Report No. 2007-09

March 30, 2007

Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

Enterprise Fund of the
State of Oregon

Department of Energy
Small Scale Energy Loan Program

For the Fiscal Years Ended
June 30, 2006 and June 30, 2005

£

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This report presents the results of our annual audit 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, 2006 and 2005, 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 SELP's internal control and compliance with applicable laws, regulations, contracts, grant agreements, and other matters. Our report on the results of those reviews is included in the Other Report 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

T A B L E   O F   C O N T E N T S

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Small Scale Energy Loan Program (SELP), an enterprise fund of the State of Oregon, Department of Energy, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of SELP's management. 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 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 SELP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of SELP, an enterprise fund of the State of Oregon, Department of Energy, are intended to present the financial position, and the changes in financial position and cash flows that are attributable to the transactions of SELP. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SELP as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2007, on our consideration of SELP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit. That report is separately presented in the Other Report section as listed in the table of contents.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

March 20, 2007

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
BALANCE SHEETS
JUNE 30, 2006 AND JUNE 30, 2005

Assets	**2006**	**2005**
Current Assets:		
Cash and Cash Equivalents	$ 8,036,309	$ 4,895,545
Cash and Cash Equivalents – Restricted	32,078,957	29,365,993
Accounts Receivable	152,610	34,856
Loans Interest Receivable (Net)	811,238	3,220,253
Total Current Assets	41,079,114	37,516,647
Noncurrent Assets:		
Cash and Cash Equivalents – Restricted	6,039,207	3,241,438
Arbitrage Rebate Receivable	–	5,003
Deferred Bond Issuance Costs	419,267	393,219
Loans Receivable (Net)	97,605,310	102,637,412
Other Receivables	20,958	21,193
Capital Assets (Net)	180,719	233,612
Total Noncurrent Assets	104,265,461	106,531,877
Total Assets	$ 145,344,575	$ 144,048,524
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	$ 39,031	$ 16,419
Matured Bonds Payable	–	70,900
Bond Interest Payable	2,029,929	2,264,759
Compensated Absences Payable	39,696	39,707
Deferred Income	175,164	200,677
Bonds Payable	12,490,000	14,970,000
Total Current Liabilities	14,773,820	17,562,462
Noncurrent Liabilities:		
Arbitrage Rebate Liability	5,515	5,003
Compensated Absences Payable	13,232	17,017
Borrower Deposit Liability	2,114,584	3,241,438
Bonds Payable	110,282,152	104,781,143
Total Noncurrent Liabilities	112,415,483	108,044,601
Total Liabilities	127,189,303	125,607,063
Net Assets:		
Invested in Capital Assets	180,719	233,612
Restricted for Debt Service	10,142,570	13,542,146
Unrestricted	7,831,983	4,665,703
Total Net Assets	18,155,272	18,441,461
Total Liabilities and Net Assets	$ 145,344,575	$ 144,048,524

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, 2006 AND JUNE 30, 2005

	2006	2005
Operating Revenues		
Interest on Loans	$ 3,937,102	$ 6,176,565
Interest on Cash and Investments	1,357,739	715,911
Application and Disbursement Fees	29,028	16,324
Loan Fees	166,441	142,386
Holding Cost Fees	255,639	277,955
Miscellaneous Revenue	19,836	47,253
Total Operating Revenues	5,765,785	7,376,394
Operating Expenses		
Bond Interest and Debt Service Expense	5,212,718	5,256,080
Personal Services	744,694	697,696
Services and Supplies	462,407	452,591
Amortization of Deferred Bond Issuance Costs	79,262	77,509
Depreciation Expense	52,893	30,854
Total Operating Expenses	6,551,974	6,514,730
Operating Income (Loss)	(786,189)	861,664
Transfers from Other Funds – Oregon Department of Energy	500,000	–
Change in Net Assets	(286,189)	861,664
Net Assets – Beginning	18,441,461	17,579,797
Net Assets – Ending	$ 18,155,272	$ 18,441,461

