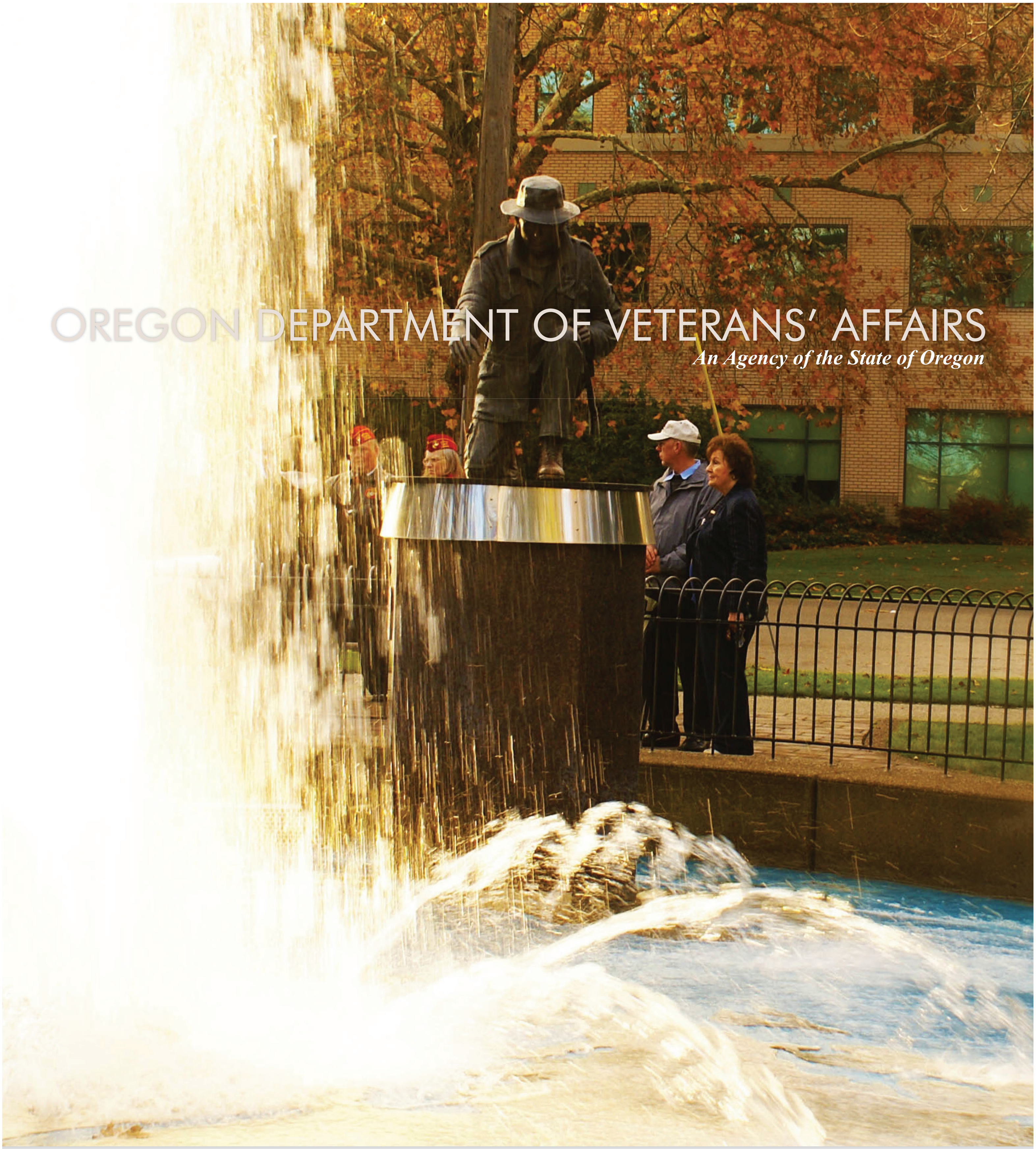

OREGON DEPARTMENT OF VETERANS' AFFAIRS

An Agency of the State of Oregon

Comprehensive Annual Financial Report

ENTERPRISE FUNDS FOR THE FISCAL YEARS ENDED

June 30, 2009 and June 30, 2008

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, 2009 and June 30, 2008

Jim Willis
Director

Bruce Shriver, CPA
Chief Financial Officer

Report Prepared By

Carol Clevenberg
Lindsay Lott
Aaron Hunter, CPA

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

Cover Photos:
Veterans' Day 2009 – Salem, Oregon
Afghan/Iraqi Freedom Memorial
Cover Photos: Nicole Hoeft, Public Information Section

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Events From This Past Year

Annually, the Department and its employees participate in various activities and events that honor and serve Oregon's veteran community.

