COMPREHENSIVE ANNUAL FINANCIAL REPORT

OREGON DEPARTMENT OF VETERANS' AFFAIRS

An Agency of the State of Oregon

ENTERPRISE FUNDS
FOR THE FISCAL
YEARS ENDED
JUNE 30, 2011 AND
JUNE 30, 2010

Comprehensive Annual Financial Report

Enterprise Funds of the
Oregon Department of Veterans' Affairs

An Agency of the State of Oregon

For The Fiscal Years Ended
June 30, 2011 and June 30, 2010

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Bruce Shriver, CPA
Chief Financial Officer

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With the assistance of the
Financial Services Division,
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and Public Information Section

Cover Design: Nicole Hoeft, Public Information Section

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INTRODUCTORY SECTION

Events From This Past Year

The Department participates in various activities and events that honor and serve Oregon's veteran community.

1) Commanders Call; **2)** Honor and Remember Flag Ceremony; **3)** McMinnville High School Veteran Book Event; **4)** Legislative Reception; **5)** Veteran Home Community Center Ground Breaking; **6)** Veterans Day Event 2010; **7)** SB 951 Korean War Veteran Day Bill Signing; **8)** Veterans' Home tour with Senator Ron Wyden; **9)** Veteran Muster; **10)** Veteran Appreciation Day; **11)** Patriot Flag Day 9/11 Event; **12)** Reintegration Team brief to Veterans' Affairs Advisory Committee; **13)** Military Order of the Purple Heart awards; **14)** Rocky Lynn performs for veterans; **15)** Veterans Appreciation Day at Volcanoes Stadium; **16)** Veterans' Affairs Advisory Committee Meeting


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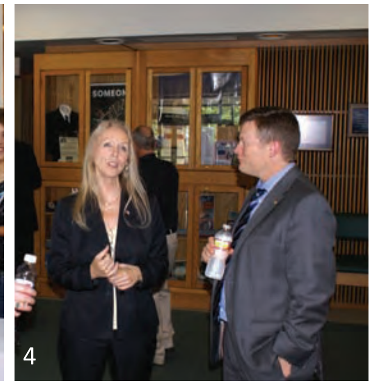
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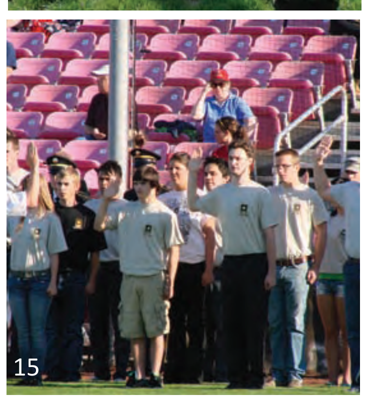
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Oregon
John A. Kitzhaber, MD, Governor

Department of Veterans' Affairs
700 Summer Street NE, Salem, OR 97301
Phone: (503) 373-2085 | Fax: (503) 373-2362
www.oregon.gov/odva

November 15, 2011

To the Honorable Governor John A. Kitzhaber, M.D. and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the Oregon Department of Veterans' Affairs *(the "Department")* Enterprise funds, for the fiscal years ended June 30, 2011, and June 30, 2010.

This report is organized and presented in five sections. The **Introductory Section** includes this transmittal letter and an organizational chart. The **Financial Section** includes the independent auditor's report, management's discussion and analysis, the financial statements and accompanying notes. The **Other Supplemental Section** includes the Department's Governmental and Fiduciary funds' financial statements for the purposes of additional analysis. The **Statistical Section** includes selected financial and programmatic information, much of which is presented on a multi-year basis. The **Other Reports** section includes the independent auditor's report on compliance and internal control over financial reporting.

Department management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Secretary of State, Audits Division, has contracted with Merina and Company for the audit of the Department's Enterprise Funds for the years ended June 30, 2011 and June 30, 2010. Their unqualified opinion on the Enterprise Fund financial statements is included in the Financial Section of this report.

Management's discussion and analysis *(MD&A)* immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

OREGON ECONOMY

***Recent Trends* –** According to the Oregon State Office of Economic Analysis *(OEA)*: "After a very strong start to 2011, the second quarter job growth came in at a very slow pace. Preliminary estimates place the second quarter growth at 0.7 percent. At least this is the third consecutive quarter of positive job growth, the longest continuous stretch since the second quarter of 2007. On a year-over-year (Y/Y) basis, job growth is up 1.4 percent.

While the total estimated job growth for the second quarter is disappointing, the private sector has been improving. After a rocky start in the first quarter of 2010, the private sector has added jobs every quarter. More sectors had job gains relative to job losses. Notable job increases are reported in manufacturing, retail trade, health services, and leisure and hospitality. Some of the sectors with relatively higher job losses are wood products, food processing, transportation, warehousing, and utilities, educational services, and other services. Budget shortfalls have caught up with the public sector, with declines in all three government levels, notable local government and in particular local education.

The "headwinds" facing the U.S. economy did not appear to be present in the first quarter in Oregon, but the second quarter is feeling the effects. Higher gasoline and other commodity prices are squeezing household budgets. The slowing impacts around the country have come to Oregon, but the private sector is still producing more jobs, albeit at a relatively slow pace. The real story of the slow growth in the second quarter is the government sector. Comprising around 18 percent of total employment in Oregon, job losses in this sector will have a damping impact on the economy moving forward.

At this juncture in the business cycle, using the past two expansions as a guide, the Oregon economy typically adds around 3,400 jobs per month. Over the past twelve months, Oregon has added 2,100 jobs per month. There are two main drags on economic growth currently: the continued delayed improvement in the housing market and the public sector pullback. These two issues more than account for the discrepancy between the typical expansion employment gains and the ones we are seeing today. Housing related industries (construction, home and garden supply stores, mortgage loan brokers and real estate employment) normally add 575 jobs each month; however over the past year they have added, on average, only 50 jobs per month. Similarly the public sector typically adds 350 jobs per month, however over the past year, excluding the temporary Census workers; the public sector has averaged cuts of 475 jobs per month. This net swing of over 1,300 jobs per month between the past two expansions and today results in the difference in the total nonfarm employment figures."

***Future Outlook* –** The September 2011 Oregon Economic and Revenue Forecast reports: "Although the second quarter of 2011 reported weak but positive job growth, we are not forecasting a recession for the Oregon economy. Risks of a downturn are heightened and we will be watching indicators for any further signs of weakening. OEA forecasts an increase of 0.5 percent in the third quarter of 2011 for total employment and 1.8 percent in the fourth quarter. Job gains continue to improve moving to nearly 2.0 percent in 2012. For the year average in 2011, total employment is projected to increase 1.7 percent and rise to 1.95 percent in 2012."

MAJOR INITIATIVES

Current Service Efforts and Accomplishments - Article XI-A of the Oregon Constitution outlines the broad duties of the Department. The primary Oregon Revised Statutes governing the Department are Chapters 406 through 408. Following is a brief description of the Department's primary Enterprise funds' programs and activities.

- The ***Veterans' Loan Program*** provides home loans to Oregon veterans at favorable interest rates. Both federal and State laws govern eligibility requirements on who may receive a veterans' home loan. As of June 30, 2011, this Program had approximately 2,850 mortgage loans and contracts outstanding, with a principal balance of approximately $251 million.
- The ***Veterans' Home Program*** provides professional medical, nursing, rehabilitative, social and other support services primarily to veterans and their spouses residing in the Oregon Veterans' Home *(OVH)*. Located in The Dalles, the OVH, which opened in November 1997, has the capacity to serve 151 residents and had occupancy of approximately 140 residents at June 30, 2011. The Department owns the OVH and as of October 1, 2008, has contracted with Veterans Care Centers of Oregon *(VCCO)*, a non-profit organization, to provide the services needed by the residents.

The Oregon Department of Veterans' Affairs had a very successful Legislative Session, passing more than two dozen bills focused on improving benefits and opportunities for veterans. Significant time and energy was spent on passing legislation related to veteran employment; Oregon veterans are unemployed at a significantly higher rate than their civilian counterparts. The prize bill was House Bill (HB) 3207, which guarantees a veteran an interview for a job in the public sector if the veteran's military skills and education meet the minimum qualifications and desired attributes for the position. HB 3207 was important because many veterans were not being interviewed for positions for which the qualified. HB 3207 guarantees that the veteran will get his or her opportunity to meet hiring managers face to face. The Legislature also passed a rewrite of Oregon Veterans Preference law, which gives preference points to veterans who apply for public sector positions. Senate Bill 277 passed and rewrites the preference law in plain language so that all public sector employers can see it applies to them. The Legislature also passed bills expanding state agency outreach to their veteran clients; provided money to pay for medical transportation for wheelchair-bound veterans; and universal application of college credit for military training and education within the community college system.

The Campus Veteran Service Officer program was quite successful with more than 8,400 student veterans using the new Post 9/11 GI Bill in Oregon institutions. ODVA Service Officers filed more than 1,000 claims on behalf of these veterans, as well as helped them reintegrate and adjust to campus life. The Campus VSOs were so well respected they were asked by many campus administrations to provide in-service training to instructors on veteran culture and how to work with veteran students. Unfortunately, the Legislature did not continue funding for the program beyond the 2009-2011 biennium and the program was discontinued.

With the economy flattening out, the ORVET Home Loan saw more business than in the previous two years combined. Partnerships are being made with mortgage brokers, lenders and Realtors to ensure Oregon veterans know about their state home loan benefit. With the passage of Ballot Measure 70 in November 2010, the ORVET Home Loan now is a lifetime benefit for Oregon veterans.

FINANCIAL INFORMATION

Enterprise Funds - The Veterans' Loan Program and the Veterans' Home Program are enterprise funds and account for the Department’s business-type activities. At June 30, 2011, the Veterans' Loan Program had approximately $595 million in assets and deferred outflows *(primarily consisting of cash and cash equivalents, securities lending cash collateral, investment securities, and loan and contract receivables)* and approximately $461 million in liabilities *(primarily consisting of general obligation bonds)*. Revenues from the Department's home loan program are primarily generated through interest on loans originated and investment income. These revenues are used to pay interest expense on outstanding debt and related program and administrative expenses. At June 30, 2011, the Veterans' Home Program had approximately $32.5 million in assets *(primarily consisting of cash and cash equivalents, securities lending cash collateral, receivables, and capital assets)* and approximately $6 million in liabilities *(primarily consisting of short-term payables and obligations arising from securities lending)*.

Debt Administration - The Department, with the approval of the State Treasurer's office, has authority to issue general obligation bonds to fund the home loan program. The Department's general obligation bonds are rated as part of the State of Oregon's general obligation bond program. The Department's most recent general obligation bond issue was rated as follows:

Moody's Investor Service	Aa1
Fitch Ratings	AA+
Standard & Poor's	AA

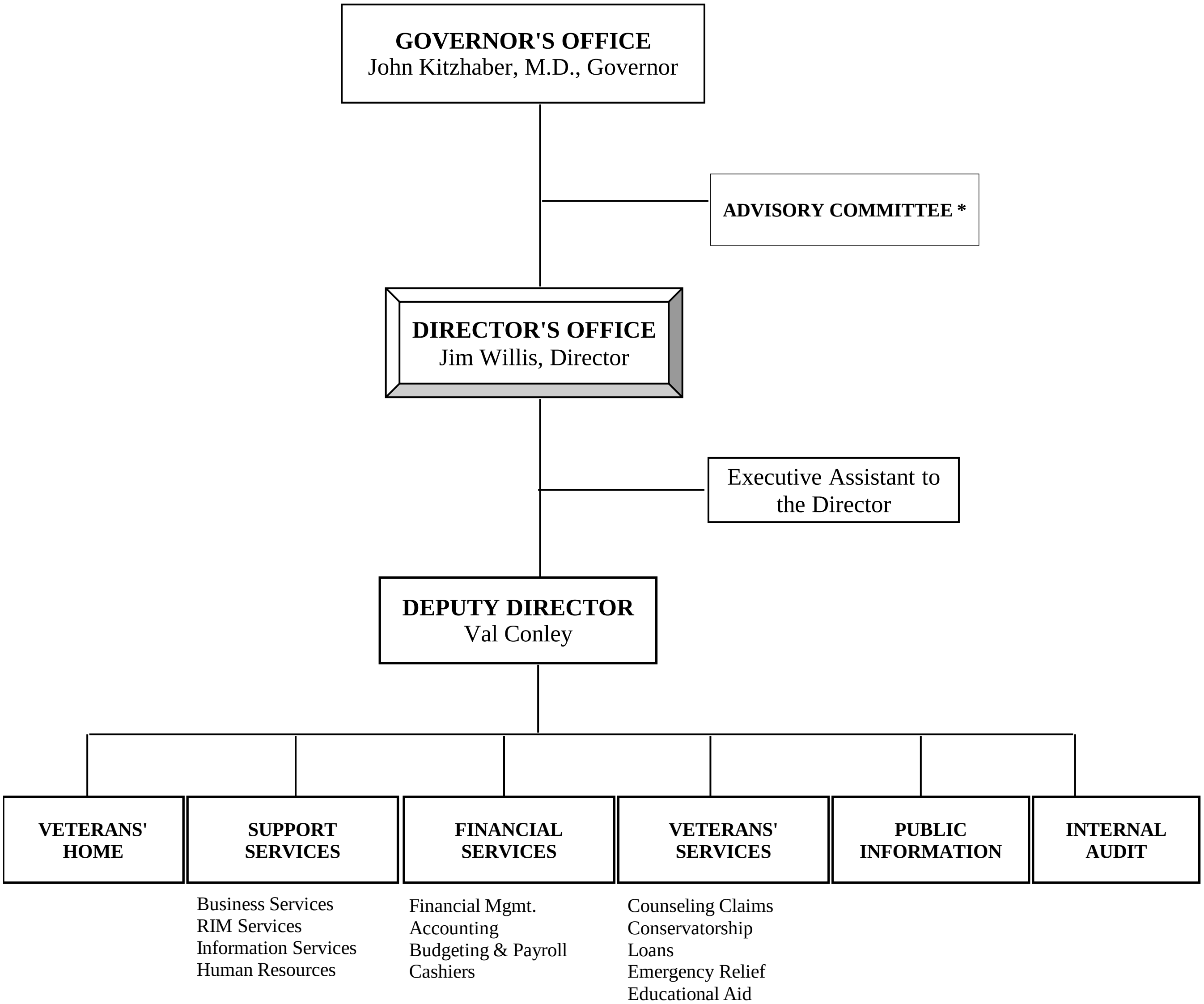
As of June 30, 2011, the Department had approximately $374.7 million *(par value)* in outstanding bonds. During fiscal year 2011, $83.15 million in bonds were issued and approximately $149.8 million in bonds were retired.

Cash Management - All monies collected by the Department are turned over to the State Treasurer, who is responsible for the control of cash and the investment of State funds. On June 30, 2011, the Department's Enterprise funds cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $283.3 million. The Oregon Investment Council, of which the State Treasurer is a member, establishes investment policy for all State of Oregon funds. To further Oregon's economic growth, the Council's continuing policy has been to invest locally when investments of comparable yield, quality, and maturity can be found in state without damaging portfolio diversity. Fortunately for Oregonians, State-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments that have been a cause of national concern. The State Treasurer pools all available cash into the Oregon Short-Term Fund from which investments are made in a variety of instruments.

Acknowledgements **-** The preparation of this report reflects the combined efforts of the Department's staff. The professionalism, commitment, and effort of the individuals involved are very much appreciated.

Respectfully submitted,

Jim Willis	Bruce Shriver
Director	Chief Financial Officer



* The Advisory Committee is a nine-member advisory body appointed by the Governor for four-year terms. The committee advises the Director concerning matters of the operations of the Department and issues affecting veterans and their dependents and survivors who reside in this state.

Advisory Committee Members	Term Expires	Advisory Committee Members	Term Expires
David Fairclo	March 15, 2012	Tino Ornelas	September 30, 2011
Irv Fletcher	December 31, 2014	Kevin Owens	March 15, 2012
Joseph Howell	March 15, 2012	Charles Schmidt	September 30, 2012
Eugene LaBonte	March 15, 2012	Nanci Visser	August 19, 2013
Gerard Lorang	March 15, 2012		

FINANCIAL SECTION

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA

INDEPENDENT AUDITOR'S REPORT

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

Jim Willis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97301-1285

We have audited the accompanying financial statements of the Veterans' Loan Program and Veterans' Home Program, enterprise funds of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2011 and June 30, 2010, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 the 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 opinions.

As discussed in Note 1, the financial statements present only the Veterans' Loan Program and Veterans' Home Program and do not purport to, and do not, present fairly the financial position of the State of Oregon, as of June 30, 2011 and 2010, and the changes in its financial position, or, were applicable, its 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 respective financial position of the Veterans' Loan Program and Veterans' Home Program,

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enterprise funds of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2011 and 2010, and the respective changes in financial position and 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 November 15, 2011, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements as a whole. The introductory section, other supplemental section, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory, other supplemental and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
November 15, 2011

Management's Discussion and Analysis

This section of the Oregon Department of Veterans' Affairs' *(the "Department")* Comprehensive Annual Financial Report presents our discussion and analysis of financial performance for the Department's Proprietary Funds *(Loan Program and Veterans' Home)* during the fiscal year ended June 30, 2011. The selected financial data presented was derived primarily from the financial statements of the Department, which have been audited.

FINANCIAL HIGHLIGHTS

- Net assets increased from approximately $146.5 million at June 30, 2010, to approximately $160.1 million at June 30, 2011, an increase of $13.6 million, or 9.31%.

- Revenues decreased from approximately $33.6 million at June 30, 2010, to approximately $31.6 million at June 30, 2011, a decrease of $2.0 million, or 5.76%.

- Expenses decreased from approximately $31.7 million at June 30, 2010, to approximately $31.4 million at June 30, 2011, a decrease of $300 thousand or 0.98%.

- Outstanding general obligation bond debt decreased from $441.4 million *(par value)* on June 30, 2010, to $374.7 million *(par value)* on June 30, 2011, a decrease of $66.6 million. Approximately $83.2 million in general obligation bonds were issued during the fiscal year.

- Mortgage loan originations for fiscal year 2011 totaled approximately $15.6 million, an increase of approximately $6.9 million from fiscal year 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The basic financial statements include proprietary fund financial statements and notes to the financial statements. The Department's basic financial statements do not include department-wide financial statements since only the proprietary funds are audited. The Department does have a minimal portion of governmental funds that are included in the State of Oregon Comprehensive Annual Financial Report located at http://www.oregon.gov/DAS/SCD/SARS/publications.shtml.

