Secretary of State

An Enterprise Fund of the

State of Oregon

OFFICE OF ENERGY

Small Scale Energy Loan Program

For the Fiscal Years Ended June 30, 2002 and 2001

Audits Division

Secretary of State

An Enterprise Fund of the

State of Oregon

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For the Fiscal Years Ended June 30, 2002 and 2001

Audits Division

No. 2003-19

June 1, 2003

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
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Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Michael Grainey, Director
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 fiscal years ended June 30, 2002 and 2001, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the department's internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Other Reports section of this report. We noted no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Similarly, we did not note any material weaknesses in internal control over financial reporting.

We appreciated the cooperation and assistance of the Office of Energy's management and staff during the course of our audit.

OREGON AUDITS DIVISION

Cathy Pollino
Director

April 21, 2003

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SUMMARY

AUDIT PURPOSE

The audit was conducted for the purpose of expressing an opinion on the Small Scale Energy Loan Program (SELP) financial statements for the fiscal years ended June 30, 2002 and June 30, 2001, and reporting on compliance and on internal control over financial reporting.

AUDIT RESULTS

Our audit concluded that the SELP's financial statements for the years ended June 30, 2002 and 2001, which are included in this report, are fairly presented. Our review disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*, nor did we note matters involving internal control over financial reporting that we considered to be material weaknesses.

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 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 Local 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 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 2002, SELP issued over $28 million in new bonds. New loans totaling over $15 million were made during the year. As of June 30, 2002, total bonds outstanding were more than $184 million, and net loans receivable were approximately $129.7 million.

The SELP program activities are accounted for in an enterprise fund, a proprietary fund type. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises.

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, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Small Scale Energy Loan Program and do not purport to, and do not, present fairly the financial position of the Office of Energy or the State of Oregon, as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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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, 2002 and 2001, and the changes in its financial position and its cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2003, 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, contracts, grants, 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. That report is separately presented in the Other Reports section of this report.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

April 21, 2003

STATE OF OREGON
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
BALANCE SHEETS
ENTERPRISE FUND
JUNE 30, 2002 AND JUNE 30, 2001

Assets	2002	2001
Current Assets:		
Cash and Cash Equivalents	$ 859,768	$ 946,515
Cash and Cash Equivalents—Restricted	70,896,930	43,768,884
Investments	460,229	818,739
Investment Interest Receivable	4,526	12,625
Loan Interest Receivable	604,223	441,449
Total Current Assets	72,825,676	45,988,212
Noncurrent Assets:		
Cash and Cash Equivalents—Restricted	3,421,429	3,504,837
Unbilled Arbitrage Receivable	219,450	312,869
Deferred Bond Issuance Costs	455,184	368,716
Loans Receivable (Net)	129,745,903	141,343,256
Total Noncurrent Assets	133,841,966	145,529,678
Total Assets	$ 206,667,642	$ 191,517,890
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	$ 14,384	$ 28,311
Matured Bonds Payable	106,275	126,575
Bond Interest Payable	4,340,141	4,075,743
Compensated Absences Payable	48,714	49,490
Deferred Income	3,051	15,051
Bonds payable	34,655,000	13,500,000
Total Current Liabilities	39,167,565	17,795,170
Noncurrent Liabilities:		
Arbitrage Rebate Liability	219,450	305,706
Borrowers' Reserve Fund Liability	3,421,429	3,504,838
Bonds Payable	148,179,376	155,073,173
Total Noncurrent Liabilities	151,820,255	158,883,717
Total Liabilities	190,987,820	176,678,887
Net Assets—Restricted for Debt Service	15,679,822	14,839,003
Total Liabilities and Net Assets	$ 206,667,642	$ 191,517,890

