Secretary of State

State of Oregon

OFFICE OF ENERGY

Small Scale Energy Loan Program

For the Years Ended June 30, 2000 and 1999

Audits Division

Secretary of State

State of Oregon

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For the Years Ended June 30, 2000 and 1999

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No. 2001-11

March 07, 2001

OFFICE OF THE
SECRETARY OF STATE

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Secretary of State

Suzanne Townsend
Deputy Secretary of State

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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, 2000 and 1999, 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:
December 28, 2000

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SUMMARY

BACKGROUND

SELP is funded primarily 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 received from borrowers. 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, 2000, 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 primarily 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 2000, SELP issued $33.3 million in new bonds. New loans totaling $9.1 million were made during the year. As of June 30, 2000, total bonds outstanding were $173.7 million, and net loans receivable were $148.8 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, 2000, and have issued our report thereon dated December 28, 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 on 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 weaknesses. 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. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter.

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:
December 28, 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
Stanley Mar
Cynthia Hubbard
Mark Coates, CPA

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, 2000 and 1999. 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 these audits 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, 2000 and 1999, 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, 2000, 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.

In accordance with *Government Auditing Standards*, we also have issued a report dated December 28, 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 an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

December 28, 2000

EXHIBIT A

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Balance Sheets
Enterprise Fund
June 30, 2000 and June 30, 1999

ASSETS	2000	1999
Cash and cash equivalents	$ 45,350,811	$ 60,723,295
Investments (net)	1,289,303	5,161,015
Investment interest receivable	25,412	64,986
Unbilled arbitrage receivable	274,645	102,976
Loan interest receivable	444,225	747,539
Loan receivable (net)	148,788,947	152,550,895
Deferred bond issuance expense	350,073	287,175
Total Assets	$ 196,523,416	$ 219,637,881

LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	$ 2,504	$ 1,950
Matured bonds payable	354,525	507,950
Bond interest payable	4,694,503	5,803,003
Employee vacation payable	38,427	43,346
Arbitrage liability	274,645	102,976
Deferred income	53,051	89,051
Borrowers' reserve funds	3,800,923	3,727,351
Bonds payable	173,679,165	197,081,541
Total Liabilities	182,897,743	207,357,168
Fund Equity:		
Retained earnings	13,625,673	12,280,713
Total Liabilities and Fund Equity	$ 196,523,416	$ 219,637,881

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, 2000 and June 30, 1999

	2000	1999
Operating revenue:		
Interest on loans	$ 11,383,859	$ 12,850,658
Interest on investments	2,011,313	2,353,898
Application and commitment fees	33,560	40,085
Loan fees	68,173	33,078
Miscellaneous	532,626	344,312
Total operating revenue	14,029,531	15,622,031
Operating expense:		
Bond interest and debt service expense	10,073,779	11,648,991
Personal services	627,241	624,101
Services and supplies	873,015	749,838
Bad debt expense	90,760	39,551
Loan receivable write-downs	744,777	-0-
Total operating expense	12,409,572	13,062,481
Operating income	1,619,959	2,559,550
Nonoperating expense:		
Loss on write-down of investment	274,999	-0-
Net income	1,344,960	2,559,550
Retained earnings - beginning	12,280,713	9,721,163
Retained earnings - ending	$ 13,625,673	$ 12,280,713

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, 2000 and June 30, 1999

	2000	1999
Operating income	$ 1,619,959	$ 2,559,550
Adjustments to reconcile operating income to cash provided by operating activities:		
Expenses not requiring outlay of cash:		
Bad debt	90,760	39,551
Loan receivable write-downs	744,777	0
Bond expenses	292,731	29,392
Interest received on investment reported as operating income	(2,011,313)	(2,353,898)
Bond interest and amortization reported as operating income	10,073,779	11,648,991
(Increase)/decrease in investment interest receivable	39,574	189,219
(Increase)/decrease in loan interest receivable	303,314	759,252
(Increase)/decrease in loan receivable	3,761,948	7,830,058
(Increase)/decrease in unbilled receivable	(171,669)	260,458
(Increase)/decrease in deferred charges	(62,898)	(218,849)
Increase/(decrease) in accounts payable	554	(1,353)
Increase/(decrease) in bond interest payable	(1,108,500)	(58,699)
Increase/(decrease) in arbitrage payable	171,669	(339,204)
Increase/(decrease) in matured bonds payable	(153,425)	(92,450)
Increase/(decrease) in employee vacation payable	(4,919)	10,650
Increase/(decrease) in deferred income	(36,000)	(36,000)
	11,930,382	17,667,118
Net cash provided (used) by operations	$ 13,550,341	$ 20,226,668

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, 2000 and June 30, 1999

	2000	1999
Net cash provided (used) by operations	$ 13,550,341	$ 20,226,668
Cash flows from non-capital financing activities:		
Proceeds from bond sales	33,204,016	51,399,392
Principal payments on bonds	(56,845,000)	(43,770,000)
Interest payments on bonds	(10,963,146)	(11,493,888)
Issue costs paid	(117,021)	(248,240)
Net cash provided/(used) by non-capital financing activities	(34,721,151)	(4,112,736)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	3,510,000	1,227,061
Interest received on investments	2,288,326	2,366,328
Net cash provided by investing activities	5,798,326	3,593,389
Net increase/(decrease) in cash and cash equivalents	(15,372,484)	19,707,321
Cash and cash equivalents at beginning of period	60,723,295	41,015,974
Cash and cash equivalents at end of period	$ 45,350,811	$ 60,723,295
Non-cash investing activities:		
Loss on write-down of investment	$ 274,999	

(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 Office of Energy 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 through 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.

Budgetary Process

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 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 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, 2000 nor at June 30, 1999.

Investments

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

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, 2000 and 1999, were $2,037,859 and $1,947,099, 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.

Arbitrage Rebate Liability

SELP discloses a liability to the federal government for excess earnings on tax-exempt bonds. The liability is long-term in nature with payments due to the federal government every five years. SELP treats excess earnings, which are rebatable to the federal government, as a reduction of revenue.

Borrowers' Reserve Accounts

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 regular basis. Currently all borrowers have elected to have reserve funds held in the Oregon Short-Term Fund rather than invested in federal notes or municipal securities.

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 account. 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, 2000 and 1999, SELP funds were invested primarily in US government securities.

Cash Deposits

As of June 30, 2000, the book balance of cash and cash equivalents was $45,350,811. The bank balance was $45,359,440, of which $45,004,915 was held in demand accounts with the State Treasurer and was invested in the Oregon Short-Term Fund (OSTF) and $354,525 was held by the state's fiscal agent. 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 39 percent in U.S. government securities; 43 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.

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 $507,950 and the state's fiscal agent held. 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.

On June 30, 2000, the state's agent was holding SELP funds totaling $354,525 for redemption of bonds and coupons that had matured but had not yet been redeemed. 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.

The cash with the state's fiscal agent 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.

Cash and investments are legally required to be segregated into the Loan Fund and the Sinking Fund. Cash and investments at June 30, 2000 and 1999, respectively consisted of:

	June 30, 2000		June 30, 1999	
	Cash	Investments	Cash	Investments
Loan Fund	$9,697,228		$13,273,232	
Sinking Fund				
Program Account	10,983,310	$1,289,302	8,073,041	$3,441,738
Bond Reserve	575,000		2,991,000	
Principal and Interest	15,562,578		29,692,105	
Extraordinary Expense	4,377,247		3,902,893	
Borrowers' Accounts	3,800,923		2,283,074	1,444,277
Fiscal Agent Cash	354,525		507,950	
Assets held by agency		1		275,000
TOTAL	$45,350,811	$1,289,303	$60,723,295	$5,161,015

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 counterparty's trust department or agent in SELP's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counterparty or by its trust department or agent but not in SELP's name.

As of June 30, 2000, the investment portfolio consisted of:

	Risk Category			Carrying	Fair
	1	2	3	Amount	Value
US Government	$ 1,289,302			$ 1,289,302	$ 1,289,302
Preferred Stock	1			$ 1	1
Total Investments				$ 1,289,303	$ 1,289,303

In addition to normal maturities in investment securities, in May 2000 the federal government called $2.034 million of Treasury notes, held by SELP, that were not expected to mature until 2005. Based on the remaining life of the investment and current market conditions, SELP decided to leave the money invested in the Oregon Short-Term Fund rather than re-purchase other federal securities.

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

	Risk Category			Carrying	Fair
	1	2	3	Amount	Value
US Government	$ 4,886,015			$ 4,886,015	$ 4,886,015
Preferred Stock	275,000			$275,000	-0-
Total Investments				$ 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 six quarters in arrears. On October 28, 1999, TreeSource filed for a new Chapter 11 Reorganization. An amended plan was submitted to the court on April 17, 2000. If the court accepts the amended plan, all preferred stockholders would receive three and four year warrants for common stock in the re-organized company. At this time, no price has been established for conversion of the warrants to common stock. Therefore, the carrying value of the preferred stock was reduced to $1 pending any market action that indicates the warrants will have market value.

(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, 2000	June 30, 1999
Loans and contracts	$ 150,826,806	$ 154,497,994
State agency loans	23,038,939	18,266,577
Credit risk exposure	$ 127,787,867	$ 136,231,417

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 2000, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan and contract portfolio.

During the fiscal year 2000 SELP refunded outstanding bonds to reduce the interest costs of the program. Federal arbitrage law restricts the earnings SELP can earn on loans funded by tax-exempt bonds. When the savings to borrowers is large, SELP reduces the interest rate on outstanding loans to comply with the federal requirement. When the amount of the savings to the borrowers is small or the remaining life of the loan is less than two years, SELP shares the savings with borrowers by reducing the loan balance.

SELP also settled a long-standing dispute with some borrowers. However, rather than a cash settlement, SELP and the borrowers agreed to a $708,512 write-down of the borrowers' loans receivable. As discussed in Note 10, the settlement resulted in a further reduction in loans receivable.

(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, 2000 and June 30, 1999:

	June 30, 2000	June 30, 1999
Bonds payable? beginning	$ 198,710,000	$ 190,870,000
Bonds issued	33,315,000	51,610,000
Bonds retired	(56,845,000)	(43,770,000)
Bonds payable? ending	175,180,000	198,710,000
Discount on bonds payable	(1,500,835)	(1,628,459)
Net bonds payable	$ 173,679,165	$ 197,081,541

Following is a schedule of future debt service requirements to maturity as of June 30, 2000.

Date	Principal	Interest	Total Debt Service
2001	$ 19,070,000	$ 9,207,593	$ 28,277,593
2002	13,985,000	8,013,469	21,998,469
2003	12,805,000	7,335,753	20,140,753
2004	13,145,000	6,692,555	19,837,555
2005	13,775,000	6,023,327	19,798,327
Thereafter	102,400,000	34,655,612	137,055,612
TOTAL	$ 175,180,000	$ 71,928,309	$ 247,108,309

(5)

BOND CALL

During the fiscal year ended June 30, 2000, SELP called several series of bonds early because of the sale of refunding bonds. On July 1, 1999 bonds totaling $18,685,000 were called prior to maturity that included 1990 Series B, 1991 Series A, 1992 Series C and 1992 Series F bonds. On January 1, 2000, SELP called $25,930,000 of bonds that included 1987 Series A and the 1987 Series B. 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.

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.

(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 *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 may also 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, 2000, 1999, and 1998, were $76,389, $69,935 and $59,140, respectively, equal to the required contributions for each year. No pension liability existed at June 30, 2000, determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board.

(7)

UNEMPLOYMENT BENEFITS

State agencies are subject to the Employment Department Law. 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, 2000.

(8)

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.

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.

(9)

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, 2000, SELP was not currently a party to litigation which would materially affect the financial position of the program.

(10)

SUBSEQUENT EVENTS

On August 10, 2000, SELP entered into an irrevocable escrow agreement with Bank of New York to defease the Series 1992A bonds. The bank will call all the outstanding Series 1992A bonds on January 1, 2001.

In October 2000, SELP settled a dispute with borrowers from a 1994 bond refunding. The settlement is fully reflected in the financial statements at June 30, 2000. The resultant write down of loans receivable from these borrowers will be reflected in lower monthly payments from the borrowers from October 2000 to the maturity of their respective loans. See the comments in Note 3 regarding the write down of loan receivable.

SUPPLEMENTARY INFORMATION

State of Oregon

OFFICE OF ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

Schedule of Debt Issued and Outstanding

Enterprise Fund

June 30, 2000

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	-0-
1987 B	Oct-87	Jul-15	14,850,000	-0-
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	-0-
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	-0-
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	6,625,000
1992 B	Apr-92	Jan-03	1,755,000	585,000
1992 C	Sep-92	Jan-08	4,700,000	-0-

State of Oregon
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
Schedule of Debt Issued and Outstanding
Enterprise Fund
June 30, 2000

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	-0-
1993 A	Jun-93	Jan-13	25,165,000	15,860,000
1993 B	Jun-93	Jul-13	16,305,000	13,445,000
1994 A	May-94	Jul-09	2,000,000	1,485,000
1994 B	May-94	Jul-07	19,325,000	12,225,000
1994 C	May-94	Jul-15	4,015,000	3,300,000
1994 D	May-94	Jul-15	14,960,000	13,575,000
1994 E	Oct-94	Jul-11	15,000,000	12,850,000
1994 F	Oct-94	Jul-11	7,010,000	5,985,000
1994 G	Oct-94	Jul-06	1,000,000	775,000
1998 A	Mar-98	Jan-14	3,000,000	3,000,000
1998 B	Mar-98	Jan-02	5,930,000	3,150,000
1998 C	Oct-98	Jul-19	5,500,000	5,500,000
1998 D	Oct-98	Jan-28	14,535,000	14,465,000
1998 E	Oct-98	Jan-17	2,000,000	1,925,000
1998 F	Oct-98	Jan-08	3,970,000	3,665,000
1998 G	Oct-98	Jan-17	2,500,000	2,295,000
1998 H	Oct-98	Jan-08	3,050,000	2,675,000
1999 A	Oct-99	Jan-17	25,995,000	25,995,000
1999 B	Apr-99	Jan-15	9,100,000	8,305,000
1999 C	Apr-99	Jul-11	2,115,000	2,115,000
1999 D	Apr-99	Jan-14	8,840,000	8,060,000
2000 A	Apr-00	Jul-17	7,320,000	7,320,000
			$ 467,810,000	$ 175,180,000

FACTS 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

Director	John N. Lattimer
Deputy Director	Catherine E. Pollino, CGFM
Deputy Director	Sharron E. Walker, CPA, CFE

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