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, 2003 and 2002

Audits Division

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, 2003 and 2002

Audits Division

No. 2004-10

March 9, 2004

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
State Auditor

(503) 986-2255
FAX (503) 378-6767

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, 2003 and 2002, 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 department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

Cathy Pollino
State Auditor

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

Page

FINANCIAL SECTION

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
State Auditor

(503) 986-2255
FAX (503) 378-6767

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Small Scale Energy Loan Program (SELP), an enterprise fund of the State of Oregon, Office of Energy, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of SELP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 SELP, an enterprise fund of the State of Oregon, Office of Energy. They do not purport to, and do not, present fairly the financial position of the state of Oregon as of June 30, 2003 and 2002, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SELP as of June 30, 2003 and 2002, 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 February 17, 2004, on our consideration SELP'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 as listed in the table of contents.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

February 17, 2004

STATE OF OREGON

OFFICE of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

BALANCE SHEETS

JUNE 30, 2003 AND JUNE 30, 2002

ASSETS	2003	2002
Current Assets:		
Cash and Cash Equivalents	$ 1,719,033	$ 859,768
Cash and Cash Equivalents--Restricted	43,933,559	70,896,930
Accounts Receivable	112,308	–
Investments	–	460,229
Investment Interest Receivable	–	4,526
Loan Interest Receivable	1,395,976	604,223
Total Current Assets	47,160,876	72,825,676
Noncurrent Assets:		
Cash and Cash Equivalents--Restricted	3,580,477	3,421,429
Arbitrage Rebate Receivable	198,071	219,450
Deferred Bond Issuance Costs	390,213	455,184
Loans Receivable (Net)	121,396,264	129,745,903
Other Receivables	24,712	–
Total Noncurrent Assets	125,589,737	133,841,966
Total Assets	$172,750,613	$206,667,642
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$ 19,884	$ 14,384
Matured Bonds Payable	85,975	106,275
Bond Interest Payable	3,494,712	4,340,141
Compensated Absences Payable	45,931	48,714
Deferred Income	–	3,051
Bonds Payable	12,430,000	34,655,000
Total Current Liabilities	16,076,502	39,167,565
Noncurrent Liabilities:		
Arbitrage Rebate Liability	278,404	219,450
Borrowers' Reserve Fund Liability	3,576,747	3,421,429
Bonds Payable	135,932,854	148,179,376
Total Noncurrent Liabilities	139,788,005	151,820,255
Total Liabilities	**155,864,507**	**190,987,820**
Net Assets – Restricted for Debt Service	15,232,888	15,679,822
Net Assets – Unrestricted	1,653,218	–
Total Liabilities and Net Assets	$172,750,613	$206,667,642

STATE OF OREGON
OFFICE of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002

	2003	2002
OPERATING REVENUES:		
Interest on Loans	$ 9,144,367	$ 9,320,265
Interest on Cash and Investments	665,286	1,378,840
Application and Commitment Fees	44,920	51,571
Loan Fees	22,282	277,441
Holding Cost Fees	407,779	210,776
Miscellaneous	40,254	344,488
Total Operating Revenues	10,324,888	11,583,381
OPERATING EXPENSES:		
Bond Interest and Debt Service Expense	7,872,264	9,343,034
Personal Services	649,566	730,223
Services and Supplies	501,468	447,910
Amortization of Deferred Bond Issuance Costs	64,971	56,308
Bad Debt Expense	30,228	150,199
Loan Receivable Write–downs	107	27,402
Total Operating Expenses	9,118,604	10,755,076
Operating Income	1,206,284	828,305
NONOPERATING REVENUES (EXPENSES):		
Gain on Sale of Investments	–	12,514
Total Nonoperating Revenues (Expenses)	–	12,514
Change in Net Assets	1,206,284	840,819
Net Assets – Beginning	15,679,822	14,839,003
Net Assets – Ending	$16,886,106	$15,679,822