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 FUND NET ASSETS

ENTERPRISE FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

	2002	2001
Operating Revenues:		
Interest on Loans	$ 9,320,265	$ 10,032,532
Interest on Cash and Investments	1,378,840	1,799,009
Application and Commitment Fees	51,571	37,227
Loan Fees	277,441	45,834
Holding Cost Fees	210,776	–
Miscellaneous	344,488	206,812
Total Operating Revenue	11,583,381	12,121,414
Operating Expenses:		
Bond Interest and Debt Service Expense	9,343,034	8,802,411
Personal Services	730,223	710,260
Services and Supplies	447,910	402,674
Amortization of Deferred Bond Issuance Costs	56,308	53,350
Bad Debt Expense	150,199	66,024
Loan Receivable Write-downs	27,402	873,365
Total Operating Expense	10,755,076	10,908,084
Operating Income (Loss)	828,305	1,213,330
Nonoperating Revenues (Expenses):		
Gain on Sale of Investments	12,514	–
Total Nonoperating Revenues (Expenses)	12,514	–
Change in Net Assets	840,819	1,213,330
Net Assets — Beginning	14,839,003	13,625,673
Net Assets — Ending	$ 15,679,822	$ 14,839,003

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, 2002 AND JUNE 30, 2001

	2002	2001
Cash Flows From Operating Activities:		
Cash Received from Customers	$ 994,700	$ 234,462
Loan Principal Repayments	26,437,249	13,280,761
Loan Interest Received	9,157,493	9,575,817
Loans Disbursed to Borrowers	(15,009,784)	(6,612,416)
Cash Paid to Vendors for Goods and Services	(597,961)	(592,273)
Cash Paid for Employees	(730,999)	(699,198)
Net cash provided by operating activities	20,250,698	15,187,153
Cash Flows From Noncapital Financing Activities:		
Proceeds from Bonds	27,917,977	13,751,888
Principal Paid on Bonds	(13,985,000)	(19,070,000)
Interest Paid on Bonds	(8,749,948)	(9,207,591)
Bond Issue Costs Paid	(135,542)	(71,694)
Net cash provided by noncapital financing activities	5,047,487	(14,597,397)
Cash Flows From Investing Activities:		
Proceeds from Sales and Maturities of Investments	345,514	480,660
Interest Received on Cash and Investments	1,314,192	1,799,009
Net cash provided by investing activities	1,659,706	2,279,669
Net Increase in Cash and Cash Equivalents	26,957,891	2,869,425
Cash and Cash Equivalents—Beginning	48,220,236	45,350,811
Cash and cash equivalents—Ending	$ 75,178,127	$ 48,220,236
Cash and Cash Equivalents	859,768	946,515
Cash and Cash Equivalents--Restricted	74,318,359	47,273,721
Total cash and cash equivalents	$ 75,178,127	$ 48,220,236

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

Continued from previous page

		2002		2001
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	$	828,305	$	1,213,330
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Bad Debt		150,199		66,024
Loan Receivable Write-downs		27,402		873,365
Amortization of Deferred Bond Issue Costs		56,308		53,350
Interest Received on Investments Reported as Operating Revenue		(1,378,840)		(1,799,009)
Bond Interest Expense Reported as Operating Expense		9,343,034		8,802,411
(Increase)/Decrease in Assets:				
Loan Interest Receivable		(162,774)		2,776
Loan Receivable		11,419,753		6,500,295
Unbilled Arbitrage Receivable		93,419		(38,224)
Increase/(Decrease) in Liabilities:				
Accounts Payable		(21,623)		25,807
Matured Bonds Payable		(20,300)		(227,950)
Vacation Payable		(776)		11,063
Borrowers' Reserves		(83,409)		(296,085)
Total Adjustments		19,422,393		13,973,823
Net cash provided (used) by operations	$	20,250,698	$	15,187,153
Noncash Investing, Capital, and Financing Activities:				
Net Change in Fair Value of Investments		(24,330)		10,096
Total Noncash Investing, Capital, and Financing Activities	$	(24,330)	$	10,096

STATE OF OREGON

OFFICE OF ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

ENTERPRISE FUND

JUNE 30, 2002 AND JUNE 30, 2001

The accompanying financial statements of the Small Scale Energy Loan Program (SELP) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Small Scale Energy Loan Program (SELP) was created in 1979 by Oregon Revised Statutes Chapter 470 and through the adoption of Article XI-J of the Oregon Constitution in 1980 authorizing the sale of general obligation bonds to finance small scale, local energy projects. 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 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. Enterprise fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. Under GASB Statement 20, SELP does not apply FASB pronouncements issued after November 30, 1989, for proprietary activities, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are presented on the accrual basis using the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liabilities are incurred. All assets and liabilities associated with the operations of these funds are included on the balance sheet. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how SELP finances and meets the cash flow needs of its proprietary activities.