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, 2006 AND JUNE 30, 2005

Cash Flows from Operating Activities	**2006**	**2005**
Cash Received from Customers	$ 358,387	$ 533,726
Loan Principal Repayments	16,080,349	12,116,479
Loan Interest Received	6,139,650	5,755,969
Loans Disbursed to Borrowers	(10,867,295)	(10,162,815)
Cash Paid to Vendors for Goods and Services	(454,003)	(460,629)
Cash Paid for Employees	(748,490)	(690,045)
Cash Disbursed on Borrower Deposits and Matured Bonds	(1,197,754)	(110,703)
Net Cash Provided By Operating Activities	9,310,844	6,981,982
Cash Flows from Noncapital Financing Activities		
Proceeds from Bonds	17,874,578	8,867,069
Principal Paid on Bonds	(14,970,000)	(44,660,000)
Interest Paid on Bonds	(5,331,117)	(6,090,897)
Bond Issue Costs Paid	(91,060)	(71,190)
Transfer from Other Funds	500,000	–
Net Cash Used in Noncapital Financing Activities	(2,017,599)	(41,955,018)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	–	(21,696)
Net Cash Used in Capital and Related Financing Activities	–	(21,696)
Cash Flows from Investing Activities		
Interest Received on Cash and Investments	1,371,150	720,915
Arbitrage Rebate Paid	(12,898)	–
Net Cash Provided in Investing Activities	1,358,252	720,915
Net Increase (Decrease) in Cash and Cash Equivalents	8,651,497	(34,273,817)
Cash and Cash Equivalents - Beginning	37,502,976	71,776,793
Cash and Cash Equivalents - Ending	$ 46,154,473	$ 37,502,976
Cash and Cash Equivalents	8,036,309	4,895,545
Cash and Cash Equivalents – Restricted	38,118,164	32,607,431
Total Cash and Cash Equivalents	$ 46,154,473	$ 37,502,976

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, 2006 AND JUNE 30, 2005

	2006	2005
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$ (786,189)	$ 861,664
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Loss Allowance for Uncollectible Loan Interest	2,104,010	-
Depreciation	52,893	30,854
Amortization of Deferred Bond Issue Costs	79,262	77,509
Interest Received on Investments Reported as Operating Revenue	(1,357,739)	(715,911)
Bond Interest Expense and Debt Service Reported as Operating Expense	5,212,718	5,256,080
(Increase)/Decrease in Assets:		
Accounts Receivable	(117,754)	55,791
Loan Interest Receivable	124,051	(395,022)
Loan Receivable	5,213,055	1,953,664
Other Receivables	235	86
Arbitrage Receivable	5,003	(5,003)
Increase/(Decrease) in Liabilities:		
Accounts Payable	8,362	(8,040)
Matured Bonds Payable	(70,900)	(15,075)
Compensated Absences Payable	(3,796)	7,651
Deferred Income	(25,513)	(26,638)
Borrower Deposits	(1,126,854)	(95,628)
Total Adjustments	10,097,033	6,120,318
Net Cash Provided by Operations	$ 9,310,844	$ 6,981,982

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

STATE OF OREGON
DEPARTMENT of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Notes to the Financial Statements
ENTERPRISE FUND
JUNE 30, 2006 AND JUNE 30, 2005

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 fixed-rate 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

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash held in the State Treasury and cash on deposit outside the State Treasury. All SELP monies are held in the Oregon Short Term Fund (OSTF), a cash and investment pool 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, 2006 and 2005 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. Capital assets costing less than $5,000 and having an estimated useful life of less than one year are not capitalized. Maintenance that does not add to the value of assets or significantly extend asset lives is expensed rather than capitalized.

Depreciation or amortization of capital assets is charged as an expense against operations over the estimated useful life using the straight-line method of depreciation. Once placed into service the estimated useful life of capital assets is five years. Capital Assets are recorded net of accumulated depreciation.

H. Receivables

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

I. Operating Revenues and Expenses

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

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

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.

As of June 30, 2006, the book balance of cash and cash equivalents was $46,154,473. The unadjusted bank balance was $46,207,500, all of which was held in demand accounts with the State Treasurer invested in the Oregon Short Term Fund (OSTF). 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.