STATE OF OREGON

OFFICE of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$ 557,910	$ 994,700
Loan Principal Repayments	11,323,939	26,437,249
Loan Interest Received	8,352,613	9,157,493
Loans Disbursed to Borrowers	(3,022,858)	(15,009,784)
Cash Paid to Vendors for Goods and Services	(501,342)	(597,961)
Cash Paid for Employees	(652,214)	(730,999)
Net Cash Provided By Operating Activities	16,058,048	20,250,698
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Bonds	–	27,917,977
Principal Paid on Bonds	(34,655,000)	(13,985,000)
Interest Paid on Bonds	(8,534,215)	(8,749,948)
Bond Issue Costs Paid	(7,233)	(135,542)
Net Cash Provided (Used) By Noncapital Financing Activities	(43,196,448)	5,047,487
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales and Maturities of Investments	450,000	345,514
Interest Received on Cash and Investments	743,342	1,314,192
Net Cash Provided by Investing Activities	1,193,342	1,659,706
Net Increase (Decrease) in Cash and Cash Equivalents	(25,945,058)	26,957,891
Cash and Cash Equivalents – Beginning	75,178,127	48,220,236
Cash and Cash Equivalents – Ending	$49,233,069	$75,178,127
Cash and Cash Equivalents	1,719,033	859,768
Cash and Cash Equivalents––Restricted	47,514,036	74,318,359
Total Cash and Cash Equivalents	$49,233,069	$75,178,127

STATE OF OREGON

OFFICE of ENERGY

SMALL SCALE ENERGY LOAN PROGRAM

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS (continued)

FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002

	2003	2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 1,206,284	$ 828,305
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Bad Debt	30,228	150,199
Loan Receivable Write–downs	107	27,402
Amortization of Deferred Bond Issue Costs	64,971	56,308
Interest Received on Investments Reported as Operating Revenue	(665,286)	(1,378,840)
Bond Interest Expense and Discount Amortization Reported as Operating Expense	7,872,264	9,343,034
(Increase)/Decrease in Assets:		
Accounts Receivable	(112,308)	–
Loan Interest Receivable	(791,753)	(162,774)
Loan Receivable	8,319,304	11,419,753
Other Receivables	(24,712)	–
Arbitrage Receivable	10,251	93,419
Increase/(Decrease) in Liabilities:		
Accounts Payable	12,733	(21,623)
Matured Bonds Payable	(20,300)	(20,300)
Vacation Payable	(2,783)	(776)
Borrowers Reserves	159,048	(83,409)
Total Adjustments	14,851,764	19,422,393
Net Cash Provided by Operations	$16,058,048	$20,250,698
Noncash Investing, Capital, and Financing Activities:		
Net Change in Fair Value of Investments	(8,364)	(24,330)
Total Noncash Investing, Capital, and Financing Activities	$ (8,364)	$ (24,330)

STATE OF OREGON
OFFICE OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND JUNE 30, 2002

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. Basis of Presentation

The accounts of the Office of Energy are organized on the basis of funds, which are 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 is intended to be financed or recovered primarily through user charges. Enterprise fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. 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.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are 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 revenues, expenses and changes in fund net assets present 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.

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash held in the State Treasury and cash on deposit outside the State Treasury. All SELP monies are held in the Oregon Short Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. The OSTF pool operates as a demand deposit account and funds held in the OSTF are considered cash equivalents.

F. Restricted Assets

Use of all cash, cash equivalents, and investments of SELP are restricted as to purpose and use by Article XI-J of the Oregon Constitution, Bond Indenture, and State statute. SELP's funds are restricted to funding loans and paying bond debt service and operating costs. Individual borrower reserve accounts have been established to meet certain loan requirements and the balances of these accounts as of June 30, 2003 and 2002 were sufficient to meet all contractual agreements. Cash on deposit with a fiscal agent is held on behalf of bondholders and is the result of unclaimed monies from matured bonds and coupons.

G. Investments

Investments are stated at fair value. Investment fair value is determined using quoted market rates consistent with GASB Statement Number 31.

H. Receivables

Receivables reported are amounts due that represent revenues earned or accrued in the applicable period. Types of receivables included in this classification relate to interest, loans receivable, and other miscellaneous receivables. Interest receivable on investments and loans are recorded at their net recoverable amount by management policy. Loans receivable are recorded net of an allowance for uncollectible accounts. The allowances for uncollectible accounts at June 30, 2003 and 2002, were $2,284,309 and $2,254,081, respectively.