Budgetary Process

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

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents are defined as cash held in the State Treasury and cash on deposit outside the State Treasury. All SELP monies are held in the Oregon Short Term Fund (OSTF), which is a cash and investment pool having characteristics of a demand deposit account. OSTF accounts are considered cash equivalents. The State Treasurer participates in securities lending with a portion of the OSTF accounts. SELP's share of the cash collateral received from broker-dealers is not material as of June 30, 2002 or as of June 30, 2001.

<u>Restricted Assets</u>

Use of all cash, cash equivalents, and investments of SELP is generally restricted as to purpose and use by the Small Scale Energy Loan Program Restated Bond Indenture, the Oregon Constitution and statute. SELP program funds are restricted to funding loans and paying debt service and operating costs. Individual borrower reserve accounts have been established to meet certain loan requirements and the balances of these accounts as of June 30, 2002 and 2001 were sufficient to meet all contractual agreements. Cash on deposit with a fiscal agent is held on behalf of bondholders and is the result of unclaimed monies from matured bonds and coupons.

<u>Investments</u>

Investments are stated at fair value based on quoted market prices consistent with GASB Statement Number 31. As of June 30, 2002 and 2001, SELP investments were invested primarily in U.S. Government securities.

<u>Interest Receivable</u>

Interest receivables on investments and loans are recorded at their net recoverable amount by management policy.

<u>Loans Receivable</u>

Loans receivable are recorded net of an allowance for uncollectible accounts. The allowances for uncollectible accounts as of June 30, 2002 and 2001, were $2,254,081 and $2,103,883, respectively.

<u>Operating Revenues and Expenses</u>

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

<u>Compensated Absences</u>

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for nonvesting, accumulated sick pay benefits, because employees may not convert accrued sick leave into cash at termination.

Arbitrage Rebate Liability

Internal Revenue Code (IRC) Section 148(f) requires issuers of tax-exempt bonds to rebate investment income earned from bond proceeds that exceed limits established for each bond issue subject to certain exceptions. Arbitrage rebate liability is long-term in nature with payments due to the federal government every five years. SELP records rebatable arbitrage as a reduction of investment revenue.

Bond Expenses

Bond issuance costs are capitalized as deferred charges and amortized over the term of the related bond issue. Bond premiums and discounts arising from the sale of a particular bond issue are deferred and charged or credited to interest expense over the term of the bond issue, using the bonds-outstanding method of amortization.

Borrower's Reserve Accounts

SELP holds reserve investments for certain municipal borrowers. All interest earned on these reserve accounts is credited to the borrower's account when received. Excess funds in the reserve accounts are 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.

Comparative Data and Reclassifications

Comparative financial statements are presented in order to provide an understanding of the changes in SELP's financial position and operations. As a result of the implementation of GASB 34, certain prior amounts have been reclassified to conform to the current accepted presentation. Additional information about the prior year can be found in SELP's financial audit report for the years ended June 30, 2001 and 2000.

2. CASH AND INVESTMENTS

The State Treasurer holds SELP funds. 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 must invest and manage investments as a prudent investor exercising reasonable care, skill and caution. Investments in the Oregon Short Term Fund (OSTF) are further governed by portfolio guidelines issued by the Oregon Short Term Fund Board. Earnings on the OSTF are allocated on a pro-rata basis on daily account balances.

