions	Deletions	Ending Balance
Data Processing Software	\$ 242,770	\$ 21,696	\$ -	\$ 264,466
Less: Accumulated Depreciation	<u>-</u>	<u>(30,854)</u>	<u>-</u>	<u>(30,854)</u>
Total Net Capital Assets	<u>\$ 242,770</u>	<u>\$ (9,158)</u>	<u>\$ -</u>	<u>\$ 233,612</u>

### NOTE 9. PRIOR PERIOD ADJUSTMENT

A prior period adjustment to net assets was made during fiscal year ended June 30, 2004 to capitalize the expenses of developing the program database in the prior fiscal years. The result was an increase in capital assets and net assets of \$84,549, representing the costs incurred during the software development stage of the project for fiscal years ended June 30, 2003 and 2002.

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

Enterprise Fund

June 30, 2005 and June 30, 2004

### **NOTE 10. EMPLOYEE RETIREMENT PLAN**

The 2003 Oregon Legislature created a new plan to provide public employees hired on or after August 29, 2003 with retirement benefits. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid pension plan with two components: the Pension Program and the Individual Account Program (IAP). Public Employees Retirement System (PERS) members retain their existing PERS accounts, but beginning January 1, 2004, any future member contributions were deposited in the member's IAP account, not into the member's PERS account. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, P.O. Box 23700, Tigard, OR 97281-3700.

#### **A. Oregon Public Employee's Retirement System (PERS)**

SELP employees who were plan members before August 29, 2003 participate in the Oregon Public Employee's Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board under the guidelines of the Oregon Revised Statutes, chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from several retirement benefit options. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

SELP is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. For fiscal year 2005 the rate of each covered employees salary was 4.71 percent for the fiscal year ended June 30, 2005. The amounts contributed by SELP for the years ended June 30, 2005, 2004, and 2003 were \$24,960, \$45,858, and \$73,644, respectively, equal to the required contributions each year.

#### **B. Oregon Public Service Retirement Plan (OPSRP)**

The defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP) is the Pension Program. This program is a cost sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Board under the guidelines of the Oregon Revised Statutes, chapter 238A. The Pension Program monthly pension benefit is 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.

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

Enterprise Fund

June 30, 2005 and June 30, 2004

SELP is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2005 was 8.04 percent. SELP did not have any employees hired on or after August 29, 2003 and as such was not required to contribute to the OPSRP Pension Program for fiscal years 2005 or 2004.

The Individual Account Program is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. The 6.0 percent employee contribution required by State statute was credited to the accounts of covered employees effective January 1, 2004. Current law requires employers that had been paying the member contributions into PERS previously to pay employee contributions to the IAP until at least December 31, 2005. The amount contributed by SELP for the years ended June 30, 2005 and 2004, were \$29,773 and \$20,565, respectively, equal to the required contributions for the year.

### **NOTE 11. RISK FINANCING**

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund. The Insurance Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for honesty. Faithful performance coverage is provided for key positions in state government that are required by law to be covered. For the State of Oregon, the amount of claim settlements did not exceed commercial insurance coverage for each of the past three years.

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 assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.



## **OTHER REPORTS**



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*Auditing for a Better Oregon*

The Honorable Ted Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301-4047

Michael Graineey, Director  
Department of Energy  
625 Marion Street NE  
Salem, Oregon 97301-3742

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the Small Scale Energy Loan Program (SELP), an enterprise fund of the State of Oregon, Department of Energy (department), as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated April 7, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury", written in a cursive style.

Bill Bradbury  
Secretary of State

April 7, 2006



# FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

## Directory of Key Officials

*Director* Charles A. Hibner, CPA  
*Deputy Director* Mary E. Wenger, CPA

## Audit Team

Ryan K. Dempster, CPA, CFE, Audit Manager  
Todd Kimball, CPA  
Brian Nava  
Mary Doel

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from our website on the internet at:

<http://www.sos.state.or.us/audits/audithp.htm>

by phone at 503-986-2255

or by mail from:

Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

*The courtesies and cooperation extended by officials and employees of the Department of Energy during the course of this audit were commendable and sincerely appreciated.*

***Auditing to Protect the Public Interest and Improve Oregon Government***