- The proprietary fund financial statements include major enterprise funds, which operate similarly to business activities and follow an accrual basis of accounting.

- The notes to the financial statements provide additional information essential to a full understanding of the data provided in the proprietary fund financial statements.

OVERVIEW OF THE PROPRIETARY FUNDS FINANCIAL POSITION & OPERATIONS

Total assets and deferred outflows at June 30, 2011 were approximately $627.7 million, a decrease of $73.5 million from June 30, 2010. The change in assets consists primarily of $13.6 million decrease in cash and cash equivalents, a $13.3 million decrease in investments, a $20.7 million decrease in securities lending cash collateral, and a $27.9 million decrease in net loans and contracts receivable.

Total liabilities at June 30, 2011, were $467.6 million, a decrease of $87.1 million from June 30, 2010. The change in liabilities consists primarily of a decrease of $66.6 million in bonds payable, a decrease of $20.8 million in obligations under securities lending, and an increase of $2.2 million in excess mortgage interest and arbitrage rebate liability.

The Department's proprietary fund financial position and operations for the past three years are summarized below based on the information included in the basic financial statements.

Proprietary Funds
Statement of Net Assets

	Business Type Activities		
	2011	**2010**	**2009**
Assets & Deferred Outflows:			
Current and Other Assets	$ 611,403,503	$ 687,679,127	$ 1,088,844,530
Capital Assets	16,297,036	13,530,938	13,961,323
Total Assets & Deferred Outflows	$ 627,700,539	$ 701,210,065	$ 1,102,805,853
Liabilities:			
Long Term Liabilities	$ 386,261,729	$ 451,852,188	$ 736,299,328
Other Liabilities	81,353,957	102,905,947	221,758,560
Total Liabilities	$ 467,615,686	$ 554,758,135	$ 958,057,888
Net Assets:			
Invested in Capital Assets	$ 16,297,036	$ 13,530,938	$ 13,961,323
Expendable, Restricted for Capital Construction	10,426,096	-	-
Unrestricted	133,361,721	132,920,992	130,786,642
Total Net Assets	$ 160,084,853	$ 146,451,930	$ 144,747,965

Cash and Cash Equivalents and Investments

Total cash and cash equivalents and investments decreased by approximately $26.9 million, or 8.7%, from June 30, 2010 to June 30, 2011. The decrease reflects the Department's continued use of available receipts for early bond redemptions and receipt of less mortgage and investment interest income.

Loans Receivable

Total mortgages and other loans receivable decreased by $27.9 million in fiscal year 2011. This decrease was primarily due to prepayments on outstanding mortgage loans.

Capital Assets

Capital asset activity during the year included the purchase of equipment and machinery, disposal of old equipment, donated land, and construction in progress. For additional details, see the Notes to the Financial Statements *(Note 4)*.

Bonds Payable

Bonds Payable decreased by $66.6 million *(par value)* from June 30, 2010 to June 30, 2011. During fiscal year 2011, the Department issued approximately $83.2 million in general obligation bonds. For fiscal year 2010, the Department did not issue any general obligation bonds. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Assets

Capital assets for the Department increased due to activity related to the second veterans home and construction of a community center, both projects resulted in a positive impact on net assets. The results of operations for the Department's proprietary funds are presented below:

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets

	Business Type Activities		
	2011	**2010**	**2009**
Operating Revenues:			
Interest Income:			
Mortgage Loans	$11,797,640	$11,445,675	$16,014,046
Contracts	$139,828	$209,608	$302,145
Investment Income:			
Interest and Income	$3,318,611	$6,034,960	$14,344,500
Change in Fair Value of Investments	$750,707	$942,525	($9,636,859)
LCLI Premium Revenue	$822,503	$962,230	$1,142,192
LCLI Processing Fee	$102,000	$102,000	$102,000
Resident Related Revenues	$12,615,906	$11,833,514	$11,709,871
Other Fees and Charges	$1,518,250	$1,735,816	$1,843,045
Conservatorship Fees	$289,939	$284,381	$294,951
Gain on Sale of Foreclosed Property	$295,954	$34,542	$35,160
Total Operating Revenue	$31,651,338	$33,585,251	$36,151,051
Operating Expenses:			
Bond Interest	$8,520,503	$8,495,161	$15,702,350
Interest on Line of Credit	$0	$0	$49,948
Salaries and Other Payroll Expenses	$5,935,113	$5,844,356	$5,919,076
Bond Costs	$1,378,103	$1,117,848	$1,247,214
Securities Lending Investment Expense	$236,119	$322,171	$1,273,378
Real Estate Owned Expense	$259,411	$130,125	$29,547
Services and Supplies	$1,865,604	$1,986,553	$1,730,622
LCLI Claims & Admin. Expense	$1,155,382	$1,266,568	$1,938,157
Veterans' Home Operations	$11,103,989	$11,050,913	$11,044,368
Depreciation Expense	$433,109	$430,386	$426,971
Bad Debt Expense	$360,478	$936,600	$0
Other Expenses	$117,585	$94,516	$324,564
Total Operating Expenses	$31,365,396	$31,675,197	$39,686,195
Net Transfers from Vet Home Trust Fund	$947,478	$20,514	$18,060
Net Transfers from General Fund	$0	$0	($185,941)
Net Transfers to Dept. of Admin Services	($234,656)	($233,425)	($234,865)
Capital Contributions	$12,722,770	$0	$0
Gain/(Loss) on Disposition of Assets	$0	$0	($7,851)
Total Transfers	$13,435,592	($212,911)	($410,597)
Change in Net Assets	$13,721,534	$1,697,143	($3,945,741)
Net Assets – Beginning	$146,451,930	$144,747,965	$148,693,706
Prior Period Adjustment	($88,611)	$6,822	$0
Net Assets - Beginning Restated	$146,363,319	$144,754,787	$148,693,706
Net Assets – Ending	$160,084,853	$146,451,930	$144,747,965

The Department's proprietary fund revenue is generated principally from interest earned on mortgage loans, investment income, and resident-related revenues. In fiscal year 2011, revenue generated through proprietary funds totaled approximately $31.7 million, of which approximately $16 million, or 50.5% is from income earned on loans and investments and $12.6 million, or 39.7% is from resident-related revenue. Expenses of the Department's proprietary funds consist primarily of interest expense on debt incurred to fund lending programs and operational expenses. The total expenses for proprietary fund activities totaled approximately $31.4 million, of which approximately $8.5 million, or 27% is bond interest expense and $11.1 million, or 35.4%, is from veterans' home operations.

The change in net assets for the year ended June 30, 2011 resulted in an increase of approximately $13.6 million compared to a $1.7 million increase for the year ending June 30, 2010. The primary factors contributing to this change include a $1.5 million donation in land for the second veterans home and $12.7 million in capital contributions for the second veterans home and construction of the community center.

Debt Administration
The Oregon Constitution and Oregon Revised Statutes permit general obligation bonds to be issued on the Department's behalf to provide funds for home loans to eligible Oregon veterans.

As of June 30, 2011, the Department had a total of $374.7 million *(par value)* in outstanding general obligation bonds. During fiscal year 2011, approximately $83.2 million in general obligation bonds were issued.

Information on the Department's long-term debt can be found in Notes 5 and 6.

Requests for Information
This financial report is designed to provide a general overview of the Department of Veterans' Affairs' finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Oregon Department of Veterans' Affairs, 700 Summer Street N.E., Salem, Oregon 97301-1285.

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011 AND JUNE 30, 2010

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
ASSETS & DEFERRED OUTFLOWS				
Current Assets				
Cash and Cash Equivalents	$ 92,654,442	$ 89,880,157	$ 14,413,042	$ 2,422,398
Cash and Cash Equivalents - Restricted	3,107,401	4,601,059	-	-
Securities Lending Cash Collateral	67,609,488	91,912,913	4,459,350	939,799
Investments	3,540,625	10,903,602	-	-
Investments - Restricted	5,005,250	15,004,650	-	-
Receivables:				
Accrued Interest	1,641,564	1,957,271	-	-
Loan Cancellation Life Insurance Premiums	71,655	87,229	-	-
Resident Care Related	-	-	1,376,424	1,484,378
Other	24,638	24,407	-	-
Due from Other Funds	66,147	67,428	-	-
Real Estate Owned	1,570,465	1,429,235	-	-
Prepaid Expenses	6,946	7,970	-	-
Total Current Assets	175,298,621	215,875,921	20,248,816	4,846,575
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	139,488,446	166,349,089	-	-
Investments	21,783,303	7,845,319	-	-
Investments - Restricted	3,269,211	13,127,161	-	-
Mortgage Loans and Contracts Receivable (Net)	247,018,965	274,950,313	-	-
Resident Care Receivable (Net)	-	-	26,927	70,750
Other Receivable	523,531	449,742	-	-
Deferred Underwriter's Discount	1,937,005	1,914,482	-	-
Capital Assets:				
Building, Property and Equipment	8,954,357	8,911,904	12,718,076	12,643,416
Improvements Other than Buildings	-	-	13,695	7,250
Land	-	-	2,100,073	600,073
Construction in Progress	-	-	1,566,650	-
Works of Art and Historical Treasures	85,170	85,170	70,000	70,000
Accumulated Depreciation	(5,008,953)	(4,891,793)	(4,202,032)	(3,895,082)
Total Noncurrent Assets	418,051,035	468,741,387	12,293,389	9,496,407
Deferred Outflow of Resources	1,808,678	2,249,775	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 595,158,334	$ 686,867,083	$ 32,542,205	$ 14,342,982
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 237,200	$ 228,675	$ 1,125,035	$ 1,017,734
Loan Cancellation Life Insurance Premium Payable	58,000	67,779	-	-
Loan Cancellation Life Insurance Claims Payable	90,094	243,351	-	-
Due to Other Funds	-	-	66,147	66,674
Deposit Liabilities	1,976,620	2,107,611	187	6,076
Deferred Revenue	-	-	92,502	55,186
Accrued Interest on Bonds	964,913	1,046,013	-	-
Obligations under Securities Lending	67,609,488	91,912,913	4,459,350	939,799
Compensated Absences Payable	296,022	289,901	3,392	4,565
Excess Interest and Arbitrage Rebate Payable	-	487,548	-	-
Bonds Payable-Maturing Within One Year (Net)	3,302,227	2,006,453	-	-
Matured Bonds Payable	1,072,780	2,425,669	-	-
Total Current Liabilities	75,607,344	100,815,913	5,746,613	2,090,034
Noncurrent Liabilities				
Bonds Payable-Maturing After One Year (Net)	371,039,732	438,887,949	-	-
Compensated Absences Payable	152,496	149,343	1,748	2,352
Excess Interest and Arbitrage Rebate Payable	13,170,925	10,486,694	-	-
Other Postemployment Benefits Obligation (Net)	87,656	76,075	494	-
Derivative Instrument - Interest Rate Swap	1,808,678	2,249,775	-	-
Total Noncurrent Liabilities	386,259,487	451,849,836	2,242	2,352
TOTAL LIABILITIES	461,866,831	552,665,749	5,748,855	2,092,386
NET ASSETS				
Invested in Capital Assets	4,030,574	4,105,281	12,266,462	9,425,657
Expendable, Restricted for Capital Construction	-	-	10,426,096	-
Unrestricted	129,260,929	130,096,053	4,100,792	2,824,939
TOTAL NET ASSETS	$ 133,291,503	$ 134,201,334	$ 26,793,350	$ 12,250,596

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

Enterprise Funds	
TOTAL	
June 30, 2011	June 30, 2010
$ 107,067,484	$ 92,302,555
3,107,401	4,601,059
72,068,838	92,852,712
3,540,625	10,903,602
5,005,250	15,004,650
1,641,564	1,957,271
71,655	87,229
1,376,424	1,484,378
24,638	24,407
66,147	67,428
1,570,465	1,429,235
6,946	7,970
195,547,437	220,722,496
139,488,446	166,349,089
21,783,303	7,845,319
3,269,211	13,127,161
247,018,965	274,950,313
26,927	70,750
523,531	449,742
1,937,005	1,914,482
21,672,433	21,555,320
13,695	7,250
2,100,073	600,073
1,566,650	-
155,170	155,170
(9,210,985)	(8,786,875)
430,344,424	478,237,794
1,808,678	2,249,775
$ 627,700,539	$ 701,210,065
$ 1,362,235	$ 1,246,409
58,000	67,779
90,094	243,351
66,147	66,674
1,976,807	2,113,687
92,502	55,186
964,913	1,046,013
72,068,838	92,852,712
299,414	294,466
-	487,548
3,302,227	2,006,453
1,072,780	2,425,669
81,353,957	102,905,947
371,039,732	438,887,949
154,244	151,695
13,170,925	10,486,694
88,150	76,075
1,808,678	2,249,775
386,261,729	451,852,188
467,615,686	554,758,135
16,297,036	13,530,938
10,426,096	-
133,361,721	132,920,992
$ 160,084,853	$ 146,451,930

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
OPERATING REVENUES				
Interest Income:				
Mortgage Loans	$ 11,797,640	$ 11,445,675	$ -	$ -
Contracts	139,828	209,608	-	-
Investment Income	4,043,049	6,964,830	26,269	12,655
Loan Cancellation Life Insurance Premiums	822,503	962,230	-	-
Loan Cancellation Life Insurance Processing Fee	102,000	102,000	-	-
Resident Revenue (Net)	-	-	12,615,906	11,833,514
Other Fees and Charges	1,516,602	1,733,649	1,648	2,167
Conservatorship Fees	289,939	284,381	-	-
Gain on Sale of Foreclosed Property	295,954	34,542	-	-
TOTAL OPERATING REVENUES	19,007,515	21,736,915	12,643,823	11,848,336
OPERATING EXPENSES				
Bond Interest	8,520,503	8,495,161	-	-
Salaries and Other Payroll Expenses	5,717,843	5,642,344	217,270	202,012
Bond Expenses	1,378,103	1,117,848	-	-
Securities Lending Investment Expense	232,258	320,983	3,861	1,188
Real Estate Owned Expense	259,411	130,125	-	-
Services and Supplies	1,744,035	1,867,440	121,569	119,113
Claims Expense - Loan Cancellation Life Insurance	1,155,382	1,266,568	-	-
Veterans' Home Operations	-	-	11,103,989	11,050,913
Depreciation Expense	117,160	116,967	315,949	313,419
Bad Debt Expense	360,478	936,600	-	-
Other Expenses	117,585	94,516	-	-
TOTAL OPERATING EXPENSES	19,602,758	19,988,552	11,762,638	11,686,645
OPERATING INCOME (LOSS)	(595,243)	1,748,363	881,185	161,691
Nonoperating Revenues (Expenses):				
Net Transfers from Veterans' Home Trust Fund	-	-	947,478	20,514
Net Transfers to Dept. of Administrative Services	(225,977)	(225,906)	(8,679)	(7,519)
Capital Contributions	-	-	12,722,770	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(225,977)	(225,906)	13,661,569	12,995
CHANGE IN NET ASSETS	(821,220)	1,522,457	14,542,754	174,686
NET ASSETS				
NET ASSETS - Beginning	134,201,334	132,678,877	12,250,596	12,069,088
Prior Period Adjustment	(88,611)	-	-	6,822
NET ASSETS - Beginning Restated	134,112,723	132,678,877	12,250,596	12,075,910
NET ASSETS - Ending	$ 133,291,503	$ 134,201,334	$ 26,793,350	$ 12,250,596

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

Enterprise Funds			
TOTAL			
	June 30, 2011		June 30, 2010
$	11,797,640	$	11,445,675
	139,828		209,608
	4,069,318		6,977,485
	822,503		962,230
	102,000		102,000
	12,615,906		11,833,514
	1,518,250		1,735,816
	289,939		284,381
	295,954		34,542
	31,651,338		33,585,251
	8,520,503		8,495,161
	5,935,113		5,844,356
	1,378,103		1,117,848
	236,119		322,171
	259,411		130,125
	1,865,604		1,986,553
	1,155,382		1,266,568
	11,103,989		11,050,913
	433,109		430,386
	360,478		936,600
	117,585		94,516
	31,365,396		31,675,197
	285,942		1,910,054
	947,478		20,514
	(234,656)		(233,425)
	12,722,770		-
	13,435,592		(212,911)
	13,721,534		1,697,143
	146,451,930		144,747,965
	(88,611)		6,822
	146,363,319		144,754,787
$	160,084,853	$	146,451,930

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2011	June 30, 2010
Cash Flows from Operating Activities:		
Receipts from Customers	$ 1,129,809	$ 1,409,682
Receipts from Other Funds for Services	1,542,299	1,613,926
Loan Principal Repayments	44,894,146	33,960,124
Loan Interest Received	15,190,244	17,206,448
Payments to Employees for Services	(5,694,464)	(5,612,954)
Payments to Suppliers	(2,334,532)	(2,208,759)
Payments to Other Funds for Services	(902,820)	(1,018,620)
Loans Made	(19,312,465)	(13,498,487)
Other Receipts (Payments)	2,017,507	721,989
Net Cash Provided (Used) in Operating Activities	36,529,724	32,573,349
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	82,950,447	-
Principal Payments on Bonds	(151,197,889)	(292,271,784)
Interest Payments on Bonds	(8,565,503)	(8,640,585)
Bond Issuance Costs	(1,370,521)	(1,025,484)
Transfers from Other Funds	-	-
Transfers to Other Funds	(225,977)	(225,906)
Net Cash Provided (Used) in Noncapital Financing Activities	(78,409,443)	(302,163,759)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(42,453)	-
Capital Contributions	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(42,453)	-
Cash Flows from Investing Activities:		
Purchases of Investments	(14,000,000)	(10,287,350)
Proceeds from Sales or Maturities of Investments	28,033,050	53,348,951
Interest on Investments and Cash Balances	2,309,106	5,091,046
Investment Income from Securities Lending	232,258	320,983
Investment Expense from Securities Lending	(232,258)	(320,983)
Net Cash Provided (Used) in Investing Activities	16,342,156	48,152,647
Net Increase (Decrease) in Cash and Cash Equivalents	(25,580,016)	(221,437,763)
Cash and Cash Equivalents - Beginning	260,830,305	482,268,068
Cash and Cash Equivalents - Ending	$ 235,250,289	$ 260,830,305
Reconciled to Statement of Net Assets:		
Cash and Cash Equivalents - Current	$ 92,654,442	$ 89,880,157
Cash and Cash Equivalents - Current, Restricted	3,107,401	4,601,059
Cash and Cash Equivalents - Noncurrent, Restricted	139,488,446	166,349,089
Cash and Cash Equivalents - Ending (shown above)	$ 235,250,289	$ 260,830,305

