# Secretary of State

State of Oregon

**OFFICE OF ENERGY**

**Small Scale Energy Loan Program**

For the Years Ended June 30, 2001 and 2000

Audits Division

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Secretary of State

State of Oregon

# OFFICE OF ENERGY

## Small Scale Energy Loan Program

For the Years Ended June 30, 2001 and 2000

Audits Division

No. 2002-19

May 6, 2002

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
Director

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*Auditing for a Better Oregon*

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

Michael Grainey, 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 *Government 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, 2001 and 2000, 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.

*Government 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

Cathy Pollino
Director

February 22, 2002



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

# SUMMARY

**BACKGROUND**

The Office of Energy, Small Scale Energy Loan Program (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, 2001, and on the internal controls and compliance with applicable laws and regulations.

**AUDIT RESULTS**

Our audit concluded that the Small Scale Energy Loan Program's financial statements for the year ended June 30, 2001, which are included in this report, are fairly presented. Our report on compliance with applicable laws and regulations and internal control over financial reporting is included herein. Our review disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards*, nor did we note matters involving internal control over financial reporting that we considered to be material weaknesses.

# 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.

## FINANCIAL ACTIVITIES

SELP is primarily funded through the sale of general obligation bonds. Bond proceeds are loaned to individual residents, businesses, nonprofit organizations, and local governments in Oregon. 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 2001, SELP issued $14 million in new bonds. New loans totaling $6.8 million were made during the year. As of June 30, 2001, total bonds outstanding were $168.6 million, and net loans receivable were $141.3 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 Small Scale Energy Loan Program (SELP), an enterprise fund of the State of Oregon, Office of Energy, as of and for the year ended June 30, 2001, and have issued our report thereon dated February 22, 2002. 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.

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 under *Government Auditing Standards*.



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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 financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving 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, the Oregon Legislative Assembly, and the Department of Administrative Services Statewide Audit Committee, 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

February 22, 2002

## COMMENDATION

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

## AUDIT TEAM

Jason Stanley, CPA, Audit Administrator
Diane Farris, CPA
Cynthia Hubbard
Karen Fuller
Julianne Kennedy, CPA

# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Small Scale Energy Loan Program, an enterprise fund of the State of Oregon, Office of Energy, as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These financial statements are the responsibility of the Office of Energy management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, or the State of Oregon, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.



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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Small Scale Energy Loan Program as of June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Debt Issued and Outstanding as of June 30, 2001, 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 of the Small Scale Energy Loan Program. 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 February 22, 2002, on our consideration of the Small Scale Energy Loan Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. 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. That report is separately presented in the Audit Results section of this report.

OREGON AUDITS DIVISION

Bill Bradbury

Bill Bradbury
Secretary of State
February 22, 2002

State of Oregon
**OFFICE OF ENERGY**
**SMALL SCALE ENERGY LOAN PROGRAM**
**Balance Sheets**
Enterprise Fund
June 30, 2001 and June 30, 2000

| ASSETS | 2001 | 2000 |
|---|---|---|
| Cash and cash equivalents | $ 48,220,236 | $ 45,350,811 |
| Investments (net) | 818,739 | 1,289,303 |
| Investment interest receivable | 12,625 | 25,412 |
| Unbilled arbitrage receivable | 312,869 | 274,645 |
| Loan interest receivable | 441,449 | 444,225 |
| Loan receivable (net) | 141,343,256 | 148,788,947 |
| Deferred bond issuance expense | 368,716 | 350,073 |
| Total Assets | $ 191,517,890 | $ 196,523,416 |

| LIABILITIES AND FUND EQUITY | 2001 | 2000 |
|---|---|---|
| Liabilities: | | |
| Accounts payable | $ 28,311 | $ 2,504 |
| Matured bonds payable | 126,575 | 354,525 |
| Bond interest payable | 4,075,743 | 4,694,503 |
| Employee vacation payable | 49,490 | 38,427 |
| Arbitrage liability | 305,706 | 274,645 |
| Deferred income | 15,051 | 53,051 |
| Borrowers' reserve funds | 3,504,838 | 3,800,923 |
| Bonds payable | 168,573,173 | 173,679,165 |
| Total Liabilities | 176,678,887 | 182,897,743 |
| Fund Equity: | | |
| Retained earnings | 14,839,003 | 13,625,673 |
| Total Liabilities and Fund Equity | $ 191,517,890 | $ 196,523,416 |