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, bankers' 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 website at http://www.ost.state.or.us/About/Boards/OSTF/Financial%20Statements/index.htm.

As of 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.

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 the balance in the bond and coupon account was $70,900. 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. Prior to September 30, 2005, the unclaimed balance of the funds on deposit with the Bank of New York related to 1989 bond series A and B was $60,900. In accordance with State statute, the unclaimed funds were transferred to the Department of State Lands where a diligent effort is made to locate the missing bondholders. The unclaimed funds are held in the Common School Fund for claim by the owner or their heirs and earnings on this fund are used to support K-12 public schools.

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, 2006 and 2005:

	June 30, 2006 Cash	June 30, 2005 Cash
Loan Fund	$24,556,528	$16,570,492
Sinking Fund		
Program Account	8,036,309	6,285,021
Principal and Interest	7,522,429	7,854,759
Redemption Account	0	0
Extraordinary Expense	3,924,766	3,480,366
Borrower's Reserves	2,114,441	3,241,438
Fiscal Agent Cash	0	70,900
TOTALS	$46,154,473	$37,502,976

NOTE 3. LOANS RECEIVABLE

The loans 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:

	June 30, 2006	June 30, 2005
Loans Receivable	$99,780,310	$104,993,366
State agency loans	(17,776,021)	(17,825,179)
Net credit risk exposure	$82,004,289	$ 87,168,187

SELP uses the allowance method to estimate uncollectible loans receivable. The allowance for loans is based primarily upon a percentage of new loans made during the fiscal year. The allowance is periodically adjusted by management to accommodate changes in economic conditions, non-performing assets, historical loss experience, industry practice and other conditions that may affect the ultimate collectibility of the loans. In 2006 and 2005, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan portfolio. The current allowance represents approximately two percent of gross loans receivable.

The following table details Net Loans Receivable as of June 30, 2006 and 2005:

	June 30, 2006	June 30, 2005
Loans Receivable	$99,780,310	$104,993,366
Allowance for uncollectible principal	(2,175,000)	(2,355,954)
Net Loans Receivable	$97,605,310	$102,637,412

SELP was awarded a court judgment against a borrower as a result of loan delinquency during fiscal year 2003. The settlement is reported as 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, 2006 and 2005, the receivable balance associated with the settlement was $20,958 and $21,193, respectively, and is presented on the balance sheet as Other Receivables.

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. SELP management determined during the current fiscal year that collection of the accrued interest from one of these borrowers is impaired. SELP holds a first deed of trust as security for the loan. Although the loan documents provide for corrective actions in the event of default, it is unlikely that SELP will be able to enforce these provisions to collect the entire amount of accrued interest on the loan. Accordingly, a loss contingency recorded as a reduction of interest income has been recognized based on the recent interest collection rate and current settlement negotiations with the borrower.

The following table summarizes the net recoverable amount of loan interest:

	June 30, 2006	June 30, 2005
Loan Interest Receivable	$3,096,202	$3,220,253
Allowance for uncollectible interest	(2,284,964)	0
Net recoverable interest income	$ 811,238	$3,220,253

NOTE 4. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, it has issued State of Oregon General Obligation bonds totaling $555,945,000, of which $123,545,000 was outstanding at June 30, 2006. 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 and alternate fuels projects. The following table provides a summary of bond transactions as presented on the balance sheets for the fiscal years ended June 30, 2006 and June 30, 2005:

	June 30, 2006	June 30, 2005
Bonds Payable-beginning	$120,545,000	$156,360,000
Bonds issued	17,970,000	8,845,000
Bonds retired	(14,970,000)	(44,660,000)
Bonds Payable-ending	123,545,000	120,545,000
Discount on Bonds Payable	(726,098)	(730,203)
Deferred Loss on Bond Refunding	(46,750)	(63,654)
Net Bonds Payable	$122,772,152	$119,751,143

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, 2006, for each fiscal year during the next five years period ending June 30, 2011, and in five-year increments thereafter:

Years Ending June 30	Bond Principal	Bond Interest	Total Debt Service
2007	$ 12,490,000	$ 5,335,829	$ 17,825,829
2008	12,895,000	4,968,921	17,863,921
2009	10,450,000	4,478,502	14,928,502
2010	10,895,000	4,047,361	14,942,361
2011	11,215,000	3,585,996	14,800,996
2012-2016	43,690,000	11,208,603	54,898,603
2017-2021	15,285,000	3,407,752	18,692,752
2022-2026	4,785,000	1,106,094	5,891,094
2027-2028	1,840,000	139,250	1,979,250
TOTALS	$123,545,000	$38,278,308	$161,823,308

The following table summarizes the outstanding bond issues by series as of June 30, 2006:

SCHEDULE OF DEBT ISSUED AND OUTSTANDING
General Obligation Bonds

Original Issue						Bonds Outstanding				
		Final	Coupon Interest Range			Beginning			Ending	Due Within
Series	Dated Date	Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
1998 A	Mar–98	Jan–14	3.900%	4.900%	3,000,000	2,135,000	–	195,000	1,940,000	205,000
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	4,645,000	–	220,000	4,425,000	230,000
1998 D	Oct–98	Jan–28	4.100%	4.800%	14,535,000	13,065,000	–	315,000	12,750,000	330,000
1998 E	Oct–98	Jan–17	3.650%	4.900%	2,000,000	1,500,000	–	95,000	1,405,000	100,000
1998 F	Oct–98	Jan–08	3.650%	4.250%	3,970,000	1,605,000	–	495,000	1,110,000	535,000
1998 G	Oct–98	Jan–17	3.650%	4.900%	2,500,000	965,000	–	245,000	720,000	160,000
1998 H	Oct–98	Jan–08	3.650%	4.250%	3,050,000	1,205,000	–	400,000	805,000	405,000
1999 A	Oct–99	Jan–17	4.750%	5.100%	25,995,000	19,800,000	–	1,445,000	18,355,000	1,495,000
1999 B	Apr–99	Jan–15	4.000%	4.750%	9,100,000	4,535,000	–	910,000	3,625,000	935,000
1999 C	Apr–99	Jul–11	4.000%	4.600%	2,115,000	1,275,000	–	160,000	1,115,000	165,000
1999 D	Apr–99	Jan–14	5.500%	6.000%	8,840,000	2,250,000	–	1,300,000	950,000	95,000
2000 A	Apr–00	Jul–17	4.500%	5.500%	7,320,000	3,935,000	–	715,000	3,220,000	195,000
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	9,320,000	–	605,000	8,715,000	630,000
2001 C	May–01	Jul–07	4.875%	5.750%	1,000,000	505,000	–	180,000	325,000	195,000
2001 D	Oct–01	Apr–16	2.300%	4.500%	4,000,000	3,450,000	–	260,000	3,190,000	270,000
2001 E	Oct–01	Oct–16	3.150%	4.850%	1,600,000	1,600,000	–	100,000	1,500,000	–
2001 F	Oct–01	Oct–16	3.150%	6.000%	11,500,000	9,580,000	–	595,000	8,985,000	725,000

SCHEDULE OF DEBT ISSUED AND OUTSTANDING-*continued*

General Obligation Bonds

Original Issue						Bonds Outstanding				
Series	Dated Date	Final Maturity	Coupon Interest Range From	To	Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2002 A	May-02	Oct-12	3.000%	4.250%	10,950,000	9,060,000	–	985,000	8,075,000	1,020,000
2004 A	Apr-04	Jul-16	2.000%	3.500%	11,035,000	11,035,000	–	1,385,000	9,650,000	1,420,000
2004 B	Apr-04	Jul-07	2.000%	2.000%	4,385,000	4,385,000	–	1,710,000	2,675,000	1,675,000
2004 C	Apr-04	Jul-15	2.000%	3.750%	3,850,000	3,850,000	–	380,000	3,470,000	385,000
2004 D	Nov-04	Oct-17	4.000%	4.250%	8,845,000	8,845,000	–	2,275,000	6,570,000	825,000
2005 A	Aug-05	Oct-20	3.000%	4.375%	1,470,000	–	1,470,000	–	1,470,000	70,000
2005 B	Aug-05	Oct-21	4.230%	5.290%	4,500,000	–	4,500,000	–	4,500,000	360,000
2006 A	May-06	Apr-22	5.500%	5.750%	12,000,000	–	12,000,000	–	12,000,000	65,000
Pre-1998					373,955,000	–	–	–	–	–
Total General Obligation Bonds issued					$555,945,000	$120,545,000	$17,970,000	$14,970,000	$123,545,000	$12,490,000