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
$ 12,804,999	$ 12,371,454	$ 13,934,808	$ 13,781,136
-	-	1,542,299	1,613,926
-	-	44,894,146	33,960,124
-	-	15,190,244	17,206,448
(218,554)	(209,938)	(5,913,018)	(5,822,892)
(10,219,825)	(10,756,188)	(12,554,357)	(12,964,947)
(898,958)	(990,078)	(1,801,778)	(2,008,698)
-	-	(19,312,465)	(13,498,487)
(4,241)	254	2,013,266	722,243
1,463,421	415,504	37,993,145	32,988,853
-	-	82,950,447	-
-	-	(151,197,889)	(292,271,784)
-	-	(8,565,503)	(8,640,585)
-	-	(1,370,521)	(1,025,484)
947,478	20,514	947,478	20,514
(8,679)	(7,519)	(234,656)	(233,425)
938,799	12,995	(77,470,644)	(302,150,764)
(1,656,754)	-	(1,699,207)	-
11,222,770	-	11,222,770	-
9,566,016	-	9,523,563	-
-	-	(14,000,000)	(10,287,350)
-	-	28,033,050	53,348,951
22,408	11,467	2,331,514	5,102,513
3,861	1,188	236,119	322,171
(3,861)	(1,188)	(236,119)	(322,171)
22,408	11,467	16,364,564	48,164,114
11,990,644	439,966	(13,589,372)	(220,997,797)
2,422,398	1,982,432	263,252,703	484,250,500
$ 14,413,042	$ 2,422,398	$ 249,663,331	$ 263,252,703
$ 14,413,042	$ 2,422,398	$ 107,067,484	$ 92,302,555
-	-	3,107,401	4,601,059
-	-	139,488,446	166,349,089
$ 14,413,042	$ 2,422,398	$ 249,663,331	$ 263,252,703

(Continued on next page)

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

(Continued from prior page)

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2011	June 30, 2010
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ (595,243)	$ 1,748,363
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	117,160	116,967
Amortization of Bond Premium, Discount and Underwriter's	(20,351)	
Discount on Called Bonds	93,030	169,104
Interest Received on Investments Reported as Operating Revenue	(3,292,071)	(6,354,554)
Investment Expense	232,258	320,983
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	8,565,503	8,640,585
Bond Costs	1,370,521	1,025,484
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	331,050	193,972
Due from Other Funds	1,281	4,743
Prepaid Items	1,023	(2,591)
Loans and Contracts Receivable	27,857,560	22,958,068
Foreclosed and Deeded Property	(141,230)	(837,705)
Accounts Payable	(67,535)	(81,503)
Due to Other Funds	-	-
Deposit Liabilities	(140,769)	(111,815)
Deferred Revenue	2,196,682	4,754,504
Compensated Absences Payable	9,274	16,348
Post Employment Benefits	11,581	12,396
Total Adjustments	37,124,967	30,824,986
Net Cash Provided (Used) by Operating Activities	$ 36,529,724	$ 32,573,349
Noncash Investing and Capital and Related Financing Activities:		
Capital Assets Contributed	$ -	$ -
Net Change in Fair Value of Investments	750,707	942,525
Foreclosed Property	1,570,465	1,429,235
Total Noncash Investing and Capital and Related Financing Activities	$ 2,321,172	$ 2,371,760

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
$ 881,185	$ 161,691	$ 285,942	$ 1,910,054
315,949	313,419	433,109	430,386
-	-	93,030	169,104
(26,269)	(12,655)	(3,318,340)	(6,367,209)
3,861	1,188	236,119	322,171
-	-	8,565,503	8,640,585
-	-	1,370,521	1,025,484
151,777	614,359	482,827	808,331
-	-	1,281	4,743
-	-	1,023	(2,591)
-	-	27,857,560	22,958,068
-	-	(141,230)	(837,705)
107,301	(570,923)	39,766	(652,426)
(527)	(5,317)	(527)	(5,317)
(5,889)	(1,914)	(146,658)	(113,729)
37,316	(76,418)	2,233,998	4,678,086
(1,777)	(7,926)	7,497	8,422
494	-	12,075	12,396
582,236	253,813	37,727,554	31,078,799
$ 1,463,421	$ 415,504	$ 38,013,496	$ 32,988,853
$ 1,500,000	$ -	$ 1,500,000	$ -
-	-	750,707	942,525
-	-	1,570,465	1,429,235
$ 1,500,000	$ -	$ 3,821,172	$ 2,371,760

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Department is a part of the State of Oregon reporting entity. The Department operates under the provisions of the Oregon Constitution article XI-A and primarily Oregon Revised Statutes *(ORS)* chapters 406, 407, and 408. The Department's Director is appointed by the Governor with input from the Advisory Committee and is subject to confirmation by the Oregon Senate. The Director must be a veteran chosen on the basis of his or her executive and administrative ability. The Advisory Committee is a nine-member board, appointed by the Governor that acts in an advisory capacity to the Director concerning all matters upon which the Director requests counsel. The State Legislature has significant ability to influence funding, approve the Department's budget, and pass laws governing the Department.

In 1944 Oregon voters approved a constitutional amendment that authorized the creation of a Veterans' home and farm loan program. A year later the Department was established to administer this program. The Department's home loan program *(Veterans' Loan Program)* provides home purchase and home improvement loans at favorable interest rates to eligible veterans, within the limitations set forth in Oregon's Constitution and applicable laws. The Veterans' Loan Program is operated through earnings on program loans, which are financed through the sale of tax-exempt general obligation bonds. These bonds are then retired through principal and interest payments received from borrowers and earnings from invested funds.

In 1993 the Legislative Assembly authorized the Department to provide skilled nursing care to veterans and their spouses through an Oregon Veterans' Home. In 1995, the Legislative Assembly authorized a second Oregon Veterans' Home. The *Veterans' Home Program* provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans. Opened in 1996, the Oregon Veterans' Home located in The Dalles, the single-story 75,000 square foot facility offers care in a home-like environment, complementing the philosophy of personal independence. Through a competitive-bid process, the location for the second Oregon Veterans' Home was recently selected to be in Lebanon, with an approximate construction commencement date of October 2012.

The Veterans' Loan Program and the Veterans' Home Program are classified as proprietary fund activities. The basic financial statements and notes presented herein include only the proprietary fund activities of the Department.

Measurement Focus of Accounting and Basis of Presentation

The accounts of the Department are organized on the basis of funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording assets, liabilities, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations or restrictions.

The Veterans' Loan Program and the Veterans' Home Program are accounted for as Proprietary funds. The focus of Proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to private-sector business. Proprietary funds are presented using the accrual basis of accounting and 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.

The basic financial statements and notes presented have been prepared in conformity with generally accepted accounting principles *(GAAP)* as prescribed by the Governmental Accounting Standards Board *(GASB)*, the Financial Accounting Standards Board *(FASB)*, and the American Institute of Certified Public Accountants *(AICPA)*. Under the auspices of GASB Statement No. 20, the Department 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. Therefore, private-sector standards of accounting and financial reporting are followed in accompanying proprietary fund financial statements to the extent that those standards do not contradict guidance of the GASB.

Budgetary Process

The Oregon Legislature approves budgets for a biennial period. Operating expenses are subject to limitation and certain bond related expenses are subject to administrative limitation. Both types of limitations lapse at the end of the biennium. For budgetary purposes, these transactions are recognized when received or paid in cash as opposed to when they are susceptible to accrual.

Cash and Cash Equivalents

Cash and Cash Equivalents include: cash on hand, cash and investments held by the State Treasury in the Oregon Short-Term Fund *(OSTF)*, cash deposits held by the State's fiscal agent for payment of matured bonds and coupons, and cash deposits held by the agency's loan cancellation life insurance carrier. All monies held in the OSTF are considered to be cash equivalents, which is a cash and investment pool having characteristics of a demand deposit account.

Investments and Investment Income

The Department's investments are stated at fair value. Quoted market values were used to value investments except for non-participating interest-earning investments. Non-participating interest-earning investment contracts are exempt from fair value reporting and are shown on the financial statements at amortized cost.

Investment Income includes changes in the fair value of investments and is recognized as revenue in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Realized gains based on the net increase in fair value of investments are included as a component of Investment Income.

Securities Lending Cash Collateral

The State Treasurer participates in securities lending with a portion of the OSTF. The Department's share of the cash collateral received from broker-dealers is disclosed in the Statement of Net Assets as Securities Lending Cash Collateral.

Receivables

Receivables are shown net of an allowance for uncollectible accounts. Receivables included are amounts due that represent revenues earned or accrued in the current period. Types included in this classification relate to interest, mortgage loans receivable, loan cancellation life insurance premiums, resident-care related *(for Veterans' Home residents)* and other miscellaneous receivables.

Loan Cancellation Life Insurance

The Department offers Loan Cancellation Life Insurance *(LCLI)* to approved borrowers and their spouses through a contract with a private insurance company. Historically subsidized from the Oregon War Veterans' Fund *(a dedicated fund of the Department created under Article XI-A of the Oregon Constitution)*, the Department collects the premiums from borrowers and remits collected premiums, less an administrative fee, to the private insurance company. Upon the death of an insured person, either the account balance will be paid in full, or the amount of insurance in force will be paid and applied toward the account balance.

The Loan Cancellation Life Insurance Contingency Fund is a special fund consisting of amounts generated by the group policy and interest earned on the fund balance. Monies in the LCLI account are held and controlled by the insurance carrier during the contract period. The fund stabilizes rate experience developed under the group loan cancellation life insurance policy. An annual accounting of premiums, claims, administrative costs, and interest earnings is provided by the insurance carrier for the fund at June 30.

Real Estate Owned

Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or fair market value. Cost is defined as the outstanding principal balance of the mortgage loan or contract on the date of foreclosure.

Prepaid Expenses

Prepaid expenses consist of postage on hand at year-end.

Capital Assets

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method. Gain or loss on the sale of an asset is determined by taking the difference between the carrying value *(cost less depreciation)* and the sale price. The Veterans' Building and the Oregon Veterans' Home are depreciated over their useful lives *(50 years and 40 years, respectively)*. Building-related assets are capitalized and then depreciated over the remaining estimated life of the building. Furniture, equipment, depreciable works of art, land improvements, and data processing hardware and software costing $5,000 or more are capitalized and then depreciated over a useful life of five years *(10 years for art work and land improvements)*.

Compensated Absences Payable

State policy allows employees to accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 300 hours per classified employee. Due to state cost reduction measures, effective March 1, 2009, management employees vacation accrual limit increased to 425 hours through December 31, 2009. Effective January 1, 2010, the vacation accrual limit for management employees returned to 350 hours and employees no longer accrue hours over 350. Employees with more than 350 hours of accrued vacation leave on

January 1, 2010, have until June 30, 2013, to reduce their vacation accrual to no more than 350 hours. Employees can be paid up to a maximum of 250 hours of accrued vacation leave at termination.

Accumulated vacation leave and compensatory time *(comp time)* 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.

Excess Interest and Arbitrage Rebate Payable

The Department recognizes a liability in its financial records for any excess mortgage interest and investment earnings arising from the use of tax-exempt bond proceeds. The Department records the excess mortgage interest and investment earnings as a reduction of revenue.

Invested in Capital Assets

This is the Capital Asset component of Net Assets *(equity)* net of accumulated depreciation.

Operating Revenues and Expenses

Operating revenues include interest and fees on program loans, charges for resident-related care as well as earnings on cash and investments related to Veterans' Loan and Veterans' Home programs. Administrative expenses, depreciation related to capital assets, and bond program related expenses are considered operating expenses. All revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

Bond Expenses

Bond premiums and discounts associated with a particular bond issue are amortized over the life of the bond issue using the bonds outstanding method of amortization. These expenses are charged or credited to interest expense.

Miscellaneous bond expenses are primarily recorded as expenses when incurred. Amortization of Underwriter's discounts is also included as miscellaneous bond expenses. Included in bond expenses are fees related to variable rate demand bonds, expenses of the matured bond and coupon account with the State's Fiscal Agent, and bond attorney fees.

Expenses of variable rate demand bonds include Standby Bond Purchase Agreement commitment fees and remarketing agent fees. These fees are payable quarterly in arrears.

Comparative Data and Reclassifications

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

2. DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents for the Veterans' Loan Program and the Veterans' Home Program as of June 30, 2011 and June 30, 2010 are included in the table below:

	Veterans' Loan Program	Veterans' Home Program	Total June 30, 2011	Total June 30, 2010
Book Balance - Cash and Cash Equivalents				
Current unrestricted	$ 92,654,442	$ 14,413,042	$ 107,067,484	$ 92,302,555
Current restricted	3,107,401	-	3,107,401	4,601,059
Noncurrent restricted	139,488,446	-	139,488,446	166,349,089
Combined Book Balance	$ 235,250,289	$ 14,413,042	$ 249,663,331	$263,252,703
Bank Balance - Cash and Cash Equivalents	$ 235,210,621	$ 14,424,101	$ 249,634,722	$263,173,612

As of June 30, 2011, a combined total of $232,905,405 *(Veterans' Loan Program with $218,481,304 and the Veterans' Home Program with $14,424,101)* was held in demand accounts with the State Treasurer and invested in the Oregon Short-Term Fund *(OSTF)*. The OSTF is a cash and investment pool that is available for use by all state funds and eligible local governments. State Treasurer demand deposit accounts and time certificates of deposit investments of the OSTF held in state banks are insured up to the Federal Deposit Insurance *(FDIC)* amount of $250,000 for the combined total of all savings deposits and unlimited coverage for non-interest bearing transaction accounts. Where balances exceed the FDIC amount, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Oregon State Treasury in the Public Funds Collateralization Program *(PFCP)*. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Statement of Net Assets as Cash and Cash Equivalents.

Earnings on the OSTF are allocated based on daily account balances and a variable interest rate determined periodically by the State Treasurer. Securities in the OSTF are primarily held by the State Treasurer's agent in the name of the State of Oregon. As of June 30, 2011, the OSTF consisted of approximately 39 percent U.S. government & agency securities; 3 percent short-term commercial paper; 46 percent corporate notes; 11 percent government guaranteed corporate securities; and the remainder were time certificates of deposit. A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held $15,656,537 with an insurance carrier as a reserve for loan cancellation life insurance. These monies are uncollateralized and are not insured under FDIC protection. The Department is required to keep on deposit an amount not less than the annual premium with additional insurance charges becoming effective if the balance drops below 200% of annual premiums. At June 30, 2011 the Department estimated that required balance to be $1,632,000. That amount is included as Cash and Cash Equivalents – Noncurrent, Restricted. The remainder of the balance at the insurance carrier is unrestricted and is included in Cash and Cash Equivalents – Current. For additional information on these monies *(also called the Loan Cancellation Life Insurance Contingency Fund)* see Note 1.

At June 30, 2011, the Department held $1,072,780 at the State's Fiscal Agent for redemption of the Department's bonds and coupons that have matured, but have not yet been redeemed. These funds are deposited at the Bank of New York Mellon and are backed by the full faith and credit of the Bank of New York Mellon. Further, these funds, while not collateralized, are insured up to $250,000 per bondholder through December 31, 2014, as specified by FDIC regulations. This money is included in Cash and Cash Equivalents – Restricted, a current asset. On June 30, 2010, the matured bonds payable balance was $2,425,669.

Investments

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. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Under an agreement with the State Treasury, the Department's investments do not include common stock. As of June 30, 2011, the State Treasurer invested the Department's funds primarily in U.S. agency securities and corporate bonds.

A portion of the proceeds of Bond Series 77 and 79A were invested in specified accounts called Guaranteed Investment Contracts. On December 8, 2010, Bond Series 77 and 79A were redeemed in full and the related Guaranteed Investment Contracts were terminated.

A portion of the proceeds of Bond Series 81 and 82 are invested in Repurchase Agreements. The monies are held by an institution outside of the State Treasury. The Repurchase Agreement accounts are fully collateralized with permitted securities at a current level of 105% of the repurchase price. The securities posted as collateral are held by two separate institutions also outside of the State Treasury. The Repurchase Agreements have fixed rates of return over the length of the contracts. In the event of a rating downgrade of the seller, the collateralization levels may be increased.

The schedule below presents investments, credit ratings and the weighted average duration as of June 30, 2011:

Investment Maturities (in years)

Investment Type	Rating	Weighted Average Duration	Market Value
Debt Investments:			
U.S. Agency Securities	A	1.05	$ 5,254,698
Corporate Bonds	AA	0.16	9,503,965
Corporate Bonds	A	0.21	12,029,890
Impaired Securities: Lehman Brothers	Rating Withdrawn	-	3,540,625
Repurchase Agreements	Unrated	**	3,269,211
Total Debt Investments			$ 33,598,389

** Duration not available; repurchase agreements mature in 2042.

During fiscal year 2009, Lehman Brothers Holdings Inc. filed Chapter 11 bankruptcy in the U.S. Bankruptcy Court, Southern District of New York *(Manhattan)*. As a result of this filing, the Department's $13,750,000 *(par amount)* investments in Lehman Brothers Holdings Inc., having a maturity date of May 25, 2010, significantly declined in market value. As of June 30, 2011 and 2010, the estimated market value of these investments was approximately $3,540,625 and 2,715,625 respectively. The last interest payment received by the Department from Lehman Brothers was on August 25, 2008. It is very unlikely the Department will receive any interest earnings from these investments for the time period subsequent to August 25, 2008.

<u>Interest Rate and Credit Risk:</u>
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Policies related to Department funds require investments to be in U.S. Treasury and government agency bonds, notes and bills, state and municipal bonds, corporate bonds, mortgage-backed securities, asset-backed securities, and the OSTF. Additionally, the investment policy requires that the:

- Overall weighted average credit quality of the dedicated investment portfolio combined with the OSTF should be maintained between Aa3/AA- and Aa1/AA+;
- All investments must be fixed-income and U.S. dollar-denominated;
- No investments below an investment grade rating of Baa3/BBB- should be purchased; and
- No more than 5% of the Department's combined cash, cash equivalents and investments may generally be invested in any single private company or corporation *(excluding government-sponsored enterprises, providers of guaranteed investment contracts or repurchase agreements, or any investments within the OSTF)*.