The Governor's Task Force on Veterans' Services reviewed existing services provided to veterans, hosted town halls across Oregon and made recommendations to the Governor. The Task Force Final Report is available at: www.oregon.gov/odva/taskforce

Located on the grounds of the Oregon Veterans' Home, in The Dalles, the Federal VA recently completed construction of an Outpatient Clinic. The Clinic will benefit veterans living in rural areas by reducing the amount of travel time for those seeking assistance.

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Oregon
Theodore R. Kulongoski, Governor

Oregon Department of Veterans' Affairs
Oregon Veterans' Building
700 Summer Street NE
Salem, OR 97301-1285

SERVING
OREGON VETERANS
SINCE 1945

November 18, 2009

To the Honorable Governor Theodore R. Kulongoski 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, 2009, and June 30, 2008.

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, 2009 and June 30, 2008. 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)*, the second quarter of 2009 was the third consecutive quarter of above six percent job losses. This recession, which essentially started in the first quarter of 2008, has taken away jobs at a very fast and deep pace. Quarterly percentage job losses are the largest on current record back to 1976. In percentage terms, total job losses are only surpassed by the 1980 to 1982 back-to-back recessions. But we are not done counting for this recession. On a year-over-year *(Y/Y)* basis, jobs decreased in the second quarter by 5.5 percent.

Oregon's recession has spread to all sectors of the economy. Two sectors that appear on the surface to weather this recession are food processors and educational and health services. Food processors have only one quarter of job losses through this recession and employment is up 2,400 jobs since the fourth quarter of 2007. This sector is notoriously volatile but is still 1,000 jobs higher than in the early 1990's. In the second quarter of this year, educational and health services recorded the first job growth below 2.0 percent since the first quarter of 2005. Educational services have recently been quite strong. Health services recorded their fourth quarterly job loss since the first quarter of 1990 and the first quarterly loss of this recession. The loss of 2.4 percent was the largest drop of the four recorded losses.

The recession continues to impact both housing and manufacturing. Construction and durable manufacturing jobs are especially hard hit. Service sectors from retail to professional and business services have seen steep declines. Declining tax revenues have prompted layoffs at state and local governments.

The Oregon economy is expected to follow the same direction as the US economy. The same factors weighing on the US are present in Oregon. Oregon's housing market was a bit late to the correction phase and may lag the nation slightly in both bottoming out and correction. Moody's Economy.com estimates that Oregon house prices will stop dropping in mid-2010, later than some states but earlier than the housing boom states of Arizona, Nevada, California, and Florida. House price recovery will even be sooner compared to most states. Overall, Moody's Economy.com believes that transportation and logistics hubs, resource economies, and technology centers are factors that will help states grow more quickly out of this recession. This view bodes well for Oregon based on these factors.

Broad measures are also pointing to an end of the US recession and thus to the recession in Oregon. The Conference Board Leading Indicators Index increased for the months of April to July *(the latest data available to the OEA at the time their report was produced)*. Likewise, the Institute of Supply Management *(ISM)* manufacturing index has risen every month from January to July. Signs of stabilization are showing in unemployment claims, housing sales, and retail sales.

Future Outlook – The OEA forecasts a decline of 3.2 percent in total employment in the third quarter and further declines of 1.1 percent in the fourth quarter of 2009. The first quarter of 2010 will still be very anemic with a slight adding of jobs at 0.2 percent. The Oregon economy does not recover until the latter part of 2010, according to the OEA. The year average for 2009 is an employment decline of 5.1 percent. Job growth is projected to be negative at 0.5 percent in 2010 but with modest job gains starting in the second quarter through the end of the year. The Oregon economy does not see above 2 percent job growth until the first quarter of 2011.