Cash Deposits

At June 30, 2002, the book balance of cash and cash equivalents was $75,178,127. The bank balance was $75,251,824 of which $75,145,549 was held in demand accounts with the State Treasurer and invested in the Oregon Short Term Fund (OSTF) and the State's fiscal agent held $106,275. State Treasurer demand deposit accounts and time certificate of deposit investments of the OSTF are held in state banks and insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with State statute.

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, Suite100, Salem, Oregon 97301-3896 or from their web site at *http://www.ost.state.or.us/wrapfin.htm*.

As of 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 the State's fiscal agent held $126,575. 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.

The Bank of New York, in its capacity as the State's fiscal agent, holds SELP funds for redemption of bonds and coupons that have matured but have not yet been redeemed. On June 30, 2002 and 2001, those funds totaled $106,275 and $126,575, respectively. The cash held by the State's fiscal agent is included in SELP's cash on the balance sheet. These funds are not collateralized, but are insured by the FDIC up to $100,000 per bondholder.

Statute requires SELP cash and investments to be segregated into the Loan Fund and the Sinking Fund. Cash and investments as of June 30, 2002 and 2001, respectively, consisted of:

	June 30, 2002		**June 30, 2001**	
	Cash	Investment	Cash	Investment
Loan Fund	$ 20,292,103		$ 18,344,412	
Sinking Fund				
Program Account	12,615,080	$ 460,229	11,434,756	$ 818,738
Bond Reserve	175,000		575,000	
Principal and Interest	21,651,968		9,400,277	
Redemption Account	11,370,000		0	
Extraordinary Expense	5,546,273		4,834,378	
Borrower's Accounts	3,421,428		3,504,838	
Fiscal Agent Cash	106,275		126,575	
Assets help by agency		–		1
TOTAL	$ 75,178,127	$ 460,229	$ 48,220,236	$ 818,739

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, 2002, the investment portfolio consisted of:

	Risk Category			**Carrying**	**Fair**
	1	**2**	**3**	**Amount**	**Value**
Investments not on securities loan:					
US Government	$460,229	–	–	$460,229	$460,229
Total Investments				$460,229	$460,229

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

SELP held 2,750 shares of TreeSource, Inc. preferred stock. On March 15, 2002, the U.S. Bankruptcy Court for the Western District at Seattle disallowed SELP's claim against the assets of TreeSource. The preferred stock, therefore, has been totally written off following the receipt of that order.

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, 2002	June 30, 2001
Loans and contracts	$131,999,984	$143,447,139
State agency loans	22,258,985	23,573,976
Credit risk exposure	$109,740,999	$119,873,163

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 a percentage of new loans. Management periodically adjusts the allowance to accommodate changes in economic conditions, non-performing assets, historical loss experience, and other conditions that may affect the ultimate collectibility of the mortgage loans and contracts. In 2002, 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 2002, SELP sold bonds to refund the outstanding Series 1993 A bonds to reduce the interest costs of the program. Federal arbitrage law restricts the amount 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 principal balance of their loans. The principal reductions made to loans funded with the Series 1993 A bonds totaled $27,402, all of which was recognized as of June 30, 2002. For those borrowers receiving interest rate reductions, the cost to the program will be recognized over the remaining life of the loan through lower interest earnings. SELP also will recognize the refunding savings over the remaining life of the new bonds through lower interest payments to bondholders.

4. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, general obligation bonds totaling $509,860,000 have been issued, of which $184,175,000 were outstanding as of June 30, 2002. The following table provides a summary of bond transactions as presented on the balance sheets for the fiscal years ended June 30, 2002 and June 30, 2001:

	June 30, 2002	June 30, 2001
Bonds payable – beginning	$170,110,000	$175,180,000
Bonds issued	28,050,000	14,000,000
Bonds retired	(13,985,000)	(19,070,000)
Bonds payable – ending	184,175,000	170,110,000
Discount on bonds payable	(1,340,624)	(1,536,827)
Net bonds payable	$182,834,376	$168,573,173

Following is a schedule of debt service requirements to maturity as of June 30, 2002:

Date	Principal	Interest	Total Debt Service
2003	$ 34,655,000	$ 8,534,215	$ 43,189,215
2004	12,430,000	7,417,236	19,847,236
2005	13,035,000	6,821,208	19,856,208
2006	13,515,000	6,197,671	19,712,671
2007	12,205,000	5,544,788	17,749,788
2008-2012	50,610,000	19,711,228	70,321,228
2013-2017	37,710,000	7,689,812	45,399,812
2018-2022	5,020,000	1,830,525	6,850,525
2023-2027	4,050,000	863,588	4,913,588
2028	945,000	47,250	992,250
TOTAL	$184,175,000	$64,657,521	$248,832,521

The following table summarizes all bonds by series and the outstanding issues as of June 30, 2002:

SCHEDULE OF DEBT ISSUED AND OUTSTANDING
General Obligation Bonds

Original Issue						Bonds Outstanding				
Series	Dated Date	Final Maturity	Coupon Interest Range From	To	Amount	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1981 A	Jul-81	Jan-03	9.000%	11.500%	$ 19,700,000	$ -	$ -	$ -	$ -	$ -
1982 A	Oct–82	Jan–03	8.250%	10.400%	2,340,000	–	–	–	–	–
1983 A	Jul–83	Jan–06	12.500%	7.500%	18,495,000	–	–	–	–	–
1984 A	Apr–84	Jul–07	7.500%	9.700%	18,000,000	–	–	–	–	–
1984 B	Jul–84	Jul–06	8.000%	10.500%	10,300,000	–	–	–	–	–
1984 C	Nov–84	Jul–06	8.000%	10.300%	8,750,000	–	–	–	–	–
1985 A	Oct–85	Jul–96	5.900%	8.000%	6,900,000	–	–	–	–	–
1985 B	Oct–85	Jan–04	6.400%	9.000%	7,000,000	–	–	–	–	–
1985 C	Dec–85	Jul–05	6.000%	8.250%	10,500,000	–	–	–	–	–
1985 D	Dec–85	Jan–08	6.500%	8.400%	5,840,000	–	–	–	–	–
1986 A	Jul–86	Jan–06	5.250%	7.500%	8,000,000	–	–	–	–	–
1987 A	Jun–87	Jan–17	6.750%	8.700%	16,500,000	–	–	–	–	–
1987 B	Oct–87	Jul–15	6.600%	8.750%	14,850,000	–	–	–	–	–