Concentration of Credit Risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2011, 20.9% of the Department's total investments were in Goldman Sachs Group, 20.8% in Westpac Banking Corp, 15.6% in Fannie Mae, 14.9% in Bear Stearns, 10.5% in Lehman Brothers Hldgs Inc. and 7.5% in General Electric Cap Corp.

Restricted Assets
Included in Cash and Cash Equivalents and Investments are amounts designated as restricted. Restrictions on the Department's cash and investments can arise from Oregon's constitutional provision or enabling legislation, federal tax law relating to bond proceeds, bond covenants, deposit liabilities and from certain other contractual arrangements. The primary purpose of the restricted assets will be to meet upcoming debt service requirements and other restricted purposes. As of June 30, 2011, the Department had restricted assets of $150,870,308. As of June 30, 2010, the Department had restricted assets of $199,081,959.

Securities Lending
In accordance with State investment policies, state agencies may participate in securities lending transactions. The Oregon State Treasury has, through a Securities Lending Agreement, authorized its custodian, State Street Bank and Trust Company *("State Street")*, to lend the Department's securities to broker-dealers and banks pursuant to a form of loan agreement. There have been no significant violations of the provisions of securities lending agreements.

During the year, State Street lent the Department's fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the domestic securities on loan, or 105% of the fair value in the case of international securities. Oregon State Treasury did not impose any restrictions during the year on loans of the Department's fixed income securities. The Oregon State Treasury is fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return securities on loan. Both Oregon State Treasury and the broker-dealer borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral during the year generally do not match the maturities of their securities loans.

The Department's cash balances are invested in the OSTF, a cash and investment pool managed by the Oregon State Treasury, which is available for use by all state funds and local governments. State Street is authorized to lend OSTF securities in return for U.S. dollar-denominated cash. State Street is also authorized by the Securities Lending Agreement to invest this cash collateral in a short-term investment pool maintained by State Street. As of June 30, 2011, the fair value of all securities on loan from the OSTF was $2,566,962,220. The total cash and non-cash collateral received for the securities on loan from OSTF was $2,619,819,774. The fair value of all investments made with the cash collateral received for those securities on loan was $2,384,283,613.

As permitted under the Declaration of Trust *(Declaration)*, participant purchases and redemptions are transacted at $1.00 per unit *("constant value")* based on the amortized cost of the investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the Statement of Net Assets. The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the custodian may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the custodian may direct that units be redeemed at fair value, engage in in-kind redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is immaterial.

Total cash collateral received for securities on loan for the Department's proprietary funds was \$72,068,838. Total fair value of all investments made with cash collateral was \$72,067,787. Total securities on loan *(Department's share of OSTF securities on loan)* was \$77,589,463. Securities on loan from the OSTF in total included 32.32% in U.S. Treasury securities, 60.94% in U.S. Agency securities, and 6.74% in domestic corporate bonds.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2011 and June 30, 2010:

		June 30, 2011		June 30, 2010
Veterans' Loan Program:				
Investment Income: Accrual Basis	$	3,060,084	$	5,701,322
Securities Lending Revenue		232,258		320,983
Increase/(Decrease) in Fair Value of Investments		750,707		942,525
Investment Income	$	4,043,049	$	6,964,830
Veterans' Home Program:				
Investment Income: Accrual Basis	$	22,408	$	11,467
Securities Lending Revenue		3,861		1,188
Investment Income	$	26,269	$	12,655

3. MORTGAGE LOANS AND CONTRACTS RECEIVABLE

Mortgage loans and contracts receivable are secured by real property, which is repossessed if the receivable becomes uncollectible. Most loan and contract agreements made during the period from May 1971 through December 1991 contain a provision authorizing the Department to adjust the interest rate. Loan agreements *(excluding contracts)* made subsequent to December 1991 have fixed interest rates.

The loan and contract receivable portfolio at June 30, 2011 is approximately \$251 million. All mortgaged property is located within Oregon. The Department uses the allowance method to estimate uncollectible mortgage loans and contracts receivable. The allowance is periodically adjusted by management to accommodate changes in economic conditions, nonperforming assets, historical loss experience, and other conditions that may affect the ultimate collectibility of the mortgage loans and contracts. In 2011 the Department determined the balance of the allowance account to be in line with potential losses for the remaining loan and contract portfolio. Accordingly, the account balance at June 30, 2011, remained approximately \$4.47 million. The balance of the allowance account represents approximately 1.8 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the Statement of Net Assets for June 30, 2011 and June 30, 2010.

	June 30, 2011	June 30, 2010
Loans Receivable	$ 250,046,929	$ 277,290,070
Contracts Receivable	1,437,036	2,130,243
Total Loans and Contracts Receivable	$ 251,483,965	$ 279,420,313
Less: Allowance for Principal Losses	(4,465,000)	(4,470,000)
Net Loans and Contracts Receivable	$ 247,018,965	$ 274,950,313

Included in mortgage loans receivable are loans that will not amortize at their current monthly payment amounts. These loans became non-amortizing primarily through borrowers' choosing to extend the repayment term of their loans in lieu of accepting increased monthly principal and interest installments resulting from loan interest rate increases. The option to allow a borrower to extend the repayment life of the loan rather than accept an increase in the monthly principal and interest installment amount was the result of legal action brought against the Department by the Associated Oregon Veterans in 1985. As of June 30, 2011, there were 97 non-amortizing accounts with an aggregate principal balance of $10,055,761. This represents approximately four percent of the total net loans and contracts receivable.

Related Party Transactions: Home Loans to Employees

Department employees are entitled to apply for an ODVA home loan if they meet the eligibility criteria, namely military service and citizenship in the state, and also underwriting standards such as those related to credit history and income level. The interest rate on the home loan and other terms and conditions of these loans are identical to those home loans made to non-employees. During the fiscal year ended June 30, 2011, the department made no new home loans to an eligible veteran employee. At June 30, 2011, the balance of existing home loans was $378,240 based on loans made to two employees. At June 30, 2010 the balance of existing home loans was $432,513 based on loans made to three employees.

Troubled Debt Restructurings

The Department makes every reasonable attempt to keep a borrower in the home purchased under the Veterans' Loan Program. In order to avoid foreclosure, one method of working with borrowers is to temporarily reduce loan payments for borrowers. This is allowed under ORS 407.095. During the year ended June 30, 2011, the Department provided this relief to three borrowers and deferred loan interest income of $8,119. This interest amount was subsequently capitalized on these loans. In total, $456,479 in loans were restructured in this fashion. From these restructured loans the Department received $19,106 in mortgage interest income during the fiscal year. For the year ended June 30, 2010, the Department deferred loan interest income to borrowers of $8,342.

Mortgage Insurance

The Department requires borrowers to obtain private mortgage insurance on loans made subsequent to December 1991 if the original loan amount exceeds 80% of the lesser of the appraised value of the property or the purchase price. As of June 30, 2011, the Department had 240 insured accounts with six private mortgage insurers totaling approximately $50.8 million. The majority of insured accounts are with MGIC *(43%)* and Triad Guaranty Insurance *(42%)*. As of June 30, 2011, the Moody's ratings for MGIC and Triad were "Ba3" and "Not Rated" respectively.

Additionally, the Illinois Department of Insurance has required that all valid claims under Triad's mortgage guaranty insurance policies be paid at 60% in cash and 40% by the creation of a deferred payment obligation. If the financial position of Triad permits, the Illinois Department of Insurance will allow Triad to increase the amount of cash paid on each claim. As of June 30, 2011, the Department had $199,638 as a deferred payment obligation from Triad. As of June 30, 2010, the Department had $103,932 as a deferred payment obligation.

Real Estate Owned

The Department had the following properties acquired through foreclosure or acceptance of deeds in lieu of foreclosure:

	June 30, 2011	June 30, 2010
Number of Properties	10	9
Lower of Cost or Fair Market Value	$1,570,465	$1,429,235

4. CAPITAL ASSETS

The following table details the net capital assets of the Veterans' Loan and Veterans' Home Programs for the years ended June 30, 2011 and June 30, 2010:

		June 30, 2011		June 30, 2010
Veterans' Loan Program				
Building, Property, and Equipment	$	8,954,357	$	8,911,904
Less: Accumulated Depreciation		(5,008,953)		(4,891,793)
Building, Property and Equipment, Carrying Value	$	3,945,404	$	4,020,111
Works of Art and Historical Treasures, Non-Depreciating	$	85,170	$	85,170
Total Capital Assets, Net	$	4,030,574	$	4,105,281
Veterans' Home Program				
Building, Property and Equipment	$	12,718,076	$	12,643,416
Improvements Other than Buildings		13,695		7,250
Works of Art and Historical Treasures, Depreciating		30,000		30,000
Less: Accumulated Depreciation		(4,202,032)		(3,895,083)
Depreciable Capital Assets, Carrying Value	$	8,559,739	$	8,785,583
Works of Art and Historical Treasures, Non-Depreciating		40,000		40,000
Land		2,100,073		600,073
Construction in Progress		1,566,650		-
Total Capital Assets, Net	$	12,266,462	$	9,425,656
Total Capital Assets, Net	$	16,297,036	$	13,530,937

During fiscal year 2011, the Department began construction on a Community Center adjacent to the Oregon Veterans' Home. This 9,300 square foot Community Center will provide a central meeting place where residents and families can gather for activities and special events. Funding for the Community Center is through a Federal Veterans Administration grant and private donations. As of June 30, 2011, construction was approximately 80% complete and the amount of Constuction in Progress is $1,566,650.

Additionally, the Department received land valued at $1,500,000. The land is located in Lebanon, Oregon, and was contributed by Linn County. Linn County was selected as the future site for an additional Veterans' Home. Construction is tentatively scheduled to begin in the fall of 2012.

The following table provides detail on the balances and activities of the Department's capital assets for the year ended June 30, 2011:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 600,073	$ 1,500,000	$ -	$ 2,100,073
Construction in Progress	-	1,566,650	-	1,566,650
Works of Art and Historical Treasures	125,170	-	-	125,170
Total Capital Assets Not Being Depreciated	725,243	3,066,650	-	3,791,893
Capital Assets Being Depreciated:				
Buildings	19,768,032	113,619	-	19,881,651
Improvements Other than Buildings	7,250	6,445	-	13,695
Property and Equipment	1,787,288	12,494	(9,000)	1,790,782
Works of Art and Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	21,592,570	132,558	(9,000)	21,716,128
Less Accumulated Depreciation:				
Buildings	(7,078,730)	(369,507)	-	(7,448,237)
Improvements Other than Buildings	(3,625)	(1,262)	-	(4,887)
Property and Equipment	(1,674,521)	(62,340)	9,000	(1,727,861)
Works of Art and Historical Treasures	(30,000)	-	-	(30,000)
Total Accumulated Depreciation	(8,786,876)	(433,109)	9,000	(9,210,985)
Total Capital Assets, Net	**$ 13,530,937**	**$ 2,766,099**	**$ -**	**$ 16,297,036**

5. BONDS PAYABLE AND DEBT SERVICE

The table below provides a summary of general obligation bond transactions of the Department for the fiscal years ended June 30, 2011 and June 30, 2010:

Bonds Payable *(Par)* at June 30, 2009	$	732,955,000
Bonds Issued		-
Bonds Retired		(291,530,000)
Bonds Payable *(Par)* at June 30, 2010	$	441,425,000
Bonds Issued		83,150,000
Bonds Retired		(149,845,000)
Bonds Payable *(Par)* at June 30, 2011	$	374,730,000

Shown below are the components of net bonds payable as disclosed on the Statement of Net Assets for June 30, 2011:

	Current	Noncurrent	Total
Bonds Payable *(Par)*	$ 3,330,000	$ 371,400,000	$ 374,730,000
Discount on Bonds Sold	(27,773)	(360,268)	(388,041)
Net Bonds Payable	$ 3,302,227	$ 371,039,732	$ 374,341,959

The following schedule summarizes future debt service requirements to maturity as of June 30, 2011:

Fiscal Year	***Principal***	***Interest***	***Total***
2012	$ 3,330,000	$ 10,023,803	$ 13,353,803
2013	3,395,000	9,965,890	13,360,890
2014	3,490,000	9,897,860	13,387,860
2015	3,645,000	9,818,121	13,463,121
2016	4,300,000	9,721,099	14,021,099
2017-2021	76,400,000	46,085,902	122,485,902
2022-2026	47,320,000	39,077,306	86,397,306
2027-2031	59,640,000	30,466,196	90,106,196
2032-2036	73,010,000	21,182,757	94,192,757
2037-2041	79,525,000	9,507,174	89,032,174
2042-2046	20,675,000	854,182	21,529,182
TOTAL	$ 374,730,000	196,600,290	571,330,290

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2011:

Series	Dated	Original Coupon Rates From	To	Issued	Outstanding	Final Maturity
73	December 19, 1985	**		$ 740,000,000	$ 44,000,000	2020
81	September 1, 2001	5.125	5.250%	60,150,000	23,185,000	2043
82	June 1, 2002	5.375	5.500%	60,000,000	13,850,000	2043
83	December 2, 2004	**		30,000,000	10,965,000	2040
84	June 29, 2005	**		30,000,000	30,000,000	2040
85	June 21, 2006	##		49,000,000	15,140,000	2041
86	December 19, 2006	##		31,320,000	31,320,000	2040
87A	December 19, 2006	3.850	4.500%	13,265,000	13,265,000	2042
87B	December 19, 2006	4.700	4.700%	5,000,000	5,000,000	2042
87C	January 10, 2007	##		9,045,000	9,045,000	2028
88A	September 20, 2007	4.550	4.900%	9,650,000	9,650,000	2027
88B	September 20, 2007	##		30,000,000	30,000,000	2042
89A	September 20, 2007	3.550	4.550%	10,365,000	8,305,000	2020
90A	June 24, 2008	1.750	4.400%	11,115,000	9,950,000	2024
90B	June 24, 2008	**		38,885,000	38,885,000	2046
91	November 16, 2010	0.300	4.700%	53,090,000	52,525,000	2041
92A	November 16, 2010	0.300	4.250%	20,060,000	19,645,000	2031
92B	November 16, 2010	4.625	4.625%	10,000,000	10,000,000	2039
Total Bonds Outstanding as of June 30, 2011:					$ 374,730,000	

** Interest rates are adjusted weekly based on the weekly rate determined by the Remarketing Agent, not to exceed 14% for Series 73H and 12% for Series 83, Series 84 and Series 90B. The interest rate at the end of the fiscal year was 0.08% for Series 73H, 2.25% for Series 83 and Series 84 and 1.90% for Series 90B.

Interest rates are adjusted daily based on the daily rate determined by the Remarketing Agent, not to exceed 12%. The interest rate at the end of the fiscal year was 1.50% for Series 85, Series 86, Series 87C and Series 88B.

6. DEMAND BONDS

Included in long-term debt at June 30, 2011 are the following State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, along with selected terms of their Standby Bond Purchase Agreements (SBPAs):

Series	**Outstanding Bond Principal Amount**	**Liquidity Provider**	**Scheduled Termination Date**	**Maximum Interest Commitment**	**Commitment Fee**
Series 73H	$ 44,000,000	Bayerische Landesbank	11/30/2015 (1)	40 days/14%	0.0850%
Series 83	$ 10,965,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 84	$ 30,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 85	$ 15,140,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 86	$ 31,320,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 87C	$ 9,045,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 88B	$ 30,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 90B	$ 38,885,000	Dexia Credit Local	12/31/2013	34 days/12%	0.2500%

(1) Bayerische Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 27, 2012.

These bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. The bondholder may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department's Remarketing Agent is authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a daily or weekly basis based on their applicable mode. The designated Remarketing Agent for such bonds will determine the interest rate borne by each series of bonds. The Department pays its designated Remarketing agents a remarketing fee for this service:

Series	Outstanding Bond Principal Amount	Designated Remarketing Agent	Remarketing Mode	Remarketing Fee
Series 73H	$ 44,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 83	$ 10,965,000	JPMorgan Securities Inc	Weekly	0.050%
Series 84	$ 30,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 85	$ 15,140,000	JPMorgan Securities Inc	Daily	0.070%
Series 86	$ 31,320,000	JPMorgan Securities Inc	Daily	0.070%
Series 87C	$ 9,045,000	JPMorgan Securities Inc	Daily	0.070%
Series 88B	$ 30,000,000	JPMorgan Securities Inc	Daily	0.070%
Series 90B	$ 38,885,000	JPMorgan Securities Inc	Weekly	0.070%

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPA for Series 73H, Bayerische Landesbank Girozentrale *(BLG)* will commit to purchase any Series 73H unremarketed bonds, in each case subject to certain conditions set forth in the SBPAs. Under the SBPAs for Series 83, 84, 85, 86, 87C, 88B, and 90B, *("Series 83–90B")* Dexia Credit Local, will commit to purchase any unremarketed bonds, subject to certain conditions set forth in the SBPAs.

If a tender advance did occur under the Series 73H SBPA, it would accrue interest at the bank's base rate *(either a prime lending rate or the federal funds rate plus ½ of 1%, whichever is higher)*. If the tender advance was in default, interest would accrue at the bank's base rate plus 1%. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the Series 73H SBPA, a default would have occurred.

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 73H SBPA for fiscal years 2011 and 2010. Therefore, no tender advances or draws were outstanding as of June 30, 2011 or 2010.

If a tender advance did occur under the Series 83-90B SBPAs, it would accrue interest at the bank's base rate *(either a prime lending rate or the federal funds rate plus ½ of 1%, whichever is higher)* for the time period up to 91 days; at the bank's base rate plus 1% for the time period covering 92 days up to the day before the end of the purchase commitment period; at the bank's base rate plus 2% for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 2.5%. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off on the earliest to occur of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate or indexed rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. If repayment of any tender advances does not occur within the specified timeframes contained in the Series 83-90B SBPAs, a default would have occurred.

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 83-90 SBPAs for fiscal years 2011 and 2010. Therefore, no tender advances or draws were outstanding as of June 30, 2011 or 2010.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal and accrued interest, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPAs. The Department is required to pay a commitment fee, which is payable quarterly in arrears.

See *Note 16 – Subsequent Events* related to Dexia Credit Local for activity after June 30, 2011.

7. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

The Department has an interest rate swap in connection with a portion of its Loan Program General Obligation Veterans' Welfare Bonds, Series 84. The swap and underlying floating-rate bonds together create "synthetic" fixed-rate debt.

During fiscal year 2011, the Department did not enter into, terminate, or have any maturities of derivatives.