I. Operating Revenues and Expenses

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. Nonoperating revenues and expenses include any gain or loss on investments.

J. Compensated Absences

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

K. 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 issues. These limits are based on the bond yield as calculated for federal tax purposes for each bond issue and are subject to certain exceptions. Arbitrage rebate liability is long-term in nature with payments due to the federal government every five years after issuance. SELP records rebatable arbitrage as a reduction of investment revenue.

L. Bond Expenses

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

M. Borrower's Reserve Accounts

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

N. Comparative Data

Comparative financial statements are presented in order to provide an understanding of the changes in SELP's financial position and operations. Additional information about the prior year can be found in SELP's financial audit report for the years ended June 30, 2002 and 2001.

NOTE 2. CASH AND INVESTMENTS

The State Treasurer holds SELP funds. The State Treasurer is the investment officer for funds on deposit with 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.

SELP has elected early implementation of GASB Statement 40, *Deposit and Investment Risk Disclosures,* modifying the footnote disclosure of cash and investments under GASB Statement 3.

A. Cash Deposits

As of June 30, 2003, the book balance of cash and cash equivalents was $49,233,069. The bank balance was $49,203,483 of which $49,117,508 was held in demand accounts with the State Treasurer invested in the Oregon Short Term Fund (OSTF) and $85,975 was held by the State's fiscal agent. State Treasurer demand deposit accounts and time certificate of deposit investments of the OSTF are held in state banks and insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with State statute.

Securities in the Short Term Fund are held by the Treasury's agent in the name of the State of Oregon. They consist of government securities, certificates of deposit, bankers' acceptances, and other short-term commercial paper. A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report can be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street, NE, Suite 100, Salem, Oregon 97301-3896 or from their website at http://www.ost.state.or.us/About/Boards/OSTF/Financial%20Statements/index.htm.

As of 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 invested in the Oregon Short Term Fund (OSTF) and $106,275 was held by the State's fiscal agent.

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, 2003 and 2002 those funds totaled $85,975 and $106,275, respectively. The funds are backed by the faith and credit of Bank of New York, and are neither insured nor collateralized.

Bond Indenture and statute require SELP cash and investments to be segregated into the Loan Fund and the Sinking Fund. Cash and investments as of June 30, 2003 and 2002, respectively, consisted of:

	June 30, 2003		June 30, 2002	
	Cash	**Investments**	**Cash**	**Investments**
Loan Fund	$21,629,245		$20,292,103	
Sinking Fund				
Program Account	8,436,289	$ –	12,615,080	$460,229
Bond Reserve	0		175,000	
Principal & Interest	9,564,712		21,651,968	
Redemption Account	0		11,370,000	
Extraordinary Expense	5,939,804		5,546,273	
Borrower's Accounts	3,577,044		3,421,428	
Fiscal Agent Cash	85,975		106,275	
TOTAL	$49,233,069	$ –	$75,178,127	$460,229

B. Investments

The Bond Indenture and State statute authorize SELP to invest through the State Treasurer in United States Treasury and government agency bonds, notes and bills; state and municipal bonds of the four highest ratings; and corporate bonds. SELP's investment policy further limits the amount of investment in any one company to 5 percent of the fund's total par value. Structured notes and securities tied to foreign currencies or their indices are excluded from allowable investments. SELP's investments are specifically identified below to give an indication of their maturities and fair value at year end. All SELP investments are insured or registered, and SELP or its agent holds securities in SELP's name.

As of June 30, 2003 and 2002, respectively, the investment portfolio consisted of:

	June 30, 2003 **Maturities**	**Fair Value**	June 30, 2002 **Maturities**	**Fair Value**
U.S. Treasury Notes	N/A	$–	November 2007	$460,229
TOTAL		$–		$460,229

NOTE 3. LOANS RECEIVABLE

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

	June 30, 2003	June 30, 2002
Loans and contracts	$123,680,573	$131,999,984
State agency loans	19,623,393	22,258,985
Credit risk exposure	$104,057,180	$109,740,999

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 and 2003, SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan and contract portfolio.

SELP was awarded a court judgment against a borrower as a result of loan delinquency during the fiscal year 2003. The settlement is reported as component of other receivables in the amount of $21,279 and consists of the remaining principal transferred from the loan portfolio plus accrued interest and associated court costs.