SCHEDULE OF DEBT ISSUED AND OUTSTANDING
General Obligation Bonds

Original Issue						Bonds Outstanding				
	Dated	Final	Coupon Interest Range			Beginning			Ending	Due Within
Series	Date	Maturity	From	To	Amount	Balance	Increases	Decreases	Balance	One Year
1987 C	Oct–87	Jan–99	6.500%	7.900%	5,100,000	–	–	–	–	–
1987 D	Dec–87	Jan–99	5.800%	6.900%	3,850,000	–	–	–	–	–
1988 A	May–88	Jul–04	5.100%	7.250%	6,000,000	–	–	–	–	–
1988 B	May–88	Jul–04	5.000%	7.500%	1,000,000	–	–	–	–	–
1988 C	May–88	Jul–98	8.500%	9.000%	1,000,000	–	–	–	–	–
1989 A	Feb–89	Jul–05	6.100%	6.700%	5,000,000	–	–	–	–	–
1989 B	Feb–89	Jan–15	6.200%	7.100%	5,700,000	–	–	–	–	–
1989 C	Feb–89	Jul–99	9.200%	9.500%	1,000,000	–	–	–	–	–
1990 A	Jan–90	Jan–06	5.650%	6.700%	3,000,000	–	–	–	–	–
1990 B	Jan–90	Jul–11	5.950%	7.000%	3,150,000	–	–	–	–	–
1990 C	Jan–90	Jul–00	8.200%	8.600%	1,000,000	–	–	–	–	–
1990 D	Oct–90	Jul–05	5.900%	7.100%	4,000,000	–	–	–	–	–
1990 E	Oct–90	Jan–07	6.200%	7.300%	15,430,000	–	–	–	–	–
1990 F	Oct–90	Jul–00	8.200%	9.250%	1,000,000	–	–	–	–	–
1991 A	Dec–91	Jan–08	4.400%	6.150%	4,800,000	–	–	–	–	–
1991 B	Dec–91	Jan–17	4.750%	6.800%	3,225,000	–	–	–	–	–
1991 C	Dec–91	Jul–07	4.400%	6.500%	1,025,000	–	–	–	–	–
1991 D	Dec–91	Jul–02	5.800%	7.900%	500,000	–	–	–	–	–
1992 A	Apr–92	Jul–05	3.400%	6.100%	11,475,000	–	–	–	–	–
1992 B	Apr–92	Jan–03	3.400%	5.900%	1,755,000	405,000	–	195,000	210,000	210,000
1992 C	Sep–92	Jan–08	3.400%	5.800%	4,700,000	–	–	–	–	–
1992 D	Sep–92	Jan–22	4.700%	5.800%	16,300,000	–	–	–	–	–
1992 E	Sep–92	Jan–08	3.650%	5.950%	5,280,000	–	–	–	–	–
1992 F	Sep–92	Jan–06	4.000%	7.350%	16,710,000	–	–	–	–	–
1993 A	Jun–93	Jan–13	3.300%	5.375%	25,165,000	13,675,000	–	2,305,000	11,370,000	11,370,000
1993 B	Jun–93	Jul–13	3.000%	5.500%	16,305,000	12,845,000	–	640,000	12,205,000	12,205,000
1994 A	May–94	Jul–09	3.500%	5.750%	2,000,000	1,370,000	–	125,000	1,245,000	130,000
1994 B	May–94	Jul–07	4.300%	5.375%	19,325,000	10,725,000	–	1,500,000	9,225,000	1,525,000
1994 C	May–94	Jul–15	3.550%	6.000%	4,015,000	3,105,000	–	210,000	2,895,000	230,000
1994 D	May–94	Jul–15	6.125%	7.950%	14,960,000	13,150,000	–	460,000	12,690,000	500,000
1994 E	Oct–94	Jul–11	4.600%	6.000%	15,000,000	12,065,000	–	825,000	11,240,000	870,000
1994 F	Oct–94	Jul–11	4.450%	6.250%	7,010,000	5,700,000	–	310,000	5,390,000	315,000
1994 G	Oct–94	Jul–06	7.200%	8.000%	1,000,000	685,000	–	95,000	590,000	100,000
1998 A	Mar–98	Jan–14	3.900%	4.900%	3,000,000	2,840,000	–	165,000	2,675,000	170,000
1998 B	Mar–98	Jan–02	3.800%	4.250%	5,930,000	1,610,000	–	1,610,000	–	–
1998 C	Oct–98	Jul–19	3.500%	4.800%	5,500,000	5,430,000	–	185,000	5,245,000	190,000
1998 D	Oct–98	Jan–28	4.100%	4.800%	14,535,000	14,210,000	–	270,000	13,940,000	280,000
1998 E	Oct–98	Jan–17	3.650%	4.900%	2,000,000	1,845,000	–	80,000	1,765,000	85,000
1998 F	Oct–98	Jan–08	3.650%	4.250%	3,970,000	3,300,000	–	385,000	2,915,000	410,000
1998 G	Oct–98	Jan–17	3.650%	4.900%	2,500,000	2,050,000	–	285,000	1,765,000	295,000
1998 H	Oct–98	Jan–08	3.650%	4.250%	3,050,000	2,360,000	–	290,000	2,070,000	285,000
1999 A	Oct–99	Jan–17	4.750%	5.100%	25,995,000	25,085,000	–	1,250,000	23,835,000	1,320,000
1999 B	Apr–99	Jan–15	4.000%	4.750%	9,100,000	7,415,000	–	710,000	6,705,000	665,000
1999 C	Apr–99	Jul–11	4.000%	4.600%	2,115,000	1,935,000	–	200,000	1,735,000	150,000
1999 D	Apr–99	Jan–14	5.500%	6.000%	8,840,000	6,985,000	–	1,115,000	5,870,000	1,170,000
2000 A	Apr–00	Jul–17	4.500%	5.500%	7,320,000	7,320,000	–	775,000	6,545,000	825,000
2001 A	May–01	Jul–18	4.000%	5.000%	2,000,000	2,000,000	–	–	2,000,000	–
2001 B	May–01	Jan–17	3.700%	5.125%	11,000,000	11,000,000	–	–	11,000,000	540,000
2001 C	May–01	Jul–07	4.875%	5.750%	1,000,000	1,000,000	–	–	1,000,000	155,000
2001 D	Oct–01	Apr–16	2.300%	4.500%	4,000,000	–	4,000,000	–	4,000,000	50,000
2001 E	Oct–01	Oct–16	3.150%	4.850%	1,600,000	–	1,600,000	–	1,600,000	–
2001 F	Oct–01	Oct–16	3.150%	6.000%	11,500,000	–	11,500,000	–	11,500,000	610,000
2002 A	May–02	Oct–12	3.000%	4.250%	10,950,000	–	10,950,000	–	10,950,000	–
	Total General Obligation Bonds				$509,860,000	$170,110,000	$28,050,000	$13,985,000	$184,175,000	$34,655,000

5. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the fiscal year is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net bonds payable	$68,573,173	$27,917,977	$13,656,774	$182,834,376	$34,655,000
Arbitrage rebate liability	305,706	0	86,256	219,450	0
Borrowers' reserve fund liability	3,504,838	485,077	568,486	3,421,429	0
Total Long Term Liabilities	$72,383,717	$28,403,054	$14,311,516	$186,475,255	$34,655,000

6. COMMITMENTS

As of June 30, 2002 and June 30, 2001, SELP had committed but undistributed loan funds of $15,188,782 and $11,853,643, respectively, for various alternative energy and energy conservation projects within the state of Oregon.

7. DEBT REFUNDING

On May 15, 2002, SELP issued $10,950,000 in 2002 Series A General Obligation Alternate Energy Refunding Bonds with an average interest rate of 3.76 percent. The principal amount of the bonds and $400,000 of bond reserve funds will be used to refund $11,370,000 of outstanding 1993 Series A bonds with an average interest rate of 5.04 percent. The current refunding was undertaken to reduce the total debt service payments over the next 11 years by $446,114 and results in an economic gain of $496,531.

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 million of outstanding 1992 Series A bonds with an average interest rate of 5.91 percent. The net proceeds of 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.

8. 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 thirteen 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 PERS annual financial report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

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 9.49 percent of each covered employee's salary. The amounts contributed by SELP for the years ending June 30, 2002, 2001 and 2000, were $85,787, $84,087 and $76,389, respectively, equal to the required contributions for each year.

9. RISK FINANCING

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund. The Insurance Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for honesty. Faithful performance coverage is provided for key positions in state government that are required by law to be covered.

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.

10. SUBSEQUENT EVENTS

On July 1, 2002 SELP called $22,890,000 of outstanding bonds. The Series 1993 A bonds were refunded using the proceeds of the Series 2002 A bonds. The Series 1993 B bonds were redeemed with proceeds received as a prepayment. The principal reductions that borrowers received to comply with federal arbitrage regulations were recognized as of June 30, 2002, and are more fully described in Note 3.

OTHER REPORTS

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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 years ended June 30, 2002 and 2001, and have issued our report thereon dated April 21, 2003. 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 the department's SELP financial statements are free of material misstatement, we performed tests of the SELP's compliance with certain provisions of laws, regulations, contracts, grants, and trust indentures, 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.*

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 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 Office of Energy's management, the governor of the State of Oregon, the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than those specified parties.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

April 21, 2003

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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.

Auditing to Protect the Public Interest and Improve Oregon Government

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