The fair value balance of the interest rate swap is reported as a deferred outflow of resources and derivative instrument on the Statement of Net Assets. Changes to the year-end fair value balance are presented below:

Description	Notional Amount	Fair Value Balance June 30, 2010	Fair Value Increase / (Decrease)	Fair Value Balance June 30, 2011
Series 84	$25,000,000	$ (2,249,775)	$ 441,097	$ (1,808,678)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2011 is negative. The fair value of the interest rate swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap.

<u>Hedging Instruments</u>

On June 30, 2011, the Department has the following derivative instruments outstanding:

Type	Objective	Notional Amount	Effective Date	Termination Date	Terms	Fair Value
Pay – fixed interest rate swap	Hedge of changes in cash flows on the Series 84 bonds, specifically related to changes in municipal tax-exempt interest rates	$25,000,000	3/1/2008	6/1/2040	Pay 3.665%; Receive 62.6% of 1-month LIBOR* + .265%	$ (1,808,678)

* London Interbank Offered Rate

The Series 84 swap was structured with the option where the Department has the right to "cancel" or terminate the swap at par on any payment date, in whole or in part commencing June 1, 2017. This option enhances asset/liability matching and provides flexibility to adjust the outstanding notional amount of the swap over time.

The use of derivatives, including interest rate swaps, involves certain risks. These risks include, but are not limited to:

Credit Risk – is the risk that a counterparty will not fulfill its obligations. The Department's interest swap is with Morgan Stanley Capital Services *("counterparty")*, which is rated A and A2 by S&P and Moody's respectively.

If the counterparty's credit rating falls below certain levels, the counterparty is required to post collateral to the lower of the following ratings:

S&P Rating	**Moody's Rating**	**Threshold**	**Minimum Transfer Amount**
AA- or higher	Aa3 or higher	Infinite	N/A
A+	A1	$ 10,000,000	$ 1,000,000
A	A2	$ 5,000,000	$ 1,000,000
A-	A3	$ 2,500,000	$ 1,000,000
BBB+ or below or not rated	Baa1 or below or not rated	$ -	$ 100,000*

*Minimum Transfer Amount shall be $0 if, and for so long as, neither Moody's nor S&P rate the long-term unsecured, unsubordinated, debt securities of Morgan Stanley.

Since the fair value of the swap as of June 30, 2011, is negative, the counterparty is not required to post collateral.

According to the State of Oregon Swap Policy, the State may require collateralization or other credit enhancements to secure any or all swap payment obligations, where the Oregon State Treasurer determines such security is necessary to limit the credit risk or otherwise protect the interests of the State.

Interest Rate Risk – is the risk that changes in interest rates will adversely affect the fair values of a government's cash flows. The Department is exposed to interest rate risk on its pay-fixed, receive variable interest rate swap. As the one-month LIBOR rate decreases, the Department's net payment on the swap increases.

Basis Risk – is the risk that arises when variable rates of a hedging derivative instrument and a hedged item are based on different reference rates. The variable-rate debt hedged by the Department's interest rate swap is variable-rate demand obligation *(VRDO)* bonds that are remarketed weekly. The Department is exposed to basis risk on its pay-fixed interest rate swap that is hedging the VRDO bonds, because the variable-rate payments received by the Department are based on a rate other than the interest rates the Department pays on the VRDO bonds. At June 30, 2011, the interest rate on the Department's variable-rate hedged debt is 2.25%, while the 62.6% of one-month LIBOR plus 0.265% is 0.385%.

Termination Risk – is the risk that a hedging derivative instrument's unscheduled end will affect a government's asset and liability strategy or will present the government with potentially significant unscheduled termination payments to the counterparty. The Department or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract.

Cash Flows

As interest rates fluctuate, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department. Using interest rates as of June 30, 2011, debt service requirements of the variable-rate debt *(on the notional amount of the swap)* and net swap payments are as follows:

Fiscal Year	***Principal***	***Interest***	***Interest Rate Swap (Net)***	***Total***
2012	$ -	$ 563,275	$ 821,550	$ 1,384,825
2013	-	561,725	821,550	1,383,275
2014	-	562,500	821,421	1,383,921
2015	-	562,500	821,421	1,383,921
2016	410,000	560,268	811,527	1,781,795
2017-2021	2,550,000	2,639,617	3,821,034	9,010,651
2022-2026	3,505,000	2,306,192	3,319,732	9,130,924
2027-2031	4,825,000	1,846,632	2,630,443	9,302,075
2032-2036	6,640,000	1,213,467	1,681,201	9,534,668
2037-2040	7,070,000	358,384	426,432	7,854,816
TOTAL	$ 25,000,000	$ 11,174,560	$ 15,976,311	$ 52,150,871

Contingent Features

If the State of Oregon's unsecured, unenhanced general obligation debt rating reaches certain levels, the Department is required to post collateral to the lower of the following ratings:

S&P Rating	**Moody's Rating**	**Threshold**	**Minimum Transfer Amount**
A- or higher	A3 or higher	Infinite	N/A
BBB+ or below	Baa1 or below	$0	$100,000*

*Minimum Transfer Amount shall be $0 if, and for so long as, neither Moody's nor S&P rate the applicable Department's debt.

8. CHANGES IN LONG TERM LIABILITIES

The following table provides detail on the long-term liability activity as of June 30, 2011:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	$ 441,425,000	$ 83,150,000	$ (149,845,000)	$ 374,730,000	$ 3,330,000
Bond Discount	(530,598)	(199,553)	342,110	(388,041)	(27,773)
Total Bonds Payable	440,894,402	82,950,447	(149,502,890)	374,341,959	3,302,227
Compensated Absences Payable	446,161	7,497	-	453,658	299,414
Excess Mortgage Interest & Arbitrage Rebate Payable	10,974,242	2,196,683	-	13,170,925	-
OPEB Obligation (Net)	76,075	12,075	-	88,150	-
Total Long-Term Liabilities	$ 452,390,880	$ 85,166,702	$ (149,502,890)	$ 388,054,692	$ 3,601,641

9. INTERFUND TRANSACTIONS

At June 30, 2011, the Veterans' Loan Program had outstanding interfund receivables of $66,147, which consisted of $66,147 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home. The balances are shown as a "Due from Other Funds" and "Due to Other Funds" on the Statement of Net Assets.

At June 30, 2010, the Veterans' Loan Program had outstanding interfund receivables of $67,428, which consisted of $66,674 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $754 due from the Department's Conservatorship Trust Fund.

10. EMPLOYEE RETIREMENT PLAN

The Oregon Public Employees Retirement System *(PERS)* provides retirement plans for Department employees. PERS is administered by the Public Employees Retirement Board *(Board)*, as required by Chapters 238 and 238A of the Oregon Revised Statutes *(ORS)*. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, PO Box 23700, Tigard, Oregon 97281-3700.

<u>PERS Pension</u>

Employees of the Department who were plan members before August 29, 2003 participate in the PERS Pension, a cost-sharing multiple-employer defined benefit pension plan. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options as established by ORS Chapter 238. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

Oregon Public Service Retirement Plan

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan *(OPSRP)*, also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program *(defined benefit)* and the Individual Account Program *(defined contribution)*. Department employees hired after August 28, 2003, participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits as established by ORS Chapter 238A.

Beginning January 1, 2004, PERS members became members of the Individual Account Program *(IAP)* portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute a percentage of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Department does.

For the PERS Pension and the OPSRP Pension, the Department is required by ORS 238.225 and ORS 238A.220, respectively, to contribute actuarially computed amounts as determined by the Board. The funding policies provide for monthly employer and contributions. Rates are subject to change as a result of subsequent actuarial valuations.

The required State employee contributions and the required state employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans are as follows: the Employee rate is 6.00%; the PERS Pension Employer rate is 2.06%; and the OPSRP rate is 2.84%.

Combined employer contributions for the years ended June 30, 2011, 2010, and 2009 were approximately $96,400, $88,850, and $264,500 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2011, 2010, and 2009 were approximately $252,800, $235,400, and $230,600 respectively.

11. OTHER POSTEMPLOYMENT BENEFIT PLANS

Department employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits *(OPEB)*. OPEB plans are offered through the Public Employees Retirement System *(PERS)* as established by Oregon Revised Statutes *(ORS)* 238.410 and the Public Employees Benefit Board *(PEBB)* as established by ORS 243.302. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, PO Box 23700, Tigard, Oregon 97281-3700

Retirement Health Insurance Account

The Retirement Health Insurance Account *(RHIA)* is a cost-sharing multiple-employer OPEB plan which provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health insurance plan.

The Department 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. The rate of each covered employee's salary for the fiscal year ended June 30, 2011 was .29 percent for Tier 1 and Tier 2 employees and .19 percent for OPSRP employees, which is embedded within the total PERS contribution rate.

Combined employer contributions for the years ended June 30, 2011, 2010, and 2009 were approximately $10,300, $11,600 and $14,800 respectively, equal to the required contributions each year.

The Legislature has the sole authority to amend the benefit provisions and funding policy for the RHIA plan.

<u>Retiree Health Insurance Premium Account</u>
The Retiree Health Insurance Premium Account *(RHIPA)* is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

The Department 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. The rate of each covered employee's salary for the fiscal year ended June 30, 2011 was .08 percent for Tier 1 and Tier 2 employees and .02 percent for OPSRP employees, which is embedded within the total PERS contribution rate. The Department's actual contribution for the years ended June 30, 2011 and 2010 were approximately $2,400 and $3,200 respectively, which was equal to the actuarial required contribution.

The Legislature has the sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

<u>Public Employees Benefit Board Plan</u>
The PEBB plan is an agent multiple-employer plan, which offers medical, dental, and vision benefits to eligible retired employees. Retired employees not eligible for Medicare are eligible for PEBB coverage if the retiree is receiving a service or disability benefit from PERS or another state system, is eligible to receive a retirement allowance from PERS and has reached the earliest retirement age under ORS Chapter 238, or is eligible to receive a service allowance or pension under any system offered by the state and has attained the earliest retirement age under that system. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended

premium rate since retirees are pooled together with active employees for insurance rating purposes.

ORS 243 assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. As the administrator of the PEBB Plan, PEBB has the authority to determine postretirement benefit increases and decreases.

12. LEASE COMMITMENT AND RECEIVABLES

The Department leases office space to other state agency tenants at its headquarters in Salem. For the fiscal year ended June 30, 2011, the total rental income received from tenants was $682,948.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	July 1, 2011	June 30, 2013	$ 320,125
Tenant 2	July 1, 2009	June 30, 2013	$ 695,403
Tenant 3	December 1, 2010	June 30, 2013	$ 117,284
Total			$1,132,812

Future rental income may increase to a higher rental rate due to inflation. The approximate historical cost of this office space is $1,897,073 with a carrying value of $1,001,530 *(historical cost less accumulated depreciation of $895,543).*

13. RISK FINANCING

The State of Oregon administers property and casualty insurance programs covering State government through its Central Services Fund *(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; worker's compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other key positions.

As a state agency, the Department 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 for the cost of servicing is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.

Risk Management Division of the Department of Administrative Services is the State's manager for self-insurance, insurance and risk control. Risk Management Division investigates, evaluates and resolves claims for damage to state property and for loss or injury to the public arising out of state activities. Division staff consult with and advise state agencies on claim related loss control issues. State agencies are responsible for informing Risk Management Division in a timely fashion when they become aware that property or liability damage has occurred.

During the fiscal years ended June 30, 2011 and June 30, 2010 there has been no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years *(July 1,* *2001 through June 30, 2011)* there have been no claims that exceeded the Department's property or liability coverage.

14. ALLOWANCES IN PROPRIETARY FUND VETERANS' HOME PROGRAM

Revenues in the Veterans' Home Program are reported net of discounts and allowances in the accompanying financial statements. The amounts netted against Resident Related Revenues are $12,445 for fiscal year 2011 and $50,955 for fiscal year 2010.

15. PRIOR PERIOD ADJUSTMENTS

During fiscal year ended June 30, 2011, the Department recorded a prior period adjustment of $88,611. This adjustment in the Veterans' Loan Program consisted of reclassifying services and supplies expense to a separate fund and recording the loss on bond discount and underwriter's discount.

During fiscal year ended June 30, 2010, the Department recorded a prior period adjustment of $6,822. This resident-related revenue adjustment in the Veterans' Home Program resulted in an increase to beginning net assets.

16. SUBSEQUENT EVENTS

The following subsequent events occurred after June 30, 2011.

Early Bond Redemptions

The Department exercised the following early bond redemptions on August 1, 2011:

Bond Series	Amount Redeemed
81	$1,025,000

Lease Agreement

Effective August 1, 2011, the Department entered into a lease agreement with another state agency tenant to lease office space in the Department's building. The lease continues through June 30, 2013 and rent is $11,983 a month.

Liquidity – Dexia Credit Local

Effective October 12, 2011, the Department terminated its Standby Bond Purchase Agreements (SBPAs) with Dexia Credit Local (Dexia). These SBPAs which in the aggregate totaled $165,355,000 had provided liquidity support on the Series 83, 84, 85, 86, 87C, 88B and 90B bonds and were outstanding as of June 30, 2011 (see note 6). Effective October 7th, the Department, working with the Oregon State Treasury, entered into new SBPAs with U.S. Bank and the Bank of Tokyo-Mitsubishi to provide liquidity support on the affected bonds. The Bank of Tokyo-Mitsubishi SBPA in the amount of $79,850,000, provides liquidity support on the Series 83, 84 and 90B bonds and the U.S. Bank SBPA in the amount of $85,505,000, provides liquidity support on the Series 85, 86, 87C and 88B bonds.

In conjunction with the change in liquidity providers, the Department remarketed the affected bonds described above, which had a total par value outstanding of $165,355,000. The remarketing occurred on October 7, 2011.

OTHER SUPPLEMENTAL SECTION

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Governmental Funds

General Fund
The General Fund accounts for general governmental operations that are financed by legislatively approved appropriations funded from general revenues. For the Department, general government activities are related to services to veterans. Specifically, general fund dollars cover a portion of the cost for counseling, conservatorship and other services to veterans. In addition, the General Fund makes available educational aid and emergency assistance to certain veterans, as well as financial assistance and training to County Veterans' Service Offices and Veterans' Organizations.

Special Revenue Funds
Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Veterans' Trust Accounts - The Department accepts donations that can be used to operate the Oregon Veterans' Home in Wasco County, Oregon, and to provide its residents with amenities to enhance their quality of life. The fund is composed of donations and interest earnings. In addition, the Department maintains other veteran-related trust accounts.

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011 and JUNE 30, 2010

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ -	$ -	$ 784,006	$ 1,364,133
Securities Lending Cash Collateral	-	-	242,569	529,232
Receivables:				
Due from State General Fund	468,689	521,273	-	-
Due from Other Funds	-	-	5,000	4,297
Prepaid Items	647	1,419	-	-
Total Current Assets	469,336	522,692	1,031,575	1,897,662
TOTAL ASSETS	$ 469,336	$ 522,692	$ 1,031,575	$ 1,897,662
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 468,689	$ 521,273	$ -	$ -
Obligations under Securities Lending	-	-	242,569	529,232
Total Current Liabilities	468,689	521,273	242,569	529,232
TOTAL LIABILITIES	$ 468,689	$ 521,273	$ 242,569	$ 529,232
FUND BALANCES				
Nonspendable Fund Balance - Prepaids	$ 647	$ 1,419	$ -	$ -
Restricted Fund Balance - Donor/Other External Party	-	-	789,006	1,368,430
TOTAL FUND BALANCES	$ 647	$ 1,419	$ 789,006	$ 1,368,430
TOTAL LIABILITIES AND FUND BALANCES	$ 469,336	$ 522,692	$ 1,031,575	$ 1,897,662

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
$ 82,963	$ 88,458	$ 866,969	$ 1,452,591
25,668	34,319	268,237	563,551
-	-	468,689	521,273
-	-	5,000	4,297
-	-	647	1,419
108,631	122,777	1,609,542	2,543,131
$ 108,631	$ 122,777	$ 1,609,542	$ 2,543,131
$ -	$ -	$ 468,689	$ 521,273
25,668	34,319	268,237	563,551
25,668	34,319	736,926	1,084,824
$ 25,668	$ 34,319	$ 736,926	$ 1,084,824
$ -	$ -	$ 647	$ 1,419
82,963	88,458	871,969	1,456,888
$ 82,963	$ 88,458	$ 872,616	$ 1,458,307
$ 108,631	$ 122,777	$ 1,609,542	$ 2,543,131

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMBINED STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and JUNE 30, 2010

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenues				
Donations	$ -	$ -	$ 311,135	$ 257,300
Interest Income	-	-	6,353	8,753
Total Revenues	-	-	317,488	266,053
Expenditures				
Veterans' Services				
Personal Services	783,046	769,058	-	-
Services and Supplies	60,514	139,843	-	-
Securities Lending Investment Expense	-	-	917	829
State Treasury Charges	-	-	-	-
Trust Fund Grants	-	-	-	-
Special Payments	1,922,151	2,061,188	-	-
Total Expenditures	2,765,711	2,970,089	917	829
Other Financing Sources (Uses)				
State Appropriations	2,765,711	2,970,089	-	-
Operating Transfer In from DMV	-	-	51,483	42,689
Operating Transfer Out to Veterans' Home	-	-	(947,478)	(20,514)
Total Other Financing Sources (Uses)	2,765,711	2,970,089	(895,995)	22,175
Net Change in Fund Balance	-	-	(579,424)	287,399
Beginning Fund Balance	1,419	939	1,368,430	1,081,031
Change in Reserve for Prepaid Items	(772)	480	-	-
Ending Fund Balance	$ 647	$ 1,419	$ 789,006	$ 1,368,430

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
$ -	$ 459	$ 311,135	$ 257,759
543	654	6,896	9,407
543	1,113	318,031	267,166
-	-	783,046	769,058
-	-	60,514	139,843
119	124	1,036	953
97	54	97	54
5,822	690	5,822	690
-	-	1,922,151	2,061,188
6,038	868	2,772,666	2,971,786
-	-	2,765,711	2,970,089
-	-	51,483	42,689
-	-	(947,478)	(20,514)
-	-	1,869,716	2,992,264
(5,495)	245	(584,919)	287,644
88,458	88,213	1,458,307	1,170,183
-	-	(772)	480
$ 82,963	$ 88,458	$ 872,616	$ 1,458,307

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

SCHEDULE OF LEGISLATIVE AUTHORIZATION (NON-GAAP BUDGETARY BASIS)

COMPARED TO ACTUAL EXPENDITURES SUBJECT TO BUDGET

GOVERNMENTAL FUND

FOR THE BIENNIUM ENDING JUNE 30, 2011

AS OF JUNE 30, 2011

	General Fund				
	2009-2011 Original Budget	2009-2011 Final Budget	First Year Actual June 30, 2010	Second Year Actual June 30, 2011	Variance Favorable/ (Unfavorable)
General Fund:					
Veterans' Services Division - Appropriation	$ 6,168,915	$ 5,898,200	$ 2,970,089	$ 2,765,711	$ 162,400
Total General Fund	$ 6,168,915	$ 5,898,200	$ 2,970,089	$ 2,765,711	$ 162,400

Fiduciary Fund

Private Purpose Trust Fund

Private Purpose Trust Funds, a type of Fiduciary Fund, account for trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Conservatorship Private Purpose Trust Fund - The Department acts as conservator of estates of approximately 160 veterans, survivors, and minor or helpless children of veterans who the court has determined are unable to manage their own financial affairs. Revenue sources include Social Security monies, U.S. Department of Veterans' Affairs benefits, investment income, and other sources of income.