Agreements exist between SELP and two borrowers that allow for a temporary modification of the payment terms of the borrower's loans. SELP agrees to forbear against issuing a notice of default and enforcement of its security interests under the loan documents. All affected borrowers have complied with the terms of the applicable agreements, but of the $1,395,976 in Loan Interest Receivable, approximately $517,339 of accrued interest is expected to be collected later than one year after June 30, 2003.

During the fiscal year 2002 SELP sold bonds to refund the outstanding Series 1993A 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 1993A bonds totaled $27,509. $27,402 was recognized as of June 30, 2002 and the balance of $107 was recognized as of June 30, 2003. 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 will also recognize the refunding savings over the remaining life of the new bonds through lower interest payments to bondholders.

NOTE 4. BONDS PAYABLE AND DEBT SERVICE

Since SELP's inception in 1980, general obligation bonds totaling $509,860,000 have been issued, of which $149,520,000 was outstanding at June 30, 2003. Bond proceeds are loaned to individual residents, businesses, nonprofit organizations, and local governments in Oregon to complete energy conservation and renewable resource energy projects. The following table provides a summary of bond transactions as presented on the balance sheets for the fiscal years ended June 30, 2003 and June 30, 2002:

	June 30, 2003	June 30, 2002
Bonds Payable – beginning	$184,175,000	$170,110,000
Bonds issued	–	28,050,000
Bonds retired	(34,655,000)	(13,985,000)
Bonds Payable – ending	149,520,000	184,175,000
Discount on Bonds Payable	(1,157,146)	(1,340,624)
Net Bonds Payable	$148,362,854	$182,834,376

Debt Service Requirements to Maturity

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2003, for each fiscal year during the next five years period ending June 30, 2008, and in five year increments thereafter.

Year Ending June 30	Principal	Interest	Total Debt Service
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	11,690,000	4,973,756	16,663,756
2009-2013	47,740,000	17,159,263	64,899,263
2014-2018	30,350,000	5,739,158	36,089,158
2019-2023	4,290,000	1,608,226	5,898,226
2024-2028	4,265,000	662,000	4,927,000
TOTAL	$149,520,000	$56,123,306	$205,643,306

The following table summarizes all bonds by series and the outstanding issues as of June 30, 2003:

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
1981A	Jul-81	Jan-03	9.000%	11.500%	$19,700,000	$ –	$ –	$ –	$ –	$ –
1982A	Oct-82	Jan-03	8.250%	10.400%	2,340,000	–	–	–	–	–
1983A	Jul-83	Jan-06	7.500%	12.500%	18,495,000	–	–	–	–	–
1984A	Apr-84	Jul-07	7.500%	9.700%	18,000,000	–	–	–	–	–
1984B	Jul-84	Jul-06	8.000%	10.500%	10,300,000	–	–	–	–	–
1984C	Nov-84	Jul-06	8.000%	10.300%	8,750,000	–	–	–	–	–
1985A	Oct-85	Jul-96	5.900%	8.000%	6,900,000	–	–	–	–	–
1985B	Oct-85	Jan-04	6.400%	9.000%	7,000,000	–	–	–	–	–
1985C	Dec-85	Jul-05	6.000%	8.250%	10,500,000	–	–	–	–	–
1985D	Dec-85	Jan-08	6.500%	8.400%	5,840,000	–	–	–	–	–
1986A	Jul-86	Jan-06	5.250%	7.500%	8,000,000	–	–	–	–	–
1987A	Jun-87	Jan-17	6.750%	8.700%	16,500,000	–	–	–	–	–
1987B	Oct-87	Jul-15	6.600%	8.750%	14,850,000	–	–	–	–	–
1987C	Oct-87	Jan-99	6.500%	7.900%	5,100,000	–	–	–	–	–
1987D	Dec-87	Jan-99	5.800%	6.900%	3,850,000	–	–	–	–	–
1988A	May-88	Jul-04	5.100%	7.250%	6,000,000	–	–	–	–	–
1988B	May-88	Jul-04	5.000%	7.500%	1,000,000	–	–	–	–	–
1988C	May-88	Jul-98	8.500%	9.000%	1,000,000	–	–	–	–	–
1989A	Feb-89	Jul-05	6.100%	6.700%	5,000,000	–	–	–	–	–
1989B	Feb-89	Jan-15	6.200%	7.100%	5,700,000	–	–	–	–	–
1989C	Feb-89	Jul-99	9.200%	9.500%	1,000,000	–	–	–	–	–
1990A	Jan-90	Jan-06	5.650%	6.700%	3,000,000	–	–	–	–	–
1990B	Jan-90	Jul-11	5.950%	7.000%	3,150,000	–	–	–	–	–
1990C	Jan-90	Jul-00	8.200%	8.600%	1,000,000	–	–	–	–	–
1990D	Oct-90	Jul-05	5.900%	7.100%	4,000,000	–	–	–	–	–
1990E	Oct-90	Jan-07	6.200%	7.300%	15,430,000	–	–	–	–	–
1990F	Oct-90	Jul-00	8.200%	9.250%	1,000,000	–	–	–	–	–
1991A	Dec-91	Jan-08	4.400%	6.150%	4,800,000	–	–	–	–	–
1991B	Dec-91	Jan-17	4.750%	6.800%	3,225,000	–	–	–	–	–
1991C	Dec-91	Jul-07	4.400%	6.500%	1,025,000	–	–	–	–	–
1991D	Dec-91	Jul-02	5.800%	7.900%	500,000	–	–	–	–	–
1992A	Apr-92	Jul-05	3.400%	6.100%	11,475,000	–	–	–	–	–
1992B	Apr-92	Jan-03	3.400%	5.900%	1,755,000	210,000	–	210,000	–	–
1992C	Sep-92	Jan-08	3.400%	5.800%	4,700,000	–	–	–	–	–
1992D	Sep-92	Jan-22	4.700%	6.100%	16,300,000	–	–	–	–	–
1992E	Sep-92	Jan-08	3.650%	5.950%	5,280,000	–	–	–	–	–
1992F	Sep-92	Jan-06	4.000%	7.350%	16,710,000	–	–	–	–	–
1993A	Jun-93	Jan-13	3.300%	5.375%	25,165,000	11,370,000	–	11,370,000	–	–
1993B	Jun-93	Jul-13	3.000%	5.500%	16,305,000	12,205,000	–	12,205,000	–	–
1994A	May-94	Jul-09	3.500%	5.750%	2,000,000	1,245,000	–	130,000	1,115,000	135,000
1994B	May-94	Jul-07	4.300%	5.375%	19,325,000	9,225,000	–	1,525,000	7,700,000	1,605,000
1994C	May-94	Jul-15	3.550%	6.000%	4,015,000	2,895,000	–	230,000	2,665,000	245,000
1994D	May-94	Jul-15	6.125%	7.950%	14,960,000	12,690,000	–	500,000	12,190,000	545,000
1994E	Oct-94	Jul-11	4.600%	6.000%	15,000,000	11,240,000	–	870,000	10,370,000	915,000
1994F	Oct-94	Jul-15	4.450%	6.250%	7,010,000	5,390,000	–	315,000	5,075,000	345,000
1994G	Oct-94	Jul-06	7.200%	8.000%	1,000,000	590,000	–	100,000	490,000	110,000
1998A	Mar-98	Jan-14	3.900%	4.900%	3,000,000	2,675,000	–	170,000	2,505,000	180,000
1998B	Mar-98	Jan-02	3.800%	4.250%	5,930,000	–	–	–	–	–
1998C	Oct-98	Jul-19	3.500%	4.800%	5,500,000	5,245,000	–	190,000	5,055,000	200,000
1998D	Oct-98	Jan-28	4.100%	4.800%	14,535,000	13,940,000	–	280,000	13,660,000	290,000
1998E	Oct-98	Jan-17	3.650%	4.900%	2,000,000	1,765,000	–	85,000	1,680,000	90,000
1998F	Oct-98	Jan-08	3.650%	4.250%	3,970,000	2,915,000	–	410,000	2,505,000	435,000
1998G	Oct-98	Jan-17	3.650%	4.900%	2,500,000	1,765,000	–	295,000	1,470,000	255,000
1998H	Oct-98	Jan-08	3.650%	4.250%	3,050,000	2,070,000	–	285,000	1,785,000	280,000
1999A	Oct-99	Jan-17	4.750%	5.100%	25,995,000	23,835,000	–	1,320,000	22,515,000	1,330,000
1999 B	Apr-99	Jan-15	4.000%	4.750%	9,100,000	6,705,000	–	665,000	6,040,000	685,000
1999 C	Apr-99	Jul-11	4.000%	4.600%	2,115,000	1,735,000	–	150,000	1,585,000	155,000
1999 D	Apr-99	Jan-14	5.500%	6.000%	8,840,000	5,870,000	–	1,170,000	4,700,000	1,220,000
2000 A	Apr-00	Jul-17	4.500%	5.500%	7,320,000	6,545,000	–	825,000	5,720,000	860,000
2001 A	May-01	Jul-18	4.000%	5.000%	2,000,000	2,000,000	–	–	2,000,000	–