NOTE 5. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for June 30, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net Bonds Payable	$119,751,142	$17,874,578	$14,853,568	$122,772,152	$12,490,000
Arbitrage Rebate Liability	5,003	13,410	12,898	5,515	0
Borrower's Deposit Liability	3,241,438	791,845	1,918,699	2,114,584	0
Compensated Absences Payable	56,724	0	3,796	52,928	39,696
TOTALS	$123,054,307	$18,679,833	$16,788,961	$124,945,179	$12,529,696

NOTE 6. COMMITMENTS

As of June 30, 2006 and June 30, 2005, SELP had committed but undistributed loan funds of $10,853,823 and $12,346,246, 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 $13,649,574 and $3,968,369 as of June 30, 2006 and June 30, 2005, respectively.

NOTE 7. CAPITAL ASSETS

As of June 30, 2006, SELP capital assets consisted of the accumulated costs of developing a new database for the program. The Data Processing Software was placed into service in

January 2005. The new database ran concurrently with the old from October 2004 through December 2005. SELP has no outstanding debt related to capital assets.

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

	Beginning Balance	Additions	Deletions	Ending Balance
Data Processing Software	$264,466	$ 0	$0	$264,466
Less: Accumulated Depreciation	(30,854)	(52,893)	0	(83,747)
Total Net Capital Assets	$233,612	$(52,893)	$0	$180,719

NOTE 8. EMPLOYEE RETIREMENT PLANS

The Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for State government, school districts, community colleges, and political subdivisions of the State. 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). 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. PERS issues a separate financial report that includes audited financial statements and required supplementary information. The report is available publicly and may be obtained by contacting the Fiscal Services Division, Oregon Public Employees Retirement System 11410 SW 68th Parkway, Tigard, Oregon 97223.

Oregon Public Employees Retirement System (PERS)

SELP employees who were plan members before August 29, 2003 participate in 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. PERS provides retirement benefits and cost-of-living adjustments as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries.

SELP is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. For fiscal year 2006 the rate of each covered employee's salary was 8.69 percent. The amounts contributed by SELP for the years ended June 30, 2006, 2005, and 2004 were $44,791, $24,960, and $45,858, respectively, equal to the required contributions each year.

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.

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 the period July 1, 2005 through February 28, 2006 was 8.04 percent; and the rate for the period March 1, 2006 through June 30, 2006 was 4.43 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 2006, 2005 or 2004.

The Individual Account Program (IAP) 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 who 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, 2006, 2005 and 2004, were $30,926, $29,773 and $20,565, respectively, equal to the required contributions for the year.

NOTE 9. 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.

NOTE 10. INTERFUND TRANSACTIONS

The Department transferred $500,000 on February 9, 2006 from other agency funds to SELP to provide additional resources to the program. Among the sources of the Other Funds revenue to the Department are assessments on energy and petroleum suppliers. Interfund transactions between other funds of the Department and SELP are reported as transfers.

NOTE 11. SUBSEQUENT EVENTS

On August 24, 2006, 2001 Series B bonds were legally defeased. The balance of unexpended proceeds of $8,758,953 was placed into escrow for a January 1, 2011 optional call date. These bonds were Private Activity Bonds (PAB), issued on May 1, 2001, for a project that did not proceed.

On November 30, 2006, SELP issued the following General Obligation Alternate Energy Project Bonds:

	Issue Amount
Series 2006B- PAB AMT	$24,200,000
Series 2006C-Taxable	3,750,000

OTHER REPORT

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

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, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated March 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

March 20, 2007

About the Secretary of State Audits Division

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.

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Kelly L. Olson, CPA, Audit Manager

Diane Farris, CPA

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

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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

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