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND

JUNE 30, 2011 and JUNE 30, 2010

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2011	June 30, 2010
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 22,693,269	$ 23,737,639
Investments	893,039	1,128,920
Securities Lending Cash Collateral	7,021,226	9,209,305
Receivables:		
Accrued Interest	9,777	10,891
Other	-	-
Total Current Assets	30,617,311	34,086,755
Noncurrent Assets		
Conservatorship Real Property	4,316,260	4,279,763
Conservatorship Personal Property	400,973	419,159
Total Noncurrent Assets	4,717,233	4,698,922
TOTAL ASSETS	$ 35,334,544	$ 38,785,677
LIABILITIES		
Current Liabilities		
Due to Other Funds	$ -	$ 754
Mortgages on Conservatorship Real Property	68,664	68,664
Obligations under Securities Lending	7,021,226	9,209,305
Total Current Liabilities	7,089,890	9,278,723
Noncurrent Liabilities		
Mortgages on Conservatorship Real Property	2,105,339	2,138,753
Total Noncurrent Liabilities	2,105,339	2,138,753
TOTAL LIABILITIES	9,195,229	11,417,476
NET ASSETS		
Net Assets Held in Trust for Individuals	26,139,315	27,368,201
TOTAL NET ASSETS	$ 26,139,315	$ 27,368,201

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF CHANGES IN

FIDUCIARY NET ASSETS

FIDUCIARY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and JUNE 30, 2010

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2011	June 30, 2010
ADDITIONS		
Contributions:		
Veterans' Benefits	$ 6,784,250	$ 8,114,701
Investment Income:		
Interest Income	144,220	179,313
Valuation Changes and Redemptions of Investments	(42,413)	57,518
TOTAL ADDITIONS	$ 6,886,057	$ 8,351,532
DEDUCTIONS		
Veterans' Services: Beneficiary Care	$ 8,093,748	$ 7,415,346
Securities Lending Investment Expense	21,195	17,539
TOTAL DEDUCTIONS	8,114,943	7,432,885
Net Increase/ (Decrease)	(1,228,886)	918,647
CHANGE IN NET ASSETS	(1,228,886)	918,647
BEGINNING NET ASSETS	27,368,201	26,449,554
ENDING NET ASSETS	$ 26,139,315	$ 27,368,201

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STATISTICAL SECTION

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET ASSETS
PROPRIETARY FUND - VETERANS' LOAN PROGRAM only
FOR THE FISCAL YEARS ENDED 2002 - 2011

ASSETS & DEFERRED OUTFLOWS	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
Current Assets				
Cash and Cash Equivalents *(1)*	$ 92,654,442	$ 89,880,157	$ 63,666,685	$ 87,234,247
Cash and Cash Equivalents - Restricted	3,107,401	4,601,059	5,454,658	6,685,594
Securities Lending Cash Collateral	67,609,488	91,912,913	209,834,541	220,256,145
Investments	3,540,625	10,903,602	22,126,185	2,511,661
Investments - Restricted	5,005,250	15,004,650	25,537,018	56,189,591
Receivables:				
Accrued Interest	1,641,564	1,957,271	2,157,552	2,945,247
Due from State Treasury	-	-	-	-
LCLI Premiums *(2)*	71,655	87,229	92,070	107,214
Other	24,638	24,407	13,256	10,817
Due from Other Funds	66,147	67,428	72,172	63,499
Real Estate Owned	1,570,465	1,429,235	591,530	9,842
Prepaid Expenses	6,946	7,970	5,379	16,145
Total Current Assets	$ 175,298,621	$ 215,875,921	$ 329,551,046	$ 376,030,002
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	$ 139,488,446	$ 166,349,089	$ 413,146,725	$ 372,930,995
Investments	21,783,303	7,845,319	15,815,890	-
Investments - Restricted	3,269,211	13,127,161	25,520,715	84,613,906
Mortgage Loans and Contracts Receivable (Net)	247,018,965	274,950,313	298,087,844	306,408,188
Notes Receivable	-	-	-	-
Other Receivable	523,531	449,742	270,279	2,391,606
Deferred Underwriter's Discount	1,937,005	1,914,482	2,025,039	2,158,705
Capital Assets:				
Building, Property and Equipment	8,954,357	8,911,904	8,911,904	9,484,489
Works of Art and Historical Treasures	85,170	85,170	85,170	85,170
Accumulated Depreciation	(5,008,953)	(4,891,793)	(4,774,826)	(5,226,182)
Total Noncurrent Assets	$ 418,051,035	$ 468,741,387	$ 759,088,740	$ 772,846,877
Deferred Outflow of Resources *(3)*	$ 1,808,678	$ 2,249,775	$ -	$ -
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 595,158,334	$ 686,867,083	$ 1,088,639,786	$ 1,148,876,879
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 237,200	$ 228,675	$ 240,559	$ 358,119
Line of Credit Payable	-	-	-	1,000,000
LCLI Premium Payable	58,000	67,779	86,853	99,208
LCLI Claims Payable *(2)*	90,094	243,351	108,999	108,164
Deposit Liabilities	1,976,620	2,107,611	2,200,352	2,187,904
Accrued Interest on Bonds	964,913	1,046,013	1,249,984	3,201,652
Obligations Under Securities Lending	67,609,488	91,912,913	209,834,541	220,256,145
Claims and Judgements Payable	-	-	-	-
Compensated Absences Payable	296,022	289,901	283,340	279,685
Excess Interest and Arbitrage Rebate Payable	-	487,548	452,944	268,193
Bonds Payable - Maturing Within One Year (Net)	3,302,227	2,006,453	2,041,454	41,454,365
Matured Bonds Payable	1,072,780	2,425,669	3,167,453	4,398,482
Total Current Liabilities	$ 75,607,344	$ 100,815,913	$ 219,666,479	$ 273,611,917
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	$ 371,039,732	$ 438,887,949	$ 730,324,401	$ 735,100,855
Claims and Judgements Payable	-	-	-	-
Compensated Absences Payable	152,496	149,343	139,556	137,755
Excess Interest and Arbitrage Rebate Payable	13,170,925	10,486,694	5,766,794	3,180,198
Other Postemployment Benefits Obligation (Net)	87,656	76,075	63,679	33,247
Derivative Instrument - Interest Rate Swap *(3)*	1,808,678	2,249,775	-	-
Total Noncurrent Liabilities	$ 386,259,487	$ 451,849,836	$ 736,294,430	$ 738,452,055
TOTAL LIABILITIES	$ 461,866,831	$ 552,665,749	$ 955,960,909	$ 1,012,063,972
NET ASSETS				
Invested in Capital Assets	$ 4,030,574	$ 4,105,281	$ 4,222,248	$ 4,343,477
Net Assets, Unrestricted	129,260,929	130,096,053	128,456,629	132,469,430
TOTAL NET ASSETS	$ 133,291,503	$ 134,201,334	$ 132,678,877	$ 136,812,907
TOTAL LIABILITIES AND NET ASSETS	$ 595,158,334	$ 686,867,083	$ 1,088,639,786	$ 1,148,876,879

(1) Current Cash and Cash Equivalents amounts have been adjusted for deposit liabilities.
(2) Starting in fiscal year 2005, a change was made to report Loan Cancellation Life Insurance (LCLI) Claims Payable separately.
(3) Starting in fiscal year 2010, derivatives reported separately as required by GASB Statement 53.

June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
$ 80,795,986	$ 68,536,698	$ 73,133,598	$ 108,065,770	$ 127,071,341	$ 67,460,354
6,308,466	5,775,565	6,211,795	7,753,427	9,041,323	11,326,992
171,313,426	56,088,643	84,522,242	263,145,877	59,557,642	33,442,192
-	-	-	-	-	-
95,073,362	100,656,772	-	-	-	-
2,753,190	3,240,750	3,876,695	5,545,325	8,586,686	8,479,863
-	-	-	-	6,000,000	-
147,259	170,762	185,655	217,577	274,500	332,500
10,875	34,301	11,731	23,533	12,600	10,900
73,850	138,755	494,164	5,269	163	26,747
-	-	96,048	171,189	302,563	351,966
39,796	27,271	8,115	19,449	26,563	45,272
$ 356,516,210	$ 234,669,517	$ 168,540,043	$ 384,947,416	$ 210,873,381	$ 121,476,786
$ 402,707,726	$ 419,260,547	$ 428,157,516	$ 405,536,924	$ 353,982,441	$ 437,853,753
2,544,843	2,564,209	-	-	-	-
30,074,187	26,342,808	134,928,764	155,641,016	266,394,138	288,644,185
283,736,757	266,034,069	284,220,290	339,922,044	456,419,543	582,527,538
123,428	176,040	360,000	360,000	-	-
1,712,187	1,931,151	481,294	-	-	-
1,847,213	1,991,927	1,929,928	1,913,369	2,209,215	2,413,889
9,563,859	9,949,641	9,945,155	9,945,155	9,955,561	9,726,670
85,170	85,170	85,170	85,170	85,170	85,170
(5,269,006)	(5,647,415)	(5,391,789)	(5,032,348)	(4,647,330)	(4,215,939)
$ 727,126,364	$ 722,688,147	$ 854,716,328	$ 908,371,330	$ 1,084,398,738	$ 1,317,035,266
$ -	$ -	$ -	$ -	$ -	$ -
$ 1,083,642,574	$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119	$ 1,438,512,052
$ 292,260	$ 301,996	$ 361,717	$ 566,738	$ 762,672	$ 410,616
30,835,000	1,000,000	-	-	-	-
103,602	135,470	171,010	347,345	455,246	562,197
254,704	13,762	137,379	-	-	-
2,005,195	1,637,899	1,503,156	1,495,581	1,910,501	2,154,231
6,144,051	8,234,121	9,891,835	12,368,445	16,329,000	20,183,563
171,313,426	56,088,643	84,522,242	263,145,877	59,557,642	33,442,192
875	-	-	-	-	-
287,513	294,236	252,202	417,495	453,859	552,488
105,259	212,771	-	-	-	186,645
61,353,153	62,250,115	62,727,149	83,314,364	104,119,165	114,325,964
4,199,669	4,002,196	4,537,629	6,257,846	7,130,822	9,172,761
$ 276,894,707	$ 134,171,209	$ 164,104,319	$ 367,913,691	$ 190,718,907	$ 180,990,657
$ 677,075,220	$ 701,016,462	$ 738,766,577	$ 798,269,848	$ 964,911,356	$ 1,113,899,221
-	15,518	-	-	-	-
141,611	98,079	108,087	-	-	-
1,561,754	891,286	402,055	385,380	287,175	319,483
-	-	-	-	-	-
-	-	-	-	-	-
$ 678,778,585	$ 702,021,345	$ 739,276,719	$ 798,655,228	$ 965,198,531	$ 1,114,218,704
$ 955,673,292	$ 836,192,554	$ 903,381,038	$ 1,166,568,919	$ 1,155,917,438	$ 1,295,209,361
$ 4,380,023	$ 4,387,396	$ 4,638,536	$ 4,997,977	$ 5,393,401	$ 5,595,901
123,589,259	116,777,714	115,236,797	121,751,850	133,961,280	137,706,790
$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691
$ 1,083,642,574	$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119	$ 1,438,512,052

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

PROPRIETARY FUND - VETERANS' LOAN PROGRAM only

FOR THE FISCAL YEARS ENDED 2002 - 2011

	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 11,797,640	$ 11,445,675	$ 16,014,046	$ 17,611,704
Contract Interest Income	139,828	209,608	302,145	434,945
Other Interest Income	-	-	-	3,219
Investment Income	4,043,049	6,964,830	4,673,050	33,154,407
Gain on Sale of Foreclosed Property	295,954	34,542	35,160	-
Loan Cancellation Life Insurance Premiums	822,503	962,230	1,142,192	1,356,657
Loan Cancellation Life Insurance Processing Fees	102,000	102,000	102,000	102,000
Other Fees and Charges	1,516,602	1,733,649	1,841,337	2,155,231
Conservatorship Fees	289,939	284,381	294,951	313,493
TOTAL OPERATING REVENUES	$ 19,007,515	$ 21,736,915	$ 24,404,881	$ 55,131,656
OPERATING EXPENSES				
Bond Interest Expense	$ 8,520,503	$ 8,495,161	$ 15,702,350	$ 26,856,570
Interest on Line of Credit	-	-	49,948	721,945
Salaries and Other Payroll Expenses	5,717,843	5,642,344	5,773,576	5,953,581
Bond Expenses	1,378,103	1,117,848	1,247,214	1,242,882
Securities Lending Investment Expense	232,258	320,983	1,270,291	6,678,572
Real Estate Owned Expense	259,411	130,125	29,547	2,324
Services and Supplies	1,744,035	1,867,440	1,665,656	1,971,272
Claims Expense - Loan Cancellation Life Insurance *(1)*	1,155,382	1,266,568	1,938,157	2,312,867
Depreciation Expense	117,160	116,967	113,378	160,174
Bad Debt Expense	360,478	936,600	-	-
Special Payments	-	-	(1,106)	98,674
Other Expenses	117,585	94,516	325,670	687,994
TOTAL OPERATING EXPENSES	$ 19,602,758	$ 19,988,552	$ 28,114,681	$ 46,686,855
OPERATING INCOME (LOSS)	$ (595,243)	$ 1,748,363	$ (3,709,800)	$ 8,444,801
NONOPERATING INCOME (EXPENSES)				
Net Transfers to Dept. of Administrative Services	$ -	$ -	$ (230,438)	$ -
Net Transfers from Military Dept.	-	-	-	98,824
Net Transfers from/(to) General Fund	(225,977)	(225,906)	(185,941)	300,000
Gain/(Loss) on Early Extinguishment of Debt	-	-	(7,851)	-
	(225,977)	(225,906)	(424,230)	398,824
CHANGE IN NET ASSETS	$ (821,220)	$ 1,522,457	$ (4,134,030)	$ 8,843,625
NET ASSETS				
Beginning Net Assets	$ 134,201,334	$ 132,678,877	$ 136,812,907	$ 127,969,282
Prior Period Adjustment	(88,611)	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 134,112,723	$ 132,678,877	$ 136,812,907	$ 127,969,282
Ending Net Assets	$ 133,291,503	$ 134,201,334	$ 132,678,877	$ 136,812,907

(1) Starting in fiscal year 2003, the Department included the activity of the Loan Cancellation Life Insurance program in the Statement of Revenues, Expenses, And Changes In Fund Net Assets.

June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
$ 17,526,662	$ 17,561,219	$ 21,225,116	$ 26,789,783	$ 36,742,510	$ 43,749,526
593,760	806,376	1,169,324	1,687,323	2,535,147	3,522,372
7,595	10,953	19,050	11,208	-	-
37,675,500	28,198,335	18,013,534	13,338,726	24,675,139	35,956,850
-	7,551	139,199	493,409	39,121	172,472
1,626,287	1,962,357	2,523,140	2,704,444	3,642,487	-
180,000	180,000	220,834	425,004	425,004	425,004
2,131,847	1,941,079	947,834	939,950	1,189,691	1,447,451
333,974	354,808	334,340	345,750	364,510	338,136
$ 60,075,625	$ 51,022,678	$ 44,592,371	$ 46,735,597	$ 69,613,609	$ 85,611,811
$ 34,581,972	$ 35,121,631	$ 37,103,554	$ 44,537,191	$ 58,066,877	$ 68,560,732
279,906	525,600	159,267	-	7,500	580,883
5,445,234	5,239,879	4,793,870	5,875,969	6,838,554	6,974,557
1,581,932	1,129,971	1,324,123	1,155,355	909,379	868,243
6,266,412	2,910,155	2,199,165	1,899,175	630,893	522,316
2,267	9,485	47,490	52,526	80,757	73,308
2,133,903	2,174,420	1,776,839	2,140,262	2,958,497	2,480,268
2,717,581	2,952,064	4,637,009	4,927,874	5,121,239	-
156,656	255,626	359,441	408,883	431,391	538,555
(545,135)	(918,401)	(1,104,080)	(1,656,784)	(1,744,700)	(906,906)
-	-	-	-	51,000	-
645,158	332,471	170,187	-	210,232	180,045
$ 53,265,886	$ 49,732,901	$ 51,466,865	$ 59,340,451	$ 73,561,619	$ 79,872,001
$ 6,809,739	$ 1,289,777	$ (6,874,494)	$ (12,604,854)	$ (3,948,010)	$ 5,739,810
$ (5,567)	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(5,567)	-	-	-	-	-
$ 6,804,172	$ 1,289,777	$ (6,874,494)	$ (12,604,854)	$ (3,948,010)	$ 5,739,810
$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080
-	-	-	-	-	42,556,801
-	-	-	-	-	75,000
$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 137,562,881
$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET ASSETS
PROPRIETARY FUND - VETERANS' HOME PROGRAM only
FOR THE FISCAL YEARS ENDED 2002 - 2011