	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
2001 B	May-01	Jan-17	3.700%	5.125%	11,000,000	11,000,000	–	540,000	10,460,000	560,000
2001 C	May-01	Jul-07	4.875%	5.750%	1,000,000	1,000,000	–	155,000	845,000	165,000
2001 D	Oct-01	Apr-16	2.300%	4.500%	4,000,000	4,000,000	–	50,000	3,950,000	245,000
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	–	610,000	10,890,000	645,000
2002 A	May-02	Oct-12	3.000%	4.250%	10,950,000	10,950,000	–	–	10,950,000	935,000
	Total General Obligation Bonds				$509,860,000	$184,175,000	–	$34,655,000	$149,520,000	$12,430,000

NOTE 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	$182,834,376	$ –	$34,471,522	$148,362,854	$12,430,000
Arbitrage rebate liability	219,450	58,954	–	278,404	258,223
Borrowers' reserve fund liability	3,421,429	995,937	840,619	3,576,747	–
Total Long Term Liabilities	$186,475,255	$1,054,891	$35,312,141	$152,218,005	$12,688,223

NOTE 6. CONTINGENCIES

As of June 30, 2003 and June 30, 2002, SELP had committed but undistributed loan funds of $21,629,227 and $15,188,782, respectively, for various alternative energy and energy conservation projects within the state of Oregon.

NOTE 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 percent. The current refunding was undertaken to reduce the total debt service payments over the next 11 years by $446,114 and resulted in an economic gain of $496,531. On July 1, 2002 SELP called $22,890,000 of outstanding bonds. The 1993A bonds were refunded using the proceeds of the Series 2002A bonds as noted above. The 1993B bonds were redeemed prior to maturity with proceeds received as a prepayment during fiscal year 2002.

NOTE 8. DEFINED BENEFIT RETIREMENT PLAN

SELP employees participate in the Oregon Public Employee's Retirement System (PERS), a cost sharing multiple employer benefit pension 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 several retirement benefit options. Options include survivorship benefits and lump sum refunds. PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, P.O. Box 23700, Tigard, OR 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 9.49 percent of each covered employee's salary. The amounts contributed by SELP for the years ended June 30, 2003, 2002, and 2001 were $73,644, $85,787, and $84,087, respectively, equal to the required contributions each year.

NOTE 9. RISK FINANCING

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

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.

OTHER REPORTS

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
State Auditor

(503) 986-2255
FAX (503) 378-6767

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

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, 2003 and 2002, and have issued our report thereon dated February 17, 2004. 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 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 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

February 17, 2004

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

State Auditor	Cathy Pollino, CGFM, MBA
Deputy State Auditor	Charles A. Hibner, CPA
Deputy State Auditor	Mary E. Wenger, CPA

Audit Team

Kelly Olson, CPA, Audit Administrator

Shandi Frederickson, CPA

David Moon, CPA

David Terry

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit report and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation helps us save on printing costs.

Oregon Audits Division
Public Service Building
255 Capitol Street NE • Suite 500
Salem, Oregon 97310

We invite comments on our reports through our Hotline or Internet address.

Ph. 503-986-2255
Hotline: 800-336-8218
Internet: Audits.Hotline@state.or.us

http://www.sos.state.or.us/audits/audithp.htm

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