Secretary of State

State of Oregon

OFFICE OF ENERGY

Small Scale Energy Loan Program

For the Years Ended June 30, 1999 and 1998

Audits Division

-

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Small Scale Energy Loan Program

For the Years Ended June 30, 1999 and 1998

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No. 2000-12 March 24, 2000

OFFICE OF THE
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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol
Salem, Oregon 97310

John Savage, Administrator
Office of Energy
625 Marion Street NE
Salem, Oregon 97301-3742

This report presents the results of our annual audit of the Office of Energy, 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 years ended June 30, 1999 and 1998, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Auditing standards also require us to review SELP's internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Audit Results 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 appreciate the cooperation and assistance of SELP's management and staff during the course of the audit.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
January 24, 2000

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

SUMMARY

BACKGROUND

SELP is funded through the sale of general obligation bonds. Bond proceeds are loaned to individuals, businesses, organizations, and local governments in Oregon to finance projects that save otherwise wasted energy or produce renewable energy sources. The bonds are then paid off from the principal and interest payments. Borrowers also pay fees which help fund SELP's operating costs.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the financial statements of the Office of Energy, Small Scale Energy Loan Program (SELP) for the year ended June 30, 1999, and on the internal controls and compliance with applicable laws and regulations.

AUDIT RESULTS

Our audit concluded that the financial statements for the Small Scale Energy Loan Program are presented fairly. Our review and evaluation of internal controls and tests of compliance with applicable laws and regulations disclosed no significant findings.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

In May 1980, the voters approved Article XI-J of the Oregon Constitution, authorizing the sale of general obligation bonds to finance small scale, local energy projects within Oregon. The bond program is administered by the Small Scale Energy Loan Program (SELP) within the Office of Energy. SELP is authorized to issue and have outstanding bonds equal to one-half of one percent of the true cash value of all property in the state.

Oregon Revised Statutes chapter 470 provides for a Small Scale Energy Project Advisory Committee to review loan applications and make recommendations to the administrator of the Office of Energy. The seven committee members are appointed by the administrator to serve two-year terms.

The loan program finances energy conservation and renewable resource energy projects to meet local community or regional energy needs in Oregon. Renewable resources include water, wind, geothermal, heat, solar radiation, biomass and waste heat. SELP also funds projects that use alternative fuels, save transportation energy, and make products from recycled material. Program loans are made to individual residents, Oregon businesses, nonprofit organizations, municipal organizations, and state agencies.

FINANCIAL ACTIVITIES

SELP is funded through the sale of general obligation bonds. Bond proceeds are loaned to individuals, businesses, organizations, and local governments in Oregon to finance projects that save otherwise wasted energy or produce renewable energy sources. Loan repayments and fees from borrowers, as well as earnings on invested assets, are deposited in the Small Scale Loan Energy Project Administration and Bond Sinking Fund. Those funds are used to make payments of principal and interest on outstanding bonds, and to pay the administrative costs of operating the program.

During fiscal year 1999, SELP issued $51.6 million in new bonds. New loans totaling $4.0 million were made during the year. As of June 30, 1999, total bonds outstanding were $197.1 million, and net loans receivable were $152.6 million.

AUDIT RESULTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Office of Energy, Small Scale Energy Loan Program (SELP), as of and for the year ended June 30, 1999, and have issued our report thereon dated January 24, 2000. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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, and contracts, 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 that are required to be reported herein under *Government Auditing Standards.*

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 the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over

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financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Office of Energy and of the Small Scale Energy Loan Program, 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

Sharron E. Walker, CPA, CFE
Deputy Director

Fieldwork Completion Date:
January 24, 2000

COMMENDATION

The courtesies and cooperation extended by officials and employees of the Office of Energy during the course of this review were commendable and sincerely appreciated.