The wood products industry is projected to lose jobs at a rate of -21.1 percent in 2009 and -2.0 percent in 2010 before a rebound of 7.1 percent growth in 2011.

Although federal and state stimulus spending is helping the construction sector, the losses due to downturns in housing and commercial development is lowering overall employment for this sector. Construction employment is forecasted to decline 16.9 percent in 2009, 9.2 percent in 2010, and stabilize with a decline of 0.4 percent in 2011.

Financial activities sector will lose 5.9 percent of jobs in 2009, lose 1.2 percent in 2010, before recovering 2.6 percent employment in 2011.

The government sector employment is projected to decline by 0.1 percent in 2009, 0.1 percent in 2010, and then a mild positive growth of 0.1 percent in 2011.

Recessions slow migration movements among the states. The state population is expected to grow 0.9 percent in 2009 followed by growth of 1.0 percent in 2010 and 1.2 percent in 2011.

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, 2009, this Program had approximately 4,069 mortgage loans and contracts outstanding, with a principal balance of approximately $302 million.

- The ***Veterans' Home Program*** provides professional medical, nursing, rehabilitative, social and other support services primarily to United States veterans residing in the Oregon Veterans' Home *(OVH)*, located in The Dalles, Oregon. The OVH, which opened in November 1997, has the capacity to serve 151 residents and had occupancy of approximately 138 residents at June 30, 2009. The Department owns the OVH and as of October 1, 2003, has contracted with Veterans Care Centers of Oregon *(VCCO)*, a non-profit organization, to provide the services needed by the residents.

Following the recommendations of the 2008 Governor's Task Force on Veterans' Services, the Department is engaged in several new initiatives, including three legislative task forces (Veterans' Transportation, Women Veterans' Health Care and Veterans' Reintegration) and a state-wide veteran outreach program to find Oregon veterans who have not yet received their federal or state veteran benefits. The Department also implemented a new Campus Veteran Service Officer program by placing federally accredited Veteran Service Officers on university and college campuses to help Oregon's newest veterans with their Post 9/11 GI Bill and other veterans' benefits.

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, 2009, the Veterans' Loan Program had approximately $1.09 billion in assets *(primarily consisting of cash and cash equivalents, securities lending cash collateral, investment securities, and loan and contract receivables)* and approximately $956 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, 2009, the Veterans' Home Program had approximately $14.2 million in assets *(primarily consisting of cash and cash equivalents, securities lending cash collateral, receivables, and capital assets)* and approximately $2.1 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	Aa2
Fitch Ratings	AA
Standard & Poor's	AA

As of June 30, 2009, the Department had approximately $733 million *(par value)* in outstanding bonds. During fiscal year 2009, no new bonds were issued and approximately $44.2 million in bonds were retired.