ASSETS	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
Current Assets				
Cash and Cash Equivalents	$ 14,413,042	$ 2,422,398	$ 1,982,432	$ 1,653,358
Securities Lending Cash Collateral	4,459,350	939,799	907,514	818,718
Resident Care Receivable	1,376,424	1,484,378	1,398,921	1,136,487
Other Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Current Assets	$ 20,248,816	$ 4,846,575	$ 4,288,867	$ 3,608,563
Noncurrent Assets				
Resident Care Receivable (Net)	$ 26,927	$ 70,750	$ 138,125	$ 6,693
Capital Assets:				
Building, Property and Equipment	12,718,076	12,643,416	12,715,158	12,708,097
Improvements Other than Buildings	13,695	7,250	7,250	7,250
Land	2,100,073	600,073	600,073	600,073
Construction in Progress	1,566,650	-	-	-
Works of Art and Historical Treasures	70,000	70,000	70,000	70,000
Accumulated Depreciation	(4,202,032)	(3,895,082)	(3,653,406)	(3,339,812)
Total Noncurrent Assets	$ 12,293,389	$ 9,496,407	$ 9,877,200	$ 10,052,301
TOTAL ASSETS	$ 32,542,205	$ 14,342,982	$ 14,166,067	$ 13,660,864
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 1,125,035	$ 1,017,734	$ 963,037	$ $ 889,510
Due to Other Funds	66,147	66,674	71,991	63,499
Deposit Liabilities	187	6,076	7,990	361
Deferred Revenue	92,502	55,186	131,604	-
Obligations Under Securities Lending	4,459,350	939,799	907,514	818,718
Compensated Absences Payable	3,392	4,565	9,945	5,345
Total Current Liabilities	$ 5,746,613	$ 2,090,034	$ 2,092,081	1,777,433
Noncurrent Liabilities				
Compensated Absences Payable	$ 1,748	$ 2,352	$ 4,898	2,632
Other Post Employment Benefits Obligation (Net)	494	-	-	-
Claims and Judgements Payable	-	-	-	-
Total Noncurrent Liabilities	$ 2,242	$ 2,352	$ 4,898	2,632
TOTAL LIABILITIES	$ 5,748,855	$ 2,092,386	$ 2,096,979	1,780,065
NET ASSETS				
Invested in Capital Assets	$ 12,266,462	$ 9,425,657	$ 9,739,075	10,045,608
Expendable, Restricted for Capital Construction	10,426,096	-	-	-
Unrestricted	4,100,792	2,824,939	2,330,013	1,835,191
TOTAL NET ASSETS	$ 26,793,350	$ 12,250,596	$ 12,069,088	11,880,799
TOTAL LIABILITIES AND NET ASSETS	$ 32,542,205	$ 14,342,982	$ 14,166,067	$ $ 13,660,864

June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
$ 1,105,989	$ 1,474,963	$ 1,414,057	$ 726,735	$ 478,842	$ 492,654
387,988	189,105	248,379	342,687	63,195	34,495
1,158,387	707,089	818,414	661,432	390,000	435,000
-	51,800	-	-	16,794	22,000
-	-	5,405	-	-	-
-	571	553	553	846	793
$ 2,652,364	$ 2,423,528	$ 2,486,808	$ 1,731,407	$ 949,677	$ 984,942
$ 13,754	$ 2,614	$ 3,572	$ 3,572	$ 3,606	$ -
12,562,282	12,540,540	12,517,677	12,517,677	12,506,729	12,507,774
7,250	7,250	7,250	-	-	-
600,073	600,073	600,073	600,073	600,073	593,578
-	-	-	-	-	-
70,000	70,000	70,000	70,000	70,000	70,000
(3,027,776)	(2,738,926)	(2,449,306)	(2,161,834)	(1,878,984)	(1,525,504)
$ 10,225,583	$ 10,481,551	$ 10,749,266	$ 11,029,488	$ 11,301,424	$ 11,645,848
$ 12,877,947	$ 12,905,079	$ 13,236,074	$ 12,760,895	$ 12,251,101	$ 12,630,790
$ 855,175	$ 705,069	$ 873,212	$ 958,079	$ 411,023	$ 457,983
55,909	119,104	493,755	-	-	-
361	652	361	-	976	7,097
-	-	-	-	-	-
387,988	189,105	248,379	342,687	63,195	34,495
2,277	437	3,455	16,073	13,480	16,746
$ 1,301,710	$ 1,014,367	$ 1,619,162	$ 1,316,839	$ 488,674	$ 516,321
$ 1,121	$ 146	$ 1,481	$ -	$ -	$ -
-	-	-	-	-	-
-	6,994	-	-	-	-
$ 1,121	$ 7,140	$ 1,481	$ -	$ -	$ -
$ 1,302,831	$ 1,021,507	$ 1,620,643	$ 1,316,839	$ 488,674	$ 516,321
$ 10,211,829	$ 10,478,937	$ 10,745,694	$ 11,025,916	$ 11,297,818	$ 11,645,848
-	-	-	-	-	-
1,363,287	1,404,635	869,737	418,140	464,609	468,621
$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469
$ 12,877,947	$ 12,905,079	$ 13,236,074	$ 12,760,895	$ 12,251,101	$ 12,630,790

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - VETERANS' HOME PROGRAM only
FOR THE FISCAL YEARS ENDED 2002 - 2011

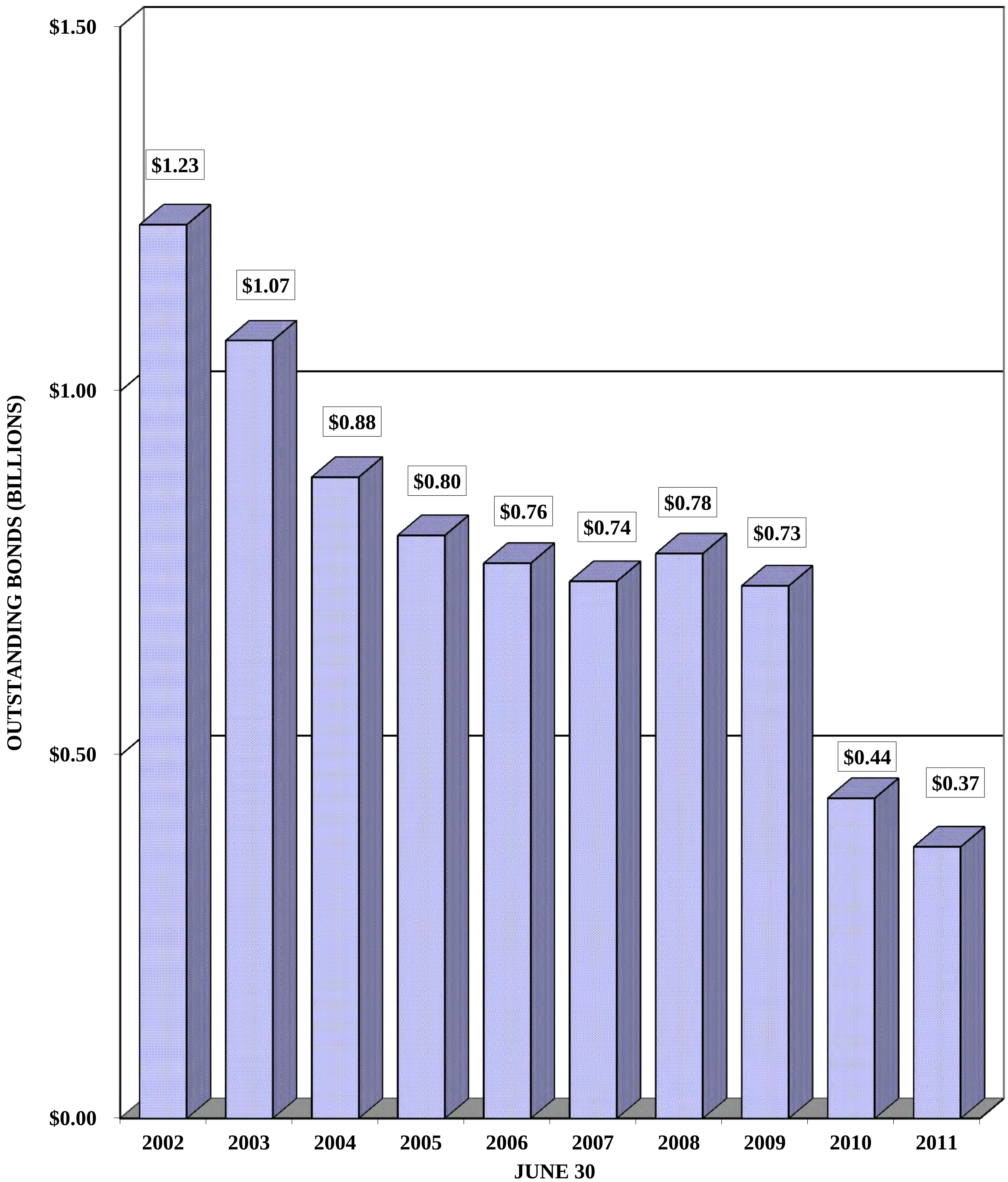
	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
OPERATING REVENUES				
Investment Income	$ 26,269	$ 12,655	$ 34,591	$ 62,149
Resident Revenue (Net) *(1)*	12,615,906	11,833,514	11,709,871	10,985,553
Other Fees and Charges	1,648	2,167	1,708	2,191
TOTAL OPERATING REVENUES	$ 12,643,823	$ 11,848,336	$ 11,746,170	$ 11,049,893
OPERATING EXPENSES				
Salaries and Other Payroll Expenses	$ 217,270	$ 202,012	$ 145,500	$ 120,273
Securities Lending Investment Expense	3,861	1,188	3,087	15,600
Services and Supplies	121,569	119,113	64,966	81,099
Veterans' Home Operations	11,103,989	11,050,913	11,044,368	10,365,986
Depreciation Expense	315,949	313,419	313,593	315,110
TOTAL OPERATING EXPENSES	$ 11,762,638	$ 11,686,645	$ 11,571,514	$ 10,898,068
OPERATING INCOME (LOSS)	$ 881,185	$ 161,691	$ 174,656	$ 151,825
NONOPERATING REVENUE (EXPENSES)				
Net Transfers from Veterans' Home Trust Fund	$ 947,478	$ 20,514	$ 18,060	$ 153,858
Net Transfers to Dept. of Administrative Services	(8,679)	(7,519)	(4,427)	-
Capital Contributions	12,722,770	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	13,661,569	12,995	13,633	153,858
CHANGE IN NET ASSETS	$ 14,542,754	$ 174,686	$ 188,289	$ 305,683
NET ASSETS				
Beginning Net Assets	$ 12,250,596	$ 12,069,088	$ 11,880,799	$ 11,575,116
Prior Period Adjustment	-	6,822	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 12,250,596	$ 12,075,910	$ 11,880,799	$ 11,575,116
Ending Net Assets	$ 26,793,350	$ 12,250,596	$ 12,069,088	$ 11,880,799

(1) Resident Revenue is shown net of any related bad debt expense.

June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
$ 57,064	$ 73,604	$ 24,217	$ 8,390	$ 8,487	$ 13,983
10,223,934	9,809,017	8,674,907	6,157,225	5,043,010	5,465,696
2,066	1,946	2,825	2,134	-	-
$ 10,283,064	$ 9,884,567	$ 8,701,949	$ 6,167,749	$ 5,051,497	$ 5,479,679
$ 98,888	$ 80,684	$ 512,025	$ 213,063	$ 205,262	$ 218,460
12,974	10,346	4,349	1,846	654	590
583,527	157,869	208,319	107,766	134,843	54,645
9,632,303	9,120,185	7,596,750	6,181,784	4,732,459	5,238,567
288,852	289,619	287,472	288,918	353,480	331,368
$ 10,616,544	$ 9,658,703	$ 8,608,915	$ 6,793,377	$ 5,426,698	$ 5,843,630
$ (333,480)	$ 225,864	$ 93,034	$ (625,628)	$ (375,201)	$ (363,951)
$ 25,024	$ 25,483	$ 71,091	$ 298,257	$ 17,709	$ 1,380
-	-	-	-	-	-
-	16,794	7,250	9,000	-	-
25,024	42,277	78,341	307,257	17,709	1,380
$ (308,456)	$ 268,141	$ 171,375	$ (318,371)	$ (357,492)	$ (362,571)
$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382
-	-	-	-	5,450	563,658
-	-	-	-	-	40,000
$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,119,919	$ 12,477,040
$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

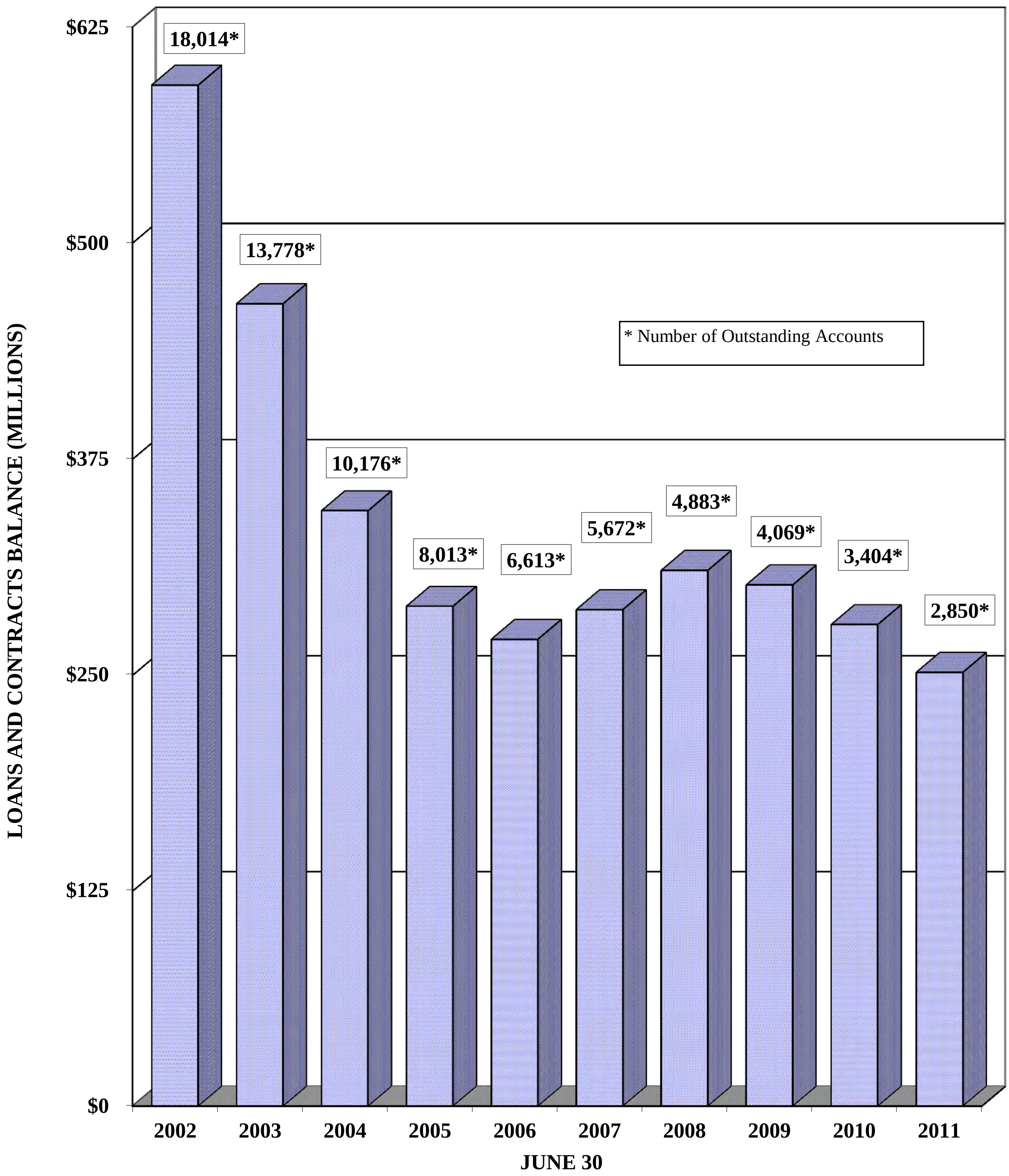
PRINCIPAL BALANCE OF BONDS OUTSTANDING



Source: Financial Statements of the Oregon Department of Veterans' Affairs

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

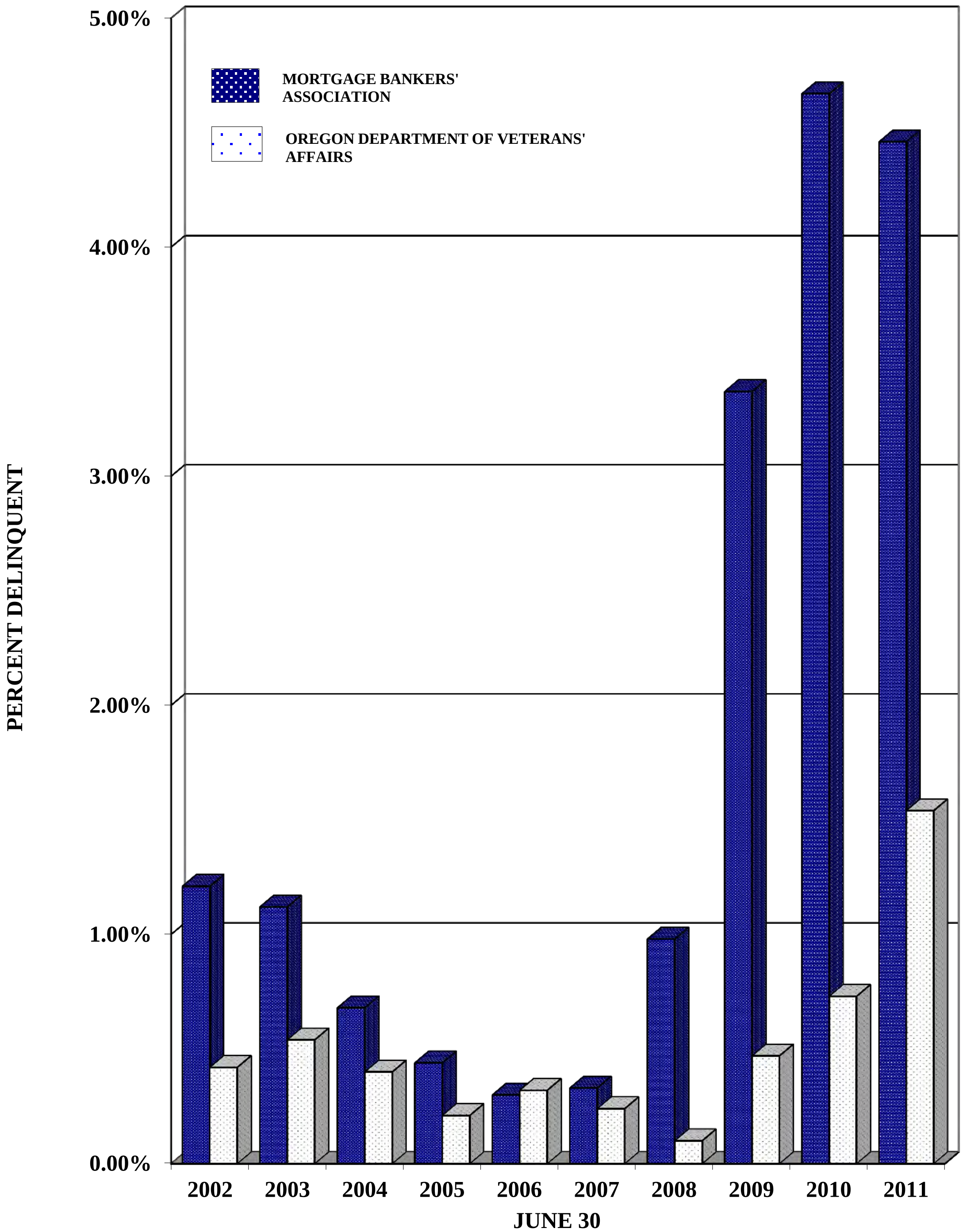
LOANS AND CONTRACTS OUTSTANDING



Source: Statistical Reports and Financial Statements of the Oregon Department of Veterans' Affairs

