Report No. 2008-16

April 24, 2008

Bill Bradbury, Secretary of State

Charles A. Hibner, Director, Audits Division

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, 2007 and June 30, 2006

£

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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, 2007 and 2006, 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*. Our consideration of internal control was limited to the scope necessary to achieve our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined by generally accepted auditing standards. Similarly, we did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses as defined by the standards.

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, 2007 and 2006, 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, 2007 and 2006, the changes in its financial position or 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, 2007 and 2006, 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 April 9, 2008, 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

April 9, 2008

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
BALANCE SHEETS
JUNE 30, 2007 AND JUNE 30, 2006

Assets	**2007**	**2006**
Current Assets:		
Cash and Cash Equivalents	$ 10,671,223	$ 8,036,309
Cash and Cash Equivalents – Restricted	50,737,624	32,078,957
Accounts Receivable	6,413	152,610
Loans Interest Receivable (Net)	542,326	811,238
Total Current Assets	61,957,586	41,079,114
Non-Current Assets:		
Cash and Cash Equivalents – Restricted	6,261,987	6,039,207
Deferred Bond Issuance Costs	914,441	419,267
Loans Receivable (Net)	109,044,504	97,605,310
Other Receivables	-	20,958
Capital Assets (Net)	127,825	180,719
Total Non-Current Assets	116,348,757	104,265,461
Total Assets	$ 178,306,343	$ 145,344,575
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	$ 21,998	$ 39,031
Bond Interest Payable	2,348,302	2,029,929
Compensated Absences Payable	26,447	39,696
Deferred Income	150,936	175,164
Bonds Payable	12,240,000	12,490,000
Total Current Liabilities	14,787,683	14,773,820
Non-Current Liabilities:		
Arbitrage Rebate Liability	113,784	5,515
Compensated Absences Payable	13,026	13,232
Borrower Deposit Liability	1,852,296	2,114,584
Bonds Payable	142,559,359	110,282,152
Total Non-Current Liabilities	144,538,465	112,415,483
Total Liabilities	159,326,148	127,189,303
Net Assets:		
Invested in Capital Assets	127,825	180,719
Restricted for Debt Service	8,348,522	10,142,570
Unrestricted	10,503,848	7,831,983
Total Net Assets	18,980,195	18,155,272
Total Liabilities and Net Assets	$ 178,306,343	$ 145,344,575

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, 2007 AND JUNE 30, 2006

	2007	2006
Operating Revenues		
Interest on Loans	$ 5,290,697	$ 3,937,102
Interest on Cash Investments	2,335,821	1,357,739
Application and Disbursement Fees	24,100	29,028
Loan Fees	443,736	166,441
Holding Cost Fees	42,078	255,639
Miscellaneous Revenue	26,041	19,836
Total Operating Revenues	8,162,473	5,765,785
Operating Expenses		
Bond Interest and Debt Service Expense	5,686,991	5,212,718
Personal Services	788,767	744,694
Services and Supplies	471,792	462,407
Amortization of Deferred Bond Issuance Costs	90,229	79,262
Depreciation Expense	52,893	52,893
Bad Debt Expense	246,878	-
Total Operating Expenses	7,337,550	6,551,974
Operating Income (Loss)	824,923	(786,189)
Transfers from Other Funds – Oregon Department of Energy	-	500,000
Change in Net Assets	824,923	(286,189)
Net Assets – Beginning	18,155,272	18,441,461
Net Assets – Ending	$ 18,980,195	$ 18,155,272

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, 2007 AND JUNE 30, 2006

	2007	2006
Cash Flows from Operating Activities		
Cash Received from Customers	$ 683,322	$ 358,387
Loan Principal Repayments	13,019,968	16,080,349
Loan Interest Received	5,537,081	6,139,650
Loans Disbursed to Borrowers	(24,687,815)	(10,867,295)
Cash Paid to Vendors for Goods and Services	(474,710)	(454,003)
Cash Paid for Employees	(802,221)	(748,490)
Cash Disbursed on Borrower Deposits and Matured Bonds	(262,288)	(1,197,754)
Net Cash Provided (Used) By Operating Activities	(6,986,663)	9,310,844
Cash Flows from Noncapital Financing Activities		
Proceeds from Bonds	52,033,072	17,874,578
Principal Paid on Bonds	(20,575,000)	(14,970,000)
Interest Paid on Bonds	(5,173,419)	(5,331,117)
Bond Issue Costs Paid	(225,718)	(91,060)
Transfer from Other Funds	-	500,000
Net Cash Provided (Used) by Noncapital Financing Activities	26,058,935	(2,017,599)
Cash Flows from Investing Activities		
Interest Received on Cash Investments	2,444,089	1,371,150
Arbitrage Rebate Paid	-	(12,898)
Net Cash Provided in Investing Activities	2,444,089	1,358,252
Net Increase (Decrease) in Cash and Cash Equivalents	21,516,361	8,651,497
Cash and Cash Equivalents - Beginning	46,154,473	37,502,976
Cash and Cash Equivalents - Ending	$ 67,670,834	$ 46,154,473
Cash and Cash Equivalents	10,671,223	8,036,309
Cash and Cash Equivalents – Restricted	56,999,611	38,118,164
Total Cash and Cash Equivalents	$ 67,670,834	$ 46,154,473

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, 2007 AND JUNE 30, 2006

	2007	2006
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$ 824,923	$ (786,189)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Bad Debt	246,878	-
Loan Receivable Write-Off	(18,224)	-
Loss Allowance for Uncollectible Loan Interest	-	2,104,010
Depreciation	52,893	52,893
Amortization of Deferred Bond Issue Costs	90,229	79,262
Interest Received on Investments Reported as Operating Revenue	(2,335,821)	(1,357,739)
Bond Interest Expense and Debt Service Reported as Operating Expense	5,686,991	5,212,718
(Increase)/Decrease in Assets:		
Accounts Receivable	146,197	(117,754)
Loan Interest Receivable	268,913	124,051
Loan Receivable	(11,667,847)	5,213,055
Other Receivables	20,958	235
Arbitrage Receivable	-	5,003
Increase/(Decrease) in Liabilities:		
Accounts Payable	(2,784)	8,362
Matured Bonds Payable	-	(70,900)
Compensated Absences Payable	(13,454)	(3,796)
Deferred Income	(24,227)	(25,513)
Borrower Deposits	(262,288)	(1,126,854)
Total Adjustments	(7,811,586)	10,097,033
Net Cash Provided (Used) by Operations	$ (6,986,663)	$ 9,310,844

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, 2007 AND JUNE 30, 2006

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 Principals as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). Under GASB Statement 20, private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed for proprietary activities to the extent that those standards do not conflict with GASB pronouncements, unless GASB specifically adopts FASB pronouncements issued after November 30, 1989.

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 and renewable energy projects within Oregon. SELP is a self-supporting program that is part of the State of Oregon and the Department of Energy (Department).

The financial statements and footnotes include only the bonded debt financial activity of the Department of Energy SELP program. The Department operates other programs, which have no impact on the bond related activity of SELP.

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 assets, 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 assets, 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 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 present increases (e.g., revenues) and decreases (e.g., 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 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, 2007 and 2006 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 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 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.

At June 30, 2007, the book balance of cash and cash equivalents was $67,670,834. The unadjusted bank balance was $67,715,117, 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 web site at
http://www.ost.state.or.us/About/Boards/OSTF/Financial%20Statements/index.htm.

At 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.

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, 2007 and 2006 the balance in the bond and coupon account was $0.

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 during fiscal year ended June 30, 2006 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, 2007 and 2006:

	June 30, 2007 Cash	June 30, 2006 Cash
Loan Fund	$41,985,651	$24,556,528
Sinking Fund		
Program Account	12,301,178	8,036,309
Principal & Interest	7,235,802	7,522,429
Redemption Account	0	0
Extraordinary Expense	4,295,907	3,924,766
Borrower's Reserves	1,852,296	2,114,441
Fiscal Agent Cash	0	0
TOTALS	$67,670,834	$46,154,473

NOTE 3. LOANS RECEIVABLE

The loans receivable portfolio includes state agency loans. The loan portfolio value and associated statewide concentration of credit risk is:

	June 30, 2007	June 30, 2006
Loans Receivable	$111,448,158	$ 99,780,310
State agency loans	(15,027,588)	(17,776,021)
Net credit risk exposure	$ 96,420,570	$ 82,004,289

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 2007 and 2006, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan and contract portfolio. The current allowance represents approximately two percent of gross loans receivable.

The following table details Net Loans Receivable as of June 30, 2007 and 2006:

	June 30, 2007	June 30, 2006
Loans Receivable	$ 111,448,158	$ 99,780,310
Allowance for uncollectible principal	(2,403,654)	(2,175,000)
Net Loans Receivable	$ 109,044,504	$ 97,605,310

SELP was awarded a court judgment against a borrower as a result of loan delinquency during fiscal year 2003. The settlement was reported as other long term receivables originally in the amount of $21,279 and consisted of the remaining principal transferred from the loan portfolio plus accrued interest and associated court costs. As of June 30, 2006 the receivable balance associated with the settlement was $20,958 and is presented on the balance sheet as Other Receivables. The final payment associated with this settlement was received in August 2006, at which time the final Chapter 13 discharge of debt was filed with the United States Bankruptcy Court. The balance of the receivable associated with the original debt principal of $18,224 was written off against the allowance.

SELP holds an agreement with a borrower that allows for temporary modification of the payment terms associated with their loan. The borrower has complied with the terms of their agreement. 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 in the prior fiscal year that collection of the accrued interest from this borrower 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 was recognized based on historical interest collection rates and current settlement negotiations with the borrower.

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

	June 30, 2007	June 30, 2006
Loan Interest Receivable	$ 3,627,558	$ 3,096,202
Allowance for uncollectible interest	(3,085,232)	(2,284,964)
Net recoverable interest income	$ 542,326	$ 811,238

NOTE 4. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, it has issued State of Oregon General Obligation bonds totaling $607,465,000, of which $154,490,000 was outstanding at June 30, 2007. 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, 2007 and June 30, 2006:

	June 30, 2007	June 30, 2006
Bonds Payable-beginning	$123,545,000	$120,545,000
Bonds issued	51,520,000	17,970,000
Bonds retired and defeased	(20,575,000)	(14,970,000)
Bonds Payable-ending	154,490,000	123,545,000
Premium on Bonds Payable	825,246	0
Discount on Bonds Payable	(482,316)	(726,098)
Deferred Loss on Bond Refunding	(33,571)	(46,750)
Net Bonds Payable	$ 154,799,359	$ 122,772,152

On August 24, 2006, the balance of 2001 Series B bonds were legally defeased in the amount of $8,715,000. Pursuant to tax law requirements, the balance of unexpended proceeds were placed into an escrow for a January 1, 2011 optional call date. The escrowed securities and earnings thereon will be sufficient to pay principal and interest of the defeased bonds as it becomes due and payable until the redemption date through the Escrow Agent. These bonds represented Private Activity Bonds (PAB) issued on May 1, 2001 for a project that did not proceed.

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, 2007, for each fiscal year during the next five years period ending June 30, 2012, and in five year increments thereafter:

Years Ending June 30	Bond Principal	Bond Interest	Total Debt Service
2008	$ 12,240,000	$ 7,232,834	$ 19,472,834
2009	10,485,000	6,416,227	16,901,227
2010	12,165,000	5,955,877	18,120,877
2011	13,000,000	5,429,568	18,429,568
2012	13,130,000	4,858,938	17,988,938
2013-2017	48,940,000	16,801,266	65,741,266
2018-2022	33,755,000	6,949,174	40,704,174
2023-2027	8,515,000	1,490,802	10,005,802
2028-2030	2,260,000	108,828	2,368,828
TOTALS	$154,490,000	$55,243,514	$209,733,514

The following table summarizes the outstanding bond issues by series as of June 30, 2007:

SCHEDULE OF DEBT ISSUED AND OUTSTANDING
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
1998 A	Mar-98	Jan-14	3.900%	4.900%	3,000,000	1,940,000	-	205,000	1,735,000	215,000
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	4,425,000	-	230,000	4,195,000	240,000
1998 D	Oct-98	Jan-28	4.100%	4.800%	14,535,000	12,750,000	-	330,000	12,420,000	345,000
1998 E	Oct-98	Jan-17	3.650%	4.900%	2,000,000	1,405,000	-	100,000	1,305,000	105,000
1998 F	Oct-98	Jan-08	3.650%	4.250%	3,970,000	1,110,000	-	535,000	575,000	575,000
1998 G	Oct-98	Jan-17	3.650%	4.900%	2,500,000	720,000	-	160,000	560,000	90,000
1998 H	Oct-98	Jan-08	3.650%	4.250%	3,050,000	805,000	-	405,000	400,000	400,000
1999 A	Oct-99	Jan-17	4.750%	5.100%	25,995,000	18,355,000	-	1,495,000	16,860,000	1,550,000
1999 B	Apr-99	Jan-15	4.000%	4.750%	9,100,000	3,625,000	-	935,000	2,690,000	1,135,000
1999 C	Apr-99	Jul-11	4.000%	4.600%	2,115,000	1,115,000	-	165,000	950,000	175,000
1999 D	Apr-99	Jan-14	5.500%	6.000%	8,840,000	950,000	-	95,000	855,000	100,000
2000 A	Apr-00	Jul-17	4.500%	5.500%	7,320,000	3,220,000	-	195,000	3,025,000	205,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	2,000,000	-	-	2,000,000	75,000
2001 B	May-01	Jan-17	3.700%	5.125%	11,000,000	8,715,000	-	8,715,000	-	-
2001 C	May-01	Jul-07	4.875%	5.750%	1,000,000	325,000	-	195,000	130,000	130,000
2001 D	Oct-01	Apr-16	2.300%	4.500%	4,000,000	3,190,000	-	270,000	2,920,000	275,000
2001 E	Oct-01	Oct-16	3.150%	4.850%	1,600,000	1,500,000	-	-	1,500,000	-
2001 F	Oct-01	Oct-16	3.150%	6.000%	11,500,000	8,985,000	-	725,000	8,260,000	760,000
2002 A	May-02	Oct-12	3.000%	4.250%	10,950,000	8,075,000	-	1,020,000	7,055,000	1,060,000
2004 A	Apr-04	Jul-16	2.000%	3.500%	11,035,000	9,650,000	-	1,420,000	8,230,000	1,445,000
2004 B	Apr-04	Jul-07	2.000%	2.000%	4,385,000	2,675,000	-	1,675,000	1,000,000	1,000,000
2004 C	Apr-04	Jul-15	2.000%	3.750%	3,850,000	3,470,000	-	385,000	3,085,000	390,000
2004 D	Nov-04	Oct-17	4.000%	4.250%	8,845,000	6,570,000	-	825,000	5,745,000	850,000
2005 A	Aug-05	Oct-20	3.000%	4.375%	1,470,000	1,470,000	-	70,000	1,400,000	80,000
2005 B	Aug-05	Oct-21	4.230%	5.290%	4,500,000	4,500,000	-	360,000	4,140,000	275,000
2006 A	May-06	Apr-22	5.500%	5.750%	12,000,000	12,000,000	-	65,000	11,935,000	765,000
2006 B	Nov-06	Oct-22	4.000%	4.250%	24,200,000	-	24,200,000	-	24,200,000	-

SCHEDULE OF DEBT ISSUED AND OUTSTANDING - *continued*
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
2006 C	Nov-06	Oct-22	5.160%	5.510%	3,750,000	-	3,750,000	-	3,750,000	-
2007 A	May-07	Oct-28	4.000%	4.375%	8,000,000	-	8,000,000	-	8,000,000	-
2007 B	May-07	Oct-23	4.000%	4.500%	10,570,000	-	10,570,000	-	10,570,000	-
2007 C	May-07	Oct-22	5.030%	5.380%	5,000,000	-	5,000,000	-	5,000,000	-
Pre-1998					373,955,000	-	-	-	-	-
Total General Obligation Bonds issued					$607,465,000	$123,545,000	$51,520,000	$20,575,000	$154,490,000	$12,240,000

NOTE 5. CHANGES IN LONG TERM LIABILITIES

Long term liability activity for June 30, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net Bonds Payable	$122,772,152	$52,380,820	$20,353,613	$154,799,359	$12,240,000
Arbitrage Rebate Liability	5,515	108,269	0	113,784	0
Borrower's Deposit Liability	2,114,584	490,257	752,545	1,852,296	0
Compensated Absences Payable	52,928	0	13,455	39,473	26,447
TOTALS	$124,945,179	$52,979,346	$21,119,613	$156,804,912	$12,266,447

NOTE 6. COMMITMENTS

As of June 30, 2007 and June 30, 2006, SELP had committed but undisbursed loan funds of $29,816,054 and $10,853,823, respectively, for various alternative energy, energy efficiency and alternate fuel projects within the state of Oregon. Funds are committed pursuant to legal agreements with borrowers. Additional general obligation bond funds are designated for future energy project loans pursuant to the bond indenture in the amounts of $11,692,436 and $13,649,574 as of June 30, 2007 and June 30, 2006, respectively.

NOTE 7. CAPITAL ASSETS

As of June 30, 2007, 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	(83,747)	(52,894)	0	(136,641)
Total Net Capital Assets	$ 180,719	$(52,894)	$ 0	$ 127,825

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 Employee's 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 2007 the rate of each covered employees salary was 8.69 percent. The amounts contributed by SELP for the years ended June 30, 2007, 2006, and 2005 were $47,957, $44,791, and $24,960, 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 fiscal year ended June 30, 2007 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 2007, 2006 or 2005.

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 that had been paying the member contributions into PERS previously to pay employee contributions to the IAP. The amount contributed by SELP for the years ended June 30, 2007, 2006 and 2005, were $33,112, $30,926 and $29,773, 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. TROUBLED DEBT RESTRUCTURING

During the fiscal year ended June 30, 2007, a loan restructuring agreement was reached between SELP and a borrower facing financial difficulties. SELP provided relief to the borrower by reducing the interest rate on the loan and adjusting the monthly payment for the remaining original term of the loan. The revised interest rate is commensurate with current market conditions for debt with similar risk. As part of the new agreement, unpaid accrued interest of $27,061 was capitalized on the loan with an outstanding principal balance of approximately $654,000. SELP management considers this loan a performing asset as the borrower is in full compliance with the terms of the restructured loan agreement.

NOTE 12. SUBSEQUENT EVENTS

Pursuant to ongoing settlement negotiations, SELP reached an agreement with a borrower to restructure their loan in November 2007. Previous to the restructure, SELP had agreed to forbear against issuing a notice of default and commencing foreclosure or litigation to enforce its security interests and legal remedies under the original loan documents in exchange for a temporary modification of their payment terms. SELP and the borrower have agreed to certain restructured terms and provisions in exchange for principal and accrued interest concessions by SELP and lump sum principal payments by the borrower. The interest rate was reduced, quarterly payments increased and the final maturity extended. Under the terms of the restructured note, SELP management expects the loan to be paid as agreed.

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, 2007 and 2006, and have issued our report thereon dated April 9, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SELP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SELP's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

April 9, 2008

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.

Directory of Key Officials

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Deputy Director	William K. Garber, MPA, CGFM
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Audit Team

Kelly L. Olson, CPA, Audit Manager

Sarah Anderson

Mary Doel

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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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phone: **503-986-2255**

mail: **Oregon Audits Division**
255 Capitol Street NE, Suite 500
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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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