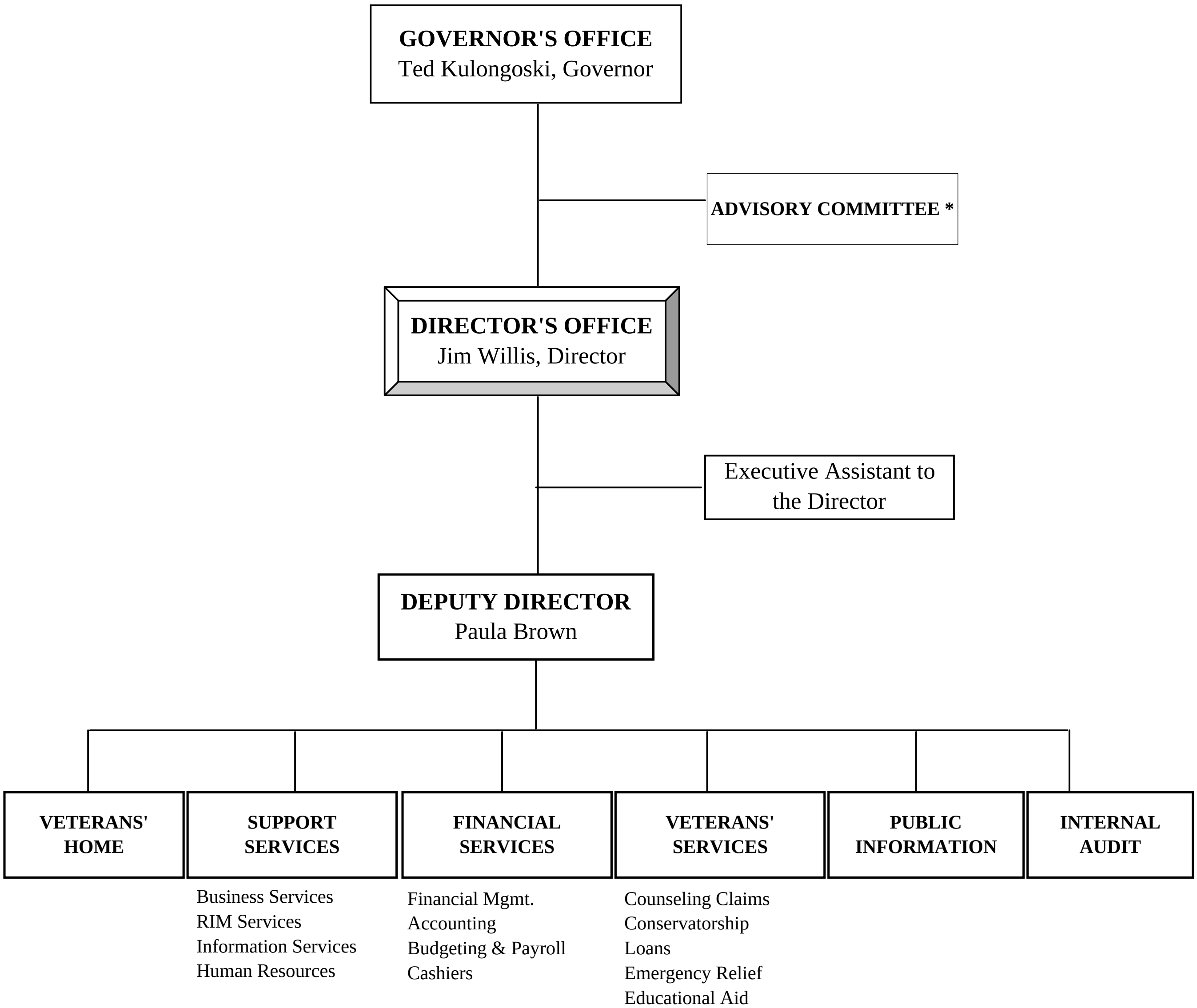
Cash Management **-** All monies collected by the Department are turned over to the State Treasurer, who is responsible for the control of cash and the investment of State funds. On June 30, 2009, the Department's Enterprise funds cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $573.3 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
Director

Bruce Shriver
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, 2010	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		

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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 Theodore R. Kulongoski
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 years ended June 30, 2009 and 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the 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, 2009 and 2008, and the changes in its financial position, or, where 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 financial position of the Veterans' Loan Program and Veterans' Home Program, enterprise funds of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2009 and 2008, the 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.

5499 AMY STREET • WEST LINN, OREGON 97068 • PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2009, 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 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 audit.

The management's discussion and analysis on pages 4 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financials statements that collectively comprise the Department's enterprise funds. The introductory section, other supplemental section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
November 18, 2009

State of Oregon
OREGON DEPARTMENT of VETERANS' AFFAIRS
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, 2009. The selected financial data presented was derived primarily from the financial statements of the Department, which have been audited.

FINANCIAL HIGHLIGHTS

- Net assets decreased from approximately $148.7 million at June 30, 2008, to approximately $144.7 million at June 30, 2009, a decrease of $4.0 million, or 2.65%.

- Revenues decreased from approximately $66.2 million at June 30, 2008, to approximately $36.2 million at June 30, 2009, a decrease of $30.0 million, or 45.38%.

- Expenses decreased from approximately $57.6 million at June 30, 2008, to approximately $39.7 million at June 30, 2009, a decrease of $17.9 million or 31.08%.

- Outstanding general obligation bond debt decreased from $777.2 million *(par value)* on June 30, 2008, to $733.0 million *(par value)* on June 30, 2009, a decrease of $44.2 million. No general obligation bonds were issued during the fiscal year.

- Mortgage loan originations for fiscal year 2009 totaled approximately $30