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

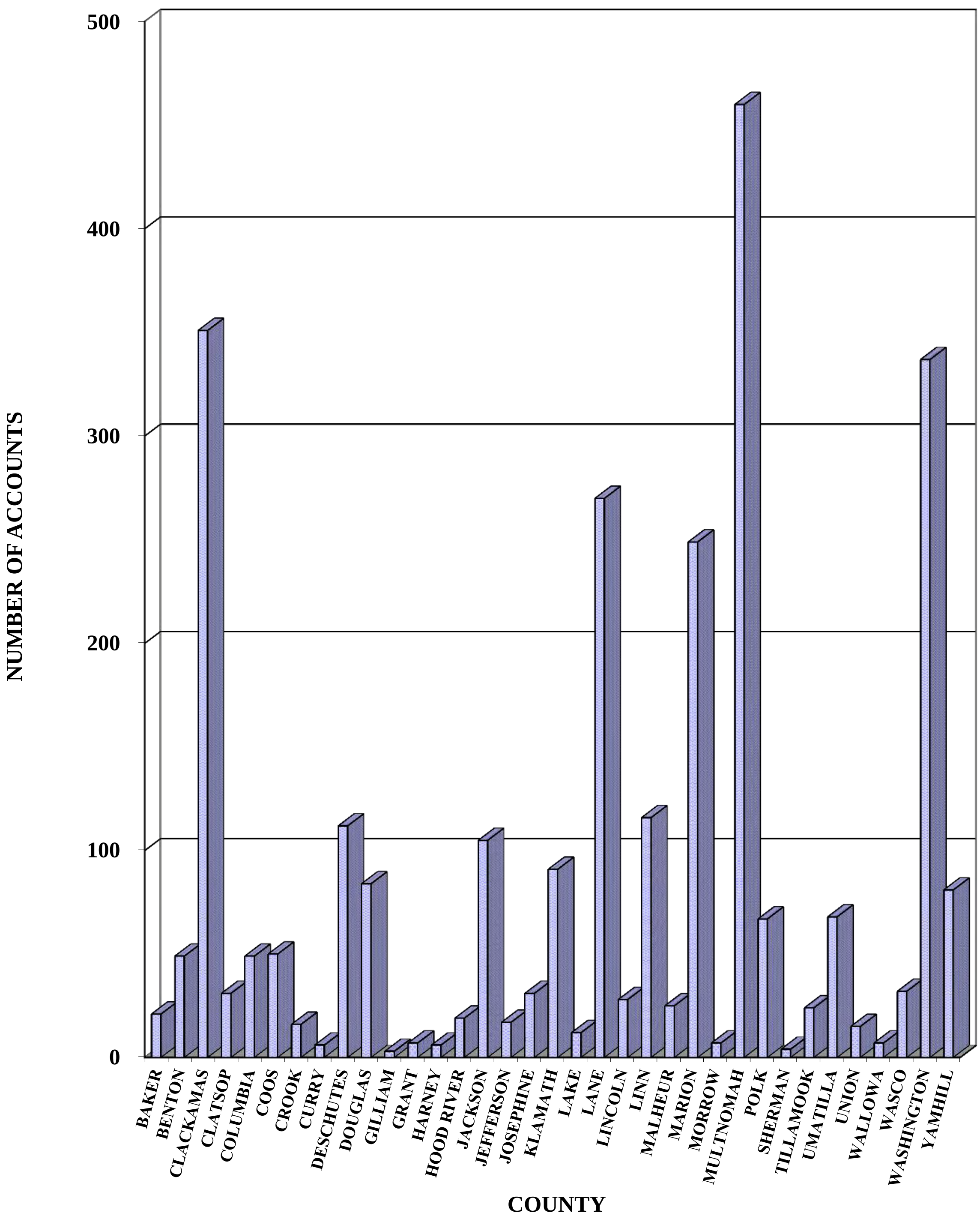
LOAN AND CONTRACT 90+ DAY DELINQUENCIES



Source: National Delinquency Survey (Oregon, Prime Loans), Mortgage Banker's Association and Statistical Reports from the Oregon Department of Veterans' Affairs. 90+ Day Delinquencies include past due loans and loans in foreclosure.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

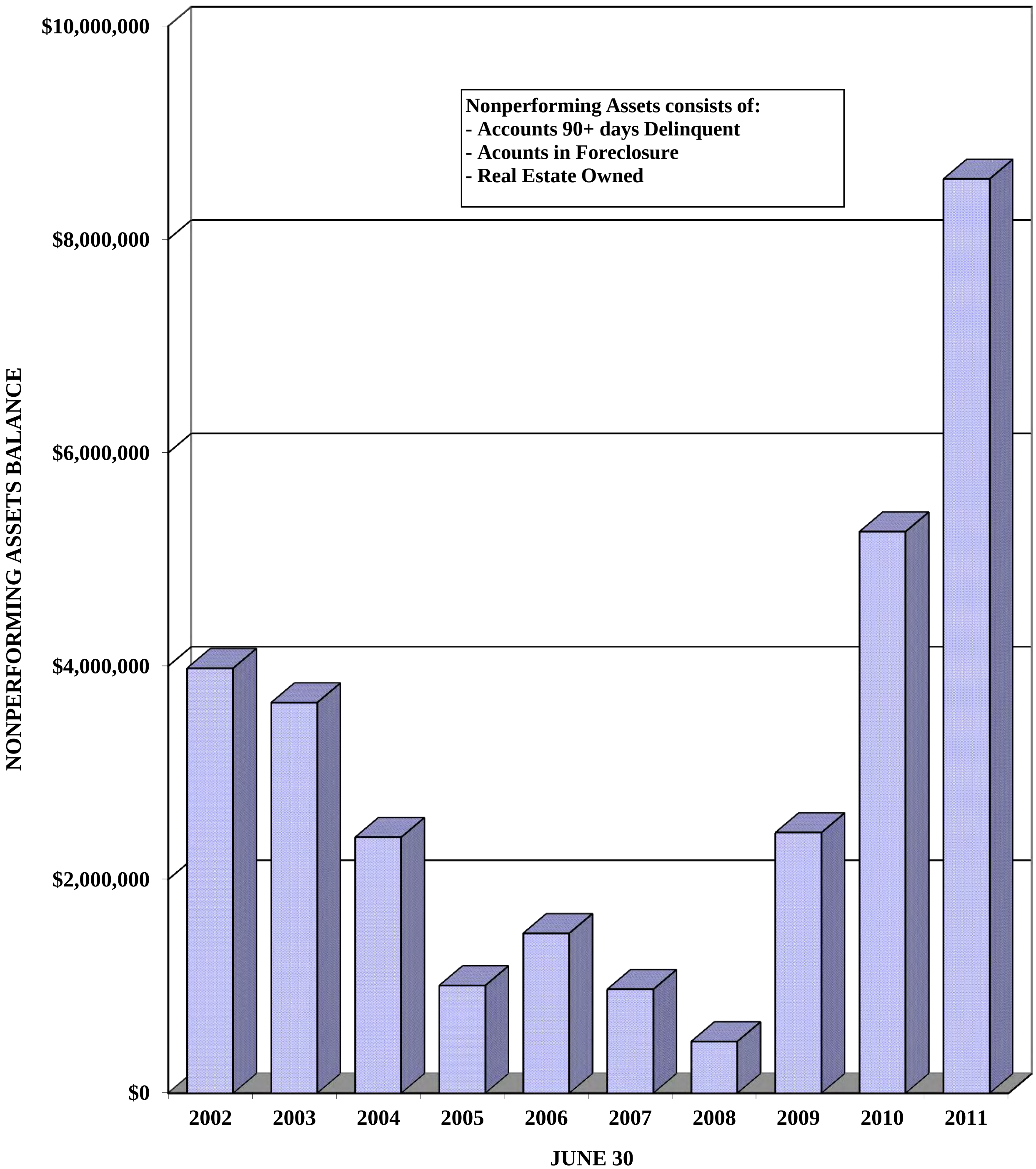
LOANS AND CONTRACTS OUTSTANDING BY COUNTY
AS OF JUNE 30, 2011



Source: Statistical Reports of the Oregon Department of Veterans' Affairs

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

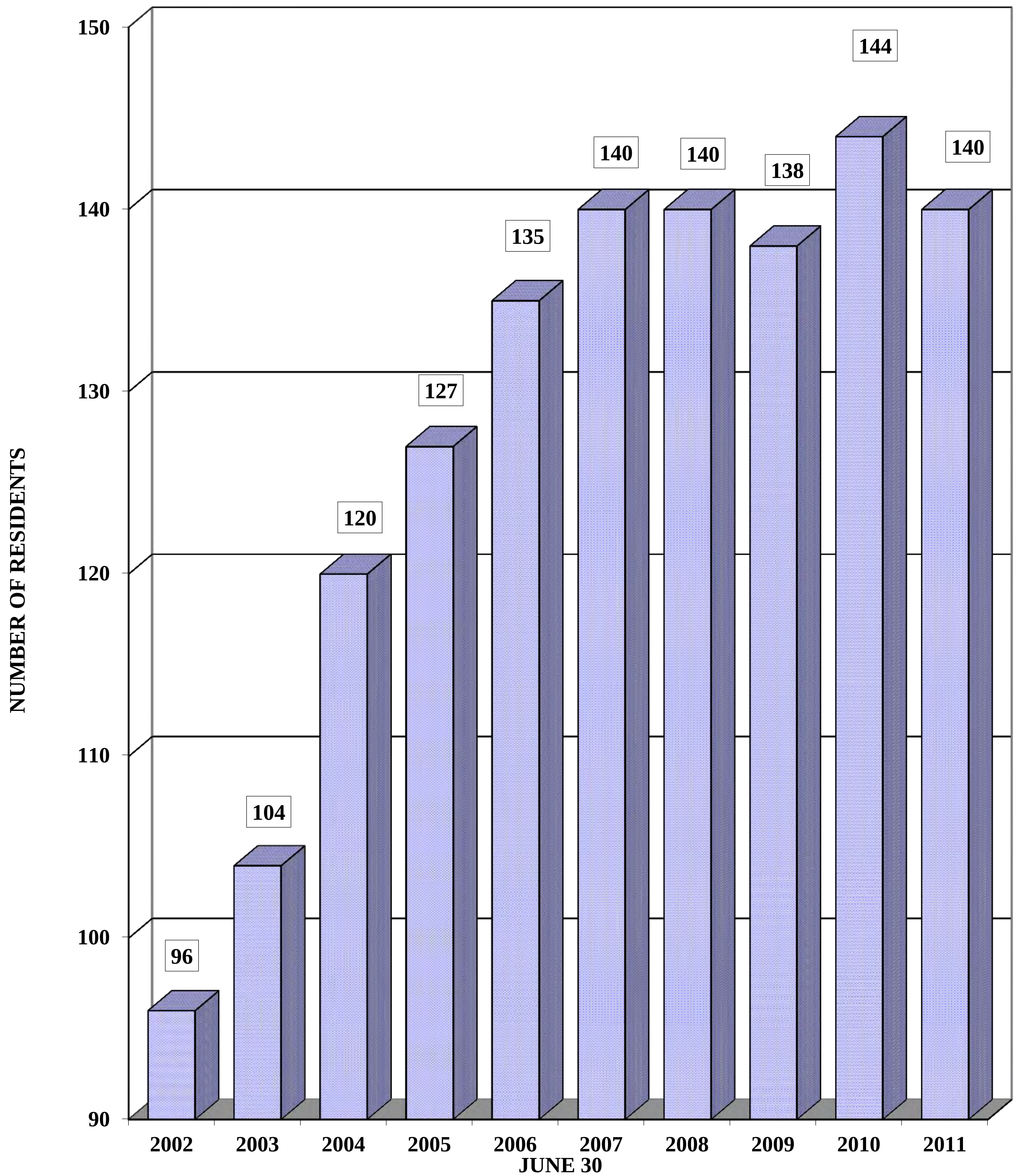
NONPERFORMING ASSETS OF THE VETERANS' LOAN PROGRAM



Source: Statistical Reports and Financial Statements of the Oregon Department of Veterans' Affairs

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

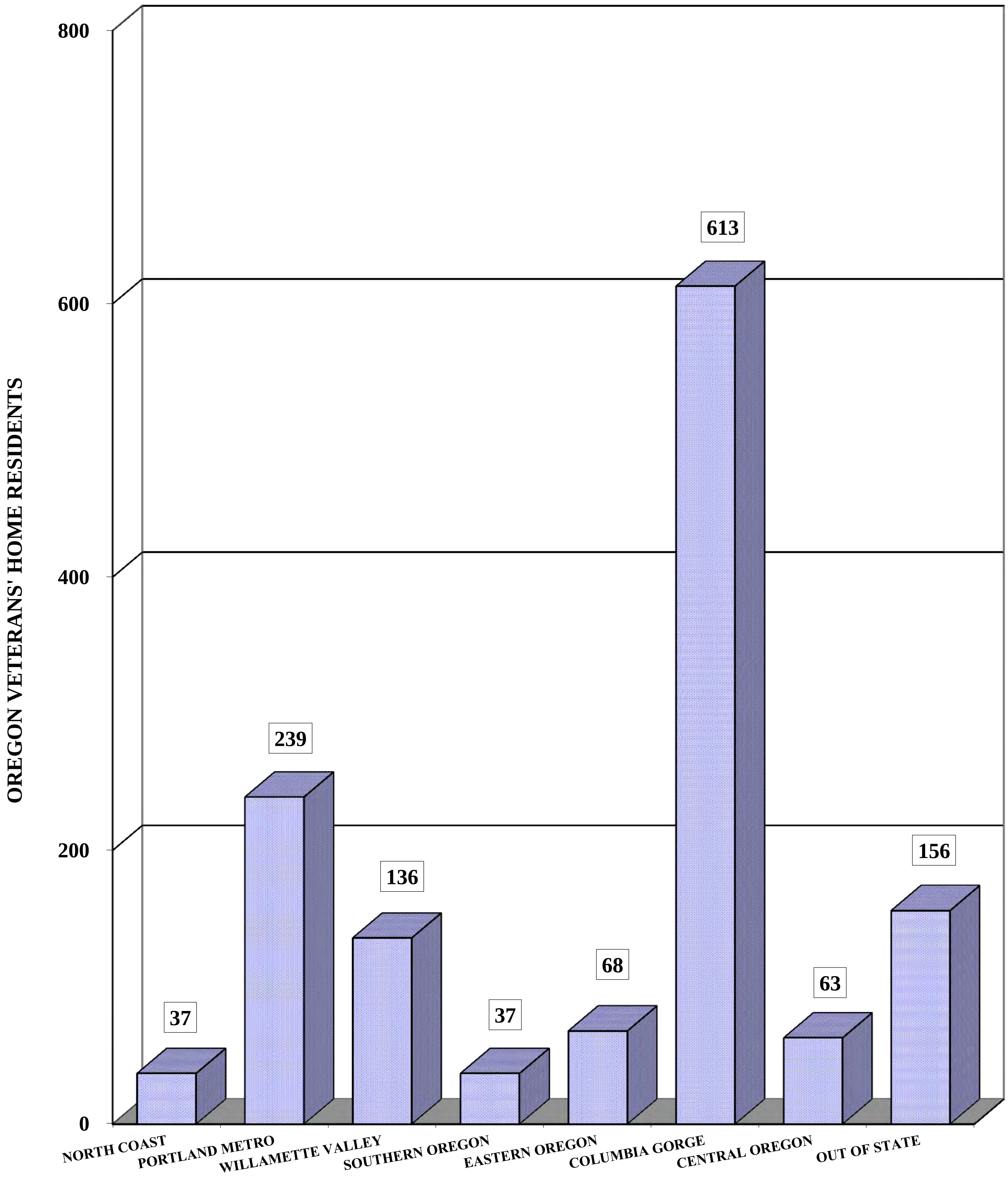
RESIDENT CENSUS AT THE OREGON VETERANS' HOME



Source: Statistical Reports of the Oregon Department of Veterans' Affairs

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

CUMULATIVE RESIDENT ADMISSIONS BY GEOGRAPHIC AREA
NOVEMBER 1, 1997 THROUGH JUNE 30, 2011



Source: Statistical Reports of the Oregon Department of Veterans' Affairs

OTHER REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

Jim Willis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97301-1285

We have audited the financial statements of the Veterans' Loan Program and Veterans' Home Program, enterprise funds of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements and have issued our report thereon dated November 15, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in

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internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Department's management, the Veterans' Affairs Advisory Committee, the Governor of the state of Oregon, and the Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
November 15, 2011

   

OREGON DEPARTMENT
OF VETERANS' AFFAIRS
700 Summer ST NE, Salem, OR 97301-1285
PHONE 503-373-2373 | FAX 503-373-2001 | TTY 503-373-2217

The Oregon Department of Veterans' Affairs (ODVA) intends to comply with the Americans with Disabilities Act (The ADA), PL101-336. The ADA provides that no qualified person with a disability shall be kept from participation in (or be denied a benefit of) the services, programs, or activities of ODVA because of that disability. For additional information or how to file a complaint, please contact ODVA's ADA coordinator. ADA Coordinator 503-373-2380

This information is also available in alternate formats, upon request.