*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, 2001 and June 30, 2000

| | 2001 | 2000 |
|---|---|---|
| Operating Revenue: | | |
| Interest on loans | $ 10,032,532 | $ 11,383,859 |
| Interest on investments | 1,799,009 | 2,011,313 |
| Application and commitment fees | 37,227 | 33,560 |
| Loan fees | 45,834 | 68,173 |
| Miscellaneous | 206,812 | 532,626 |
| Total operating revenue | 12,121,414 | 14,029,531 |
| Operating Expense: | | |
| Bond interest and debt service expense | 8,802,411 | 10,073,779 |
| Personal services | 710,260 | 627,241 |
| Services and supplies | 456,024 | 873,015 |
| Bad debt expense | 66,024 | 90,760 |
| Loan receivable write-downs | 873,365 | 744,777 |
| Total operating expense | 10,908,084 | 12,409,572 |
| Operating income | 1,213,330 | 1,619,959 |
| Non-Operating Revenue: | | |
| Loss on write-down of investment | - | 274,999 |
| Net income | 1,213,330 | 1,344,960 |
| Retained earnings - beginning | 13,625,673 | 12,280,713 |
| Retained earnings - ending | $ 14,839,003 | $ 13,625,673 |

*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, 2001 and June 30, 2000

| | 2001 | 2000 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Operating income | $ 1,213,330 | $ 1,619,959 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Bad debt | 66,024 | 90,760 |
| Loan receivable write-downs | 873,365 | 744,777 |
| Bond expenses | 617,300 | 292,731 |
| Change in market value of investments | (10,096) | |
| Interest received on investment reported as operating income | (1,799,009) | (2,011,313) |
| Bond interest and amortization reported as operating expense | 8,874,105 | 10,073,779 |
| Changes in Assets and Liabilities: | | |
| (Increase)/decrease in investment interest receivable | 12,787 | 39,574 |
| (Increase)/decrease in loan interest receivable | 2,776 | 303,314 |
| (Increase)/decrease in loan receivable | 6,506,302 | 3,761,948 |
| (Increase)/decrease in unbilled receivable | (38,224) | (171,669) |
| (Increase)/decrease in deferred charges | (18,643) | (62,898) |
| Increase/(decrease) in accounts payable | 25,807 | 554 |
| Increase/(decrease) in bond interest payable | (618,760) | (1,108,500) |
| Increase/(decrease) in arbitrage payable | 31,061 | 171,669 |
| Increase/(decrease) in matured bonds payable | (227,950) | (153,425) |
| Increase/(decrease) in employee vacation payable | 11,063 | (4,919) |
| Increase/(decrease) in borrower reserves | (296,085) | |
| Increase/(decrease) in deferred income | (38,000) | (36,000) |
| | 13,973,823 | 11,930,382 |
| Net cash provided (used) in operating activities | $ 15,187,153 | $ 13,550,341 |

*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, 2001 and June 30, 2000

| | 2001 | 2000 |
|---|---|---|
| Net cash provided (used) by operations | $ 15,187,153 | $ 13,550,341 |
| Cash flows from non-capital financing activities: | | |
| Proceeds from bond sales | 13,751,888 | 33,204,016 |
| Principal payments on bonds | (19,070,000) | (56,845,000) |
| Interest payments on bonds | (9,207,591) | (10,963,146) |
| Issue costs paid | (71,694) | (117,021) |
| Net cash provided/(used) by non-capital financing activities | (14,597,397) | (34,721,151) |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturities of investments | 480,660 | 3,510,000 |
| Interest received on investments | 1,799,009 | 2,288,326 |
| Net cash provided by investing activities | 2,279,669 | 5,798,326 |
| Net increase/(decrease) in cash and cash equivalents | 2,869,425 | (15,372,484) |
| Cash and cash equivalents at beginning of period | 45,350,811 | 60,723,295 |
| Cash and cash equivalents at end of period | $ 48,220,236 | $ 45,350,811 |
| Non-cash investing activities: | | |
| Loss on write-down of investment | $ - | $ 274,999 |

State of Oregon
**OFFICE of ENERGY**
**SMALL SCALE ENERGY LOAN PROGRAM**
**Notes to the Financial Statements**
Enterprise Fund
June 30, 2001 and June 30, 2000

**(1)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

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.

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.

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 through user charges.

**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 as of June 30, 2001, nor as of June 30, 2000.

**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 as of June 30, 2001 and 2000, were $2,103,883 and $2,037,859, respectively.

**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. The Department 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, 2001 and 2000, SELP funds were invested primarily in US government securities.

**Cash Deposits**

At June 30, 2001, the book balance of cash and cash equivalents was $48,220,236. The bank balance was $48,219,746, of which $48,093,171 was held in demand accounts with the State Treasurer and was invested in the Oregon Short Term Fund (OSTF) and $126,575 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.

A separate financial report for the OSTF is prepared by the Treasurer in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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/wrapfin.htm. Earnings on the OSTF are allocated on a pro-rata basis of daily account balances.

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.

On June 30, 2001, the State's agent was holding SELP funds totaling $126,575 for redemption of bonds and coupons that had matured but had not yet been redeemed. 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.

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 as of June 30, 2001 and 2000, respectively consisted of:

| | June 30, 2001 | | June 30, 2000 | |
|---|---|---|---|---|
| | Cash | Investment | Cash | Investment |
| Loan Fund | $ 18,344,412 | | $ 9,697,228 | |
| Sinking Fund | | | | |
| Program Account | 11,434,756 | $ 818,738 | 10,983,310 | $1,289,302 |
| Bond Reserve | 575,000 | | 575,000 | |
| Principal & Interest | 9,400,277 | | 15,562,578 | |
| Extraordinary Expense | 4,834,378 | | 4,377,247 | |
| Borrowers’ Accounts | 3,504,838 | | 3,800,923 | |
| Fiscal Agent Cash | 126,575 | | 354,525 | |
| Assets held by agency | - | 1 | - | 1 |
| TOTAL | $ 48,220,236 | $ 818,739 | $45,350,811 | $1,289,303 |

## 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, 2001, the investment portfolio consisted of:

| | Risk Category | | | Carrying | Fair |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Amount | Value |
| **Investments not on securities loan:** | | | | | |
| US Government | $818,738 | | | $818,738 | $818,738 |
| Preferred Stock | 1 | | | 1 | 1 |
| **Total Investments** | $818,739 | | | $818,739 | $818,739 |

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

| | Risk Category | | | Carrying | Fair |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Amount | Value |
| **Investments not on securities loan:** | | | | | |
| US Government | $1,289,302 | | | $1,289,302 | $1,289,302 |
| Preferred Stock | 1 | | | 1 | 1 |
| **Total Investments** | $1,289,303 | | | $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.

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 24 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, 2001 | June 30, 2000 |
|---|---|---|
| Loans and contracts | $143,447,139 | $150,826,806 |
| State agency loans | 23,573,976 | 23,038,939 |
| Credit risk exposure | $119,873,163 | $127,787,867 |

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 2001, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan and contract portfolio.

SELP refunded the Series 1992A bonds as disclosed in Note 5. To comply with federal tax code and Oregon statutes SELP must reduce interest rates when tax-exempt bonds are refunded. Depending on the remaining life of the loan and the amount of refunding savings that will be passed on to the borrower, SELP either reduces the borrowers interest rate or reduces the borrower's principal balance to pass on that refunding savings. The one time reduction in loan balance passed on to borrowers' because of the refunding of the Series 1992 A bonds was $193,712.

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 write-down of the borrowers' loans receivable. The first settlement signed in October 2000 was fully reserved as of June 30, 2000 and totaled $708,512. SELP subsequently entered negotiation with three additional borrowers' in the same bond series refunding and entered into a settlement that reduced the borrower's outstanding loan by $673,451. This write down is reflected in the June 30, 2001 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, 2001 and June 30, 2000:

| | June 30, 2001 | June 30, 2000 |
|---|---|---|
| Bonds payable – beginning | $175,180,000 | $198,710,000 |
| Bonds issued | 14,000,000 | 33,315,000 |
| Bonds retired | (19,070,000) | (56,845,000) |
| Bonds payable – ending | 170,110,000 | 175,180,000 |
| Discount on bonds payable | (1,536,827) | (1,500,835) |
| Net bonds payable | $168,573,173 | $173,679,165 |

Following is a schedule of future debt service requirements to maturity as of June 30, 2001.

| Date | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2002 | $ 13,985,000 | $ 8,444,004 | $ 22,429,004 |
| 2003 | 13,500,000 | 7,977,779 | 21,477,779 |
| 2004 | 13,870,000 | 7,306,590 | 21,176,590 |
| 2005 | 14,530,000 | 6,607,106 | 21,137,106 |
| 2006 | 14,575,000 | 5,876,703 | 20,451,703 |
| Thereafter | 99,650,000 | 32,726,385 | 132,376,385 |
| TOTAL | $170,110,000 | $68,938,567 | $239,048,567 |

## (5)

## DEBT REFUNDING

On April 1, 2000, SELP issued $7,320,000 in 2000 Series A General Obligation Alternate Energy Bonds with an average interest rate of 5.18 percent. Four million dollars of the series was used to fund new loans. The remaining $3,320,000 and $2,325,000 of bond reserves were used to refund $5,645,000 of outstanding 1992 Series A bonds with an average interest rate of 5.91 percent. The net proceeds for the refunding were invested in the Oregon Short-Term Fund for payment of principal and interest due on July 1, 2000. The 1992 Series A bonds were defeased on August 10, 2000 and called on January 1, 2001. The refunding of these bonds decreases the total debt service payments over the next nine years by $522,832 and results in an economic gain of $69,032.

On October 1, 1999, SELP issued $25,995,000 in 1999 Series A General Obligation Alternate Energy Bonds with an average interest rate of 4.79 percent. These bonds were issued to currently refund $25,930,000 of outstanding 1987 Series A and Series B bonds with an average interest rate of 8.67 percent. The refunding was undertaken to reduce the total debt service payments over the next 17 years by $10.5 million and resulted in an economic gain of $7.0 million.

On July 1, 1999 bonds totaling $18,685,000 were called prior to maturity from refunding bonds issued in the previous fiscal year. The bonds called included the 1990 Series B, 1991 Series A, 1992 Series C and Series F bonds.

## (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 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 9.73 percent of each covered employee's salary. The amounts contributed by SELP for the years ending June 30, 2001, 2000, and 1999, were $84,087, 76,389 and $69,935, respectively, equal to the required contributions for each year. No pension liability existed as of June 30, 2001, 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, 2001.

## (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, 2001, SELP was not currently a party to litigation which would materially affect the financial position of the program.

## (10)

## SUBSEQUENT EVENTS

On October 24, 2001 SELP sold $17.1 million of bonds that included governmental purpose funds, private activity bonds and federally taxable bonds.

# SUPPLEMENTARY INFORMATION

State of Oregon
**OFFICE OF ENERGY**
**SMALL SCALE ENERGY LOAN PROGRAM**
**Schedule of Debt Issued and Outstanding**
Enterprise Fund
June 30, 2001

| 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 | -0- |
| 1992 B | Apr-92 | Jan-03 | 1,755,000 | 405,000 |
| 1992 C | Sep-92 | Jan-08 | 4,700,000 | -0- |

*SCHEDULE A (CONTINUED)*

State of Oregon
**OFFICE OF ENERGY**
**SMALL SCALE ENERGY LOAN PROGRAM**
**Schedule of Debt Issued and Outstanding**
Enterprise Fund
June 30, 2001

| Bond Series | Dated Date | Final Maturity | Amount Issued | Amount Outstanding |
|---|---|---|---|---|
| 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 | 13,675,000 |
| 1993 B | Jun-93 | Jul-13 | 16,305,000 | 12,845,000 |
| 1994 A | May-94 | Jul-09 | 2,000,000 | 1,370,000 |
| 1994 B | May-94 | Jul-07 | 19,325,000 | 10,725,000 |
| 1994 C | May-94 | Jul-15 | 4,015,000 | 3,105,000 |
| 1994 D | May-94 | Jul-15 | 14,960,000 | 13,150,000 |
| 1994 E | Oct-94 | Jul-11 | 15,000,000 | 12,065,000 |
| 1994 F | Oct-94 | Jul-11 | 7,010,000 | 5,700,000 |
| 1994 G | Oct-94 | Jul-06 | 1,000,000 | 685,000 |
| 1998 A | Mar-98 | Jan-14 | 3,000,000 | 2,840,000 |
| 1998 B | Mar-98 | Jan-02 | 5,930,000 | 1,610,000 |
| 1998 C | Oct-98 | Jul-19 | 5,500,000 | 5,430,000 |
| 1998 D | Oct-98 | Jan-28 | 14,535,000 | 14,210,000 |
| 1998 E | Oct-98 | Jan-17 | 2,000,000 | 1,845,000 |
| 1998 F | Oct-98 | Jan-08 | 3,970,000 | 3,300,000 |
| 1998 G | Oct-98 | Jan-17 | 2,500,000 | 2,050,000 |
| 1998 H | Oct-98 | Jan-08 | 3,050,000 | 2,360,000 |
| 1999 A | Oct-99 | Jan-17 | 25,995,000 | 25,085,000 |
| 1999 B | Apr-99 | Jan-15 | 9,100,000 | 7,415,000 |
| 1999 C | Apr-99 | Jul-11 | 2,115,000 | 1,935,000 |
| 1999 D | Apr-99 | Jan-14 | 8,840,000 | 6,985,000 |
| 2000 A | Apr-00 | Jul-17 | 7,320,000 | 7,320,000 |
| 2001 A | May-01 | Jul-18 | 2,000,000 | 2,000,000 |
| 2001 B | May-01 | Jan-17 | 11,000,000 | 11,000,000 |
| 2001 C | May-01 | Jul-07 | 1,000,000 | 1,000,000 |
| | | | 481,810,000 | 170,110,000 |

## 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* | Cathy Pollino, CGFM, MBA |
| *Deputy Director* | Charles A. Hibner, CPA |
| *Deputy Director* | Mary E. Wenger, CPA |

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