AUDIT TEAM

Joel Leming, CPA, Audit Administrator
Jennifer Kumm, CPA
Diana Barkelew
Daniel Smith

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Office of Energy, Small Scale Energy Loan Program, as listed in the table of contents, as of and for the years ended June 30, 1999 and 1998. These financial statements are the responsibility of the management of the Office of Energy. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 transactions and balances attributable to the activities of the Small Scale Energy Loan Program, and are not intended to present fairly the financial position of the Office of Energy, and the results of its operations and cash flows of its governmental fund types, fiduciary fund type, and account groups in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of Energy, Small Scale Energy Loan Program as of June 30, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

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Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Debt Issued and Outstanding as of June 30, 1999, listed as Supplementary information in the table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Year 2000 supplementary information which follows the notes is not a required part of the financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the department is or will become Year 2000 compliant, that the department's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the department does business are or will become Year 2000 compliant.

In accordance with *Government Auditing Standards*, we also have issued a report dated January 24, 2000, on our consideration of the Office of Energy, Small Scale Energy Loan Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and trust indentures. That report is separately presented in the AUDIT RESULTS section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

January 24, 2000

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Balance Sheets
Enterprise Fund
June 30, 1999 and June 30, 1998

ASSETS

	1999	1998
Cash and cash equivalents	$ 60,723,295	$ 41,015,974
Investments (net)	5,161,015	6,412,032
Investment interest receivable	64,986	254,205
Unbilled arbitrage receivable	102,976	363,435
Loan interest receivable	747,539	1,506,791
Loan receivable (net)	152,550,895	160,380,953
Deferred bond issuance expense	287,175	68,326
Total Assets	$ 219,637,881	$ 210,001,716

LIABILITIES AND FUND EQUITY

	1999	1998
Liabilities:		
Accounts payable	$ 1,950	$ 3,303
Matured bonds payable	507,950	600,400
Bond interest payable	5,803,003	5,861,702
Employee vacation payable	43,346	32,695
Arbitrage liability	102,976	442,181
Deferred income	89,051	125,050
Borrowers' reserve funds	3,727,351	3,887,060
Bonds payable	197,081,541	189,328,162
Total Liabilities	207,357,168	200,280,553
Fund Equity:		
Retained earnings	12,280,713	9,721,163
Total Liabilities and Fund Equity	$ 219,637,881	$ 210,001,716

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

State of Oregon

OFFICE OF ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

Statements of Revenues, Expenses and Changes in Retained Earnings

Enterprise Fund

For The Fiscal Years Ended June 30, 1999 and June 30, 1998

	1999	1998
Operating revenue:		
Interest on loans	$ 12,850,658	$ 14,733,653
Interest on investments	2,353,898	1,861,963
Application and commitment fees	40,085	6,716
Loan fees	33,078	8,352
Miscellaneous	344,312	110,942
Total operating revenue	15,622,031	16,721,626
Operating expense:		
Bond interest and debt service expense	11,648,991	12,009,625
Personal services	624,101	553,243
Services and supplies	749,838	508,658
Bad debt expense	39,551	133,626
Total operating expense	13,062,481	13,205,152
Net income	2,559,550	3,516,474
Retained earnings – beginning	9,721,163	6,204,689
Retained earnings – ending	$ 12,280,713	$ 9,721,163

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

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Statements of Cash Flows
Enterprise Fund
For The Fiscal Years Ended June 30, 1999 and June 30, 1998

ASSETS

	1999	**1998**
Operating income	$ 2,559,550	$ 3,516,474
Adjustments to reconcile operating income to cash provided by operating activities:		
Expenses not requiring outlay of cash:		
Bad debt	39,551	133,626
Arbitrage liability	0	(24,775)
Bond expenses	29,392	104,471
Interest received on investment reported as operating income	(2,353,898)	(1,861,963)
Bond interest and amortization reported as operating income	11,648,991	12,034,400
(Increase)/decrease in investment interest receivable	189,219	(22,271)
(Increase)/decrease in loan interest receivable	759,252	95,960
(Increase)/decrease in loan receivable	7,830,058	9,549,796
(Increase)/decrease in unbilled receivable	260,458	(345)
(Increase)/decrease in deferred charges	(218,849)	(68,326)
Increase/(decrease) in accounts payable	(1,353)	2,591
Increase/(decrease) in bond interest payable	(58,699)	(245,652)
Increase/(decrease) in obligation under securities lending	0	(1,685,692)
Increase/(decrease) in arbitrage payable	(339,204)	(54,277)
Increase/(decrease) in matured bonds payable	(92,450)	(237,925)
Increase/(decrease) in employee vacation payable	10,650	1,843
Increase/(decrease) in borrowers’ reserve funds	0	281,592
Change in borrowers' reserve from market value change	0	(16,148)
Increase/(decrease) in deferred income	(36,000)	(37,000)
	17,667,118	17,949,905
Net cash provided (used) by operations	$ 20,226,668	$ 21,466,379

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

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Statements of Cash Flows (continued)
Enterprise Fund
For The Fiscal Years Ended June 30, 1999 and June 30, 1998

	1999	1998
Net cash provided (used) by operations	$ 20,226,668	$ 21,466,379
Cash flows from non-capital financing activities:		
Proceeds from bond sales	51,399,393	8,930,000
Principal payments on bonds	(43,770,000)	(12,440,000)
Interest payments on bonds	(11,493,888)	(12,081,677)
Issue costs paid	(248,241)	
Net cash provided/(used) by non-capital financing activities	(4,112,736)	(15,591,677)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	1,227,061	496,554
Market value change in securities carrying value	0	(16,148)
Interest received on investments	2,366,328	1,839,692
Net cash provided by investing activities	3,593,389	2,320,098
Net increase/(decrease) in cash and cash equivalents	19,707,321	8,194,800
Cash and cash equivalents at beginning of period	41,015,974	32,821,174
Cash and cash equivalents at end of period	$ 60,723,295	$ 41,015,974

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Notes to the Financial Statements
Enterprise Fund
June 30, 1999 and June 30, 1998

(1)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Small Scale Energy Loan Program (SELP) was created through the adoption of Article XI-J of the Oregon Constitution in May 1980. SELP is a part of the State of Oregon and its Office of Energy. Effective July 1, 1995, the Department of Energy became the Office of Energy in the Department of Consumer and Business Services. The 1999 Legislature removed the Office of Energy from the Department of Consumer and Business Services and made it an independent office of state government.

Basis of Presentation

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.

The accounts of the Office of Energy are organized on the basis of funds and account groups, each of which is 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 are intended to be financed or recovered primarily thorough user charges.

Under the auspices of GASB Statement No. 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.

Basis of Accounting

Enterprise funds use the flow of economic resources measurement focus and financial statements are presented on the accrual basis. 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. Fund equity (i.e. net total assets) is shown as retained earnings.

SELP accounting policies conform to the Oregon Accounting Manual and generally accepted accounting principles as applicable to state governments. SELP general ledger transactions are recorded on a cash basis. These cash basis transactions have been converted to the accrual basis for financial reporting.

Budgets
The Office of Energy's budget is approved by the Legislature biennially. The Emergency Board of the Legislature approves any increase in the budget that may be necessary during the interim. Limitations are financed from revenues of self-supporting activities and lapse at the end of the biennium. Any Legislative limitation established for SELP applies only to administrative costs that are separated in the approved budget.

Cash, Cash Equivalents and Investments
Cash and cash equivalents are defined as cash held in the State Treasury and cash on deposit outside the State Treasury. All SELP moneys are held in the Oregon Short Term Fund (OSTF) and are considered cash equivalents, which is a cash and investment pool having characteristics of a demand deposit account. The State Treasurer participates in securities lending with a portion of the OSTF. The Office's share of the cash collateral received from broker-dealers is not material at June 30, 1999. The State Treasurer made no allocation of collateral to the Office at June 30, 1999.

Investments are reported at fair value consistent with Governmental Accounting Standards Board Statement Number 31.

Properties acquired through foreclosure proceeding or by acceptance of deeds in lieu of foreclosure are included in investments and are recorded at the lower of cost or fair market value. Cost is defined as the outstanding principal balance of the mortgage loan or contract on the date of foreclosure. Professional appraisers estimated fair market value. The lower of cost or fair market value is then adjusted for estimated selling expenses to arrive at the new realizable value.

Interest Receivable
Interest receivable on investments and loans is recorded at its expected recoverable amount. Therefore, no allowance for doubtful accounts is recorded for accrued interest receivable.

Loans Receivable
Receivables are shown net of uncollectible accounts. The allowance for uncollectible accounts at June 30, 1999 and 1998, were $1,947,099 and $1,907,548, respectively.

Fixed Assets and Depreciation
Fixed assets are stated at historical cost or estimated historical cost if the original cost is not determinable. Fixed assets costing less than $5,000 or having a useful life of less than two years are not capitalized. SELP has no capitalized assets.

Compensated Absences
Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of 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 nonvesting, accumulated sick pay benefits.

Borrowers' Reserve Account

SELP holds reserve investments for certain municipal borrowers. All interest earned on these reserve accounts is credited to the borrowers' account when received. Excess money in the reserve accounts is remitted to the borrowers on a semiannual basis.

Bond Expenses

Bond issuance costs are capitalized and written off over the term of the bonds. Bond premiums and discounts associated with a particular bond issue are deferred and amortized over the term of the bond issue, using the bonds outstanding method of amortization.

(2)

CASH AND INVESTMENTS

SELP funds are held by the State Treasurer. The State Treasurer is the investment officer for funds on deposit in the State Treasury. The State's investment policies are governed by statute, and are overseen by the Oregon Investment Council. The State Treasurer may invest in any instrument which persons of prudence, discretion, and intelligence would invest in for their own accounts. State moneys may be deposited in any trust company, savings and loan association, or bank or mutual savings bank or branch office in that capacity within the State. The State is authorized to use demand deposits and certificates of deposit. As of June 30, 1999 and 1998, SELP funds were invested primarily in U.S. government securities.

Cash and investments are legally required to be segregated into the Loan Fund and the Sinking Fund. Cash and investments at June 30, 1999 and 1998, respectively consisted of:

	June 30, 1999		June 30, 1998	
	Cash	Investment	Cash	Investment
Loan Fund	$13,273,232		$ 5,199,313	
Sinking Fund				
Program Account	8,073,041	$ 3,441,738	11,711,304	$ 3,554,839
Bond Reserve	2,991,000		2,991,000	
Principal and Interest	29,692,105		16,872,313	
Extraordinary Expense	3,902,893		2,336,777	
Borrowers' Accounts	2,283,074	1,444,277	1,304,867	2,582,193
Fiscal Agent Cash	507,950		600,400	
Assets held by agency	.	275,000	.	275,000
TOTAL	$60,723,295	$ 5,161,015	$41,015,974	$ 6,412,032

Cash Deposits

As of June 30, 1999, the book balance of cash and cash equivalents was $60,723,295. The bank balance was $60,986,313, of which $60,478,363 was held in demand accounts with the State Treasurer and was invested in the Oregon Short Term Fund (OSTF) and the State's fiscal agent held $507,950. State Treasurer demand deposit accounts and time certificates 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.

As of June 30, 1998, the book balance of cash and cash equivalents was $41,015,974. The bank balance was $41,038,705, of which $40,438,305 was held in demand accounts with the State Treasurer and was invested in the Oregon Short Term Fund (OSTF) and the State's fiscal agent held $600,400. State Treasurer demand deposit accounts and time certificates 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 OSTF are held by the State Treasurer's agent in the name of the state of Oregon. They consist of 48 percent in U.S. government securities; 36 percent in short-term commercial paper; and the remainder in time certificates of deposit, bankers' acceptances, and re-purchase agreements. Earnings on the OSTF are allocated on a pro-rata basis of daily account balances.

On June 30, 1999 the state's fiscal agent was holding SELP funds totaling $507,950 for redemption of bonds and coupons which had matured but had not yet been redeemed. On June 30, 1998, the State's agent was holding SELP funds totaling $600,400 for redemption of bonds and coupons which had matured but had not yet been redeemed. This amount is included in SELP's cash. These funds are not collateralized, but are insured by the FDIC up to $100,000 per bondholder. If a bondholder has other accounts with Bank of New York, the combined account balances are insured up to $100,000.

Investments

SELP's investments are categorized below to give an indication of the level of risk assumed by SELP at year-end. Category 1 includes investments that are insured or registered, with securities held by SELP or its agent in SELP's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterpart's trust department or agent in SELP's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counterpart or by its trust department or agent but not in SELP's name.

As of June 30, 1999, the investment portfolio consisted of:

	Risk Category			Carrying	Fair
	1	**2**	**3**	**Amount**	**Value**
Investments not on securities loan:					
US Government	$4,886,015			$4,886,015	$4,886,015
Preferred Stock	275,000			275,000	-0-
Total Investments	$5,161,015			$5,161,015	$4,886,015

SELP holds 2,750 shares of TreeSource, Inc. preferred stock subject to the following rights: $100 per share liquidation preference; limited voting rights; cumulative dividends payable quarterly in advance at the prime rate, with a minimum rate of 6 percent and a maximum rate of 9 percent; convertible into TreeSource, Inc. common stock at $7.50 per share after April 30, 1999; and redeemable at the original issue price plus any accrued dividends at the option of the Board of Directors, in the form of cash or in exchange for senior unsecured debt with 12 percent coupon. The holders of the Series A preferred stock will be granted voting control of the TreeSource, Inc. Board of Directors in the event the Company misses three consecutive quarterly dividend payments, four quarterly dividend payments within twenty-four months or a total of eight quarterly dividend payments. Quarterly dividends are two quarters in arrears. This stock was received by court order as part of the settlement in a Chapter 11 bankruptcy reorganization.

Securities Lending Program

In accordance with state investment policies, state agencies may participate in securities lending and the State has, through Securities Lending Authorization Agreements, authorized its custodians to lend the State's securities pursuant to a form of loan agreement. There have been no significant violations of the provisions of securities lending agreements during the period of these financial statements.

During the year, the State's custodians lent short-term and fixed income securities and received as collateral U.S. dollar cash, U.S. government and agency securities, or letters of credit. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The custodians did not have the ability to pledge or sell collateral securities absent a borrower default, and the State did not impose any restrictions during the fiscal year on the amount of the loans the custodians made on its behalf. The State, through its securities lending agreements, is fully indemnified against borrower default. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

The maturities of investments made with cash collateral during the year generally did not match the maturities of their securities loans. On June 30, 1999, the State had no credit risk exposure to borrowers. On June 30, 1999, SELP had no securities on loan.

(3)

LOANS RECEIVABLE

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

	June 30, 1999	June 30, 1998
Loans and contracts	$ 154,497,994	$162,288,501
State agency loans	18,266,577	18,907,860
Credit risk exposure	$ 136,231,417	$143,380,641

SELP uses the allowance method to estimate uncollectible mortgage loans and contracts receivable. The allowance for all new loans and contracts is based primarily upon the percent of new loans. The allowance is periodically adjusted by management to accommodate changes in economic conditions, non-performing assets, historical loss experience, and other conditions which may affect the ultimate collectibility of the mortgage loans and contracts. In 1999, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan and contract portfolio.

(4)

BONDS PAYABLE AND DEBT SERVICE

The table below provides a summary of general obligation bond transactions of SELP for the fiscal years ended June 30, 1999 and June 30, 1998:

	June 30, 1999	June 30, 1998
Bonds payable – beginning	$,190,870,000	$ 194,380,000
Bonds issued	51,610,000	8,930,000
Bonds retired	(43,770,000)	(12,440,000)
Bonds payable – ending	198,710,000	190,870,000
Discount on bonds payable	(1,628,459)	(1,541,838)
Net bonds payable	$ 197,081,541	$ 189,328,162

Following is a schedule of future debt service requirements to maturity as of June 30, 1999.

Date	Principal	Interest	Total Debt Service
2000	$ 30,915,000	$ 10,963,146	$ 41,878,146
2001	13,360,000	9,621,864	22,981,864
2002	13,910,000	8,939,712	22,849,712
2003	12,770,000	8,217,710	20,987,710
2004	13,160,000	7,525,052	20,685,052
Thereafter	114,595,000	46,240,207	160,835,207
TOTAL	$ 198,710,000	$ 91,507,691	$ 290,217,691

(5)

BOND CALL

During the fiscal year ended June 30, 1999, SELP called several series of bonds early because of the sale of refunding bonds. On July 1, 1998 bonds totaling $5,905,000 were called prior to maturity. On January 1, 1999, SELP called $25,380,000 of bonds that included 1985 Series D, 1991 Series B, 1991 Series C, 1991 Series D, 1992 Series D and 1992 Series E. In accordance with GASB Statement 28, all gains and losses from the early redemption of bonds are amortized over the life of the new bonds or the old bonds, whichever is shorter.

No bonds were called prior to stated maturity during the fiscal year ended June 30, 1998.

(6)

DEFINED BENEFIT RETIREMENT PLAN

SELP employees participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple employer benefit plan. All SELP employees are eligible to participate in the system after completing six months of service. 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 twelve retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits also may be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P. O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by state statute to contribute 6.0 percent of their salary to the plan. Current law permits employers to pay employee contributions to the Retirement Fund. SELP is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. Currently the rate is 8.46 percent of each covered employee's salary. The amounts contributed by SELP for the years ending June 30, 1999, 1998, and 1997, were $69,935, $59,140 and $62,484, respectively, equal to the required contributions for each year. No pension liability existed at June 30, 1999, determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board.

(7)

UNEMPLOYMENT BENEFITS

State agencies are subject to the Department of Employment Act. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Oregon Employment Department for benefit payments made to former employees. There is no practical method of estimating the amount of future benefit payments which may be made to former employees for wage credits earned prior to June 30. Consequently, this potential obligation is not included in the accompanying financial statements. There were no charges to SELP for the fiscal year ended June 30, 1999.

(8)

LITIGATION

During the ordinary course of business, SELP becomes involved in litigation regarding its lending activities. The program is represented in these actions by the Attorney General of the State of Oregon. As of June 30, 1999, SELP was not currently a party to litigation which would materially affect the financial position of the program.

(9)

SUBSEQUENT EVENTS

On October 5, 1999, SELP completed a contract to sell $25,995,000 of bonds that were sold in February 1999. The money from the 1999 Series A bonds will be used to call the 1987 Series A and 1987 Series B bonds on January 1, 2000.

SELP called Series 1990B, Series 1991A, Series 1992C and Series 1992F bonds on July 1, 1999 totaling $18,685,000.

On September 3, 1999, legislation became effective that removed the Office of Energy from the Department of Consumer and Business Services. Effective July 1, 1999, the Oregon Office of Energy became an independent office within state government.

State of Oregon

OFFICE of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

Supplementary Information

June 30, 1999

(UNAUDITED)

YEAR 2000 Readiness Disclosure

The following disclosure is required by the Governmental Accounting Standards Board and is provided under the provisions of the Year 2000 Information and Readiness Disclosure Act, Public Law 105-271 (1998).

The Year 2000 problem is caused by software which processes years as only two digits. In an earlier period of computer programming, programmers often developed and maintained data fields with only two digit years in an effort to conserve computer resources and memory. This issue is present in many electronic data systems and other electronic equipment that may affect SELP's operations. SELP has completed an inventory of its primary internal computer systems and other electronic equipment that may be affected by the Year 2000 issue and are necessary to conduct SELP's operations.

The Government Accounting Standards Board has identified the following stages as necessary to implement a Year 2000-compliant system.

- Awareness stage – Establishing a budget and project plan for dealing with the Year 2000 issue.
- Assessment stage – Identifying the system and components for which Year 2000 compliance work is needed.
- Remediation stage – Making changes to systems and equipment.
- Validation/testing stage – Validating and testing the changes made during the remediation state.

SELP has identified the following systems requiring Year 2000 remediation:

System	Awareness Stage	Assessment Stage	Remediation Stage	Validation and Testing Stage
Loan Servicing and Accounting System	Completed	Completed	Completed	Completed
Cash Flow Forecasting Model	Completed	Completed	Completed	Completed

Because of the unprecedented nature of the Year 2000 issue, its effect and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. The Office cannot assure that it is or will be Year 2000 ready, that SELP's remediation efforts will be completely successful, or that parties with whom SELP does business will be Year 2000 ready.

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Schedule of Debt Issued and Outstanding
Enterprise Fund
June 30, 1999

Bond Series	Dated Date	Final Maturity	Amount Issued	Amount Outstanding
1981 A	Jul-81	Jan-03	19,700,000	-0-
1982 A	Oct-82	Jan-03	2,340,000	-0-
1983 A	Jul-83	Jan-06	18,495,000	-0-
1984 A	Apr-84	Jul-07	18,000,000	-0-
1984 B	Jul-84	Jul-06	10,300,000	-0-
1984 C	Nov-84	Jul-06	8,750,000	-0-
1985 A	Oct-85	Jul-96	6,900,000	-0-
1985 B	Oct-85	Jan-04	7,000,000	-0-
1985 C	Dec-85	Jul-05	10,500,000	-0-
1985 D	Dec-85	Jan-08	5,840,000	-0-
1986 A	Jul-86	Jan-06	8,000,000	-0-
1987 A	Jun-87	Jan-17	16,500,000	14,445,000
1987 B	Oct-87	Jul-15	14,850,000	12,300,000
1987 C	Oct-87	Jan-99	5,100,000	-0-
1987 D	Dec-87	Jan-99	3,850,000	-0-
1988 A	May-88	Jul-04	6,000,000	-0-
1988 B	May-88	Jul-04	1,000,000	-0-
1988 C	May-88	Jul-98	1,000,000	-0-
1989 A	Feb-89	Jul-05	5,000,000	-0-
1989 B	Feb-89	Jan-15	5,700,000	-0-
1989 C	Feb-89	Jul-99	1,000,000	-0-
1990 A	Jan-90	Jan-06	3,000,000	-0-
1990 B	Jan-90	Jul-11	3,150,000	2,255,000
1990 C	Jan-90	Jul-00	1,000,000	-0-
1990 D	Oct-90	Jul-05	4,000,000	-0-
1990 E	Oct-90	Jan-07	15,430,000	-0-
1990 F	Oct-90	Jul-00	1,000,000	-0-
1991 A	Dec-91	Jan-08	4,800,000	3,415,000
1991 B	Dec-91	Jan-17	3,225,000	-0-
1991 C	Dec-91	Jul-07	1,025,000	-0-
1991 D	Dec-91	Jul-02	500,000	-0-
1992 A	Apr-92	Jul-05	11,475,000	7,545,000
1992 B	Apr-92	Jan-03	1,755,000	765,000
1992 C	Sep-92	Jan-08	4,700,000	2,630,000
1992 D	Sep-92	Jan-22	16,300,000	-0-
1992 E	Sep-92	Jan-08	5,280,000	-0-
1992 F	Sep-92	Jan-06	16,710,000	10,535,000
1993 A	Jun-93	Jan-13	25,165,000	18,080,000
1993 B	Jun-93	Jul-13	16,305,000	14,010,000
1994 A	May-94	Jul-09	2,000,000	1,595,000
1994 B	May-94	Jul-07	19,325,000	13,725,000

State of Oregon

OFFICE OF ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

Schedule of Debt Issued and Outstanding

Enterprise Fund

June 30, 1999

1994 C	May-94	Jul-15	4,015,000	3,480,000
1994 D	May-94	Jul-15	14,960,000	13,965,000
1994 E	Oct-94	Jul-11	15,000,000	13,600,000
1994 F	Oct-94	Jul-11	7,010,000	6,260,000
1994 G	Oct-94	Jul-06	1,000,000	855,000
1998 A	Mar-98	Jan-14	3,000,000	3,000,000
1998 B	Mar-98	Jan-02	5,930,000	4,640,000
1998 C	Oct-98	Jul-19	5,500,000	5,500,000
1998 D	Oct-98	Jan-28	14,535,000	14,535,000
1998 E	Oct-98	Jan-17	2,000,000	2,000,000
1998 F	Oct-98	Jan-08	3,970,000	3,970,000
1998 G	Oct-98	Jan-17	2,500,000	2,500,000
1998 H	Oct-98	Jan-08	3,050,000	3,050,000
1999 B	Apr-99	Jan-15	9,100,000	9,100,000
1999 C	Apr-99	Jul-11	2,115,000	2,115,000
1999 D	Apr-99	Jan-14	8,840,000	8,840,000
			434,495,000	198,710,000

Facts About the Secretary of State Audits Division

The mission of the Audits Division is to "Protect the Public Interest and Improve Oregon Government." 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	John N. Lattimer
Deputy Director	Sharron E. Walker, CPA, CFE
Deputy Director	Catherine E. Pollino, CGFM

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Auditing to Protect the Public Interest and Improve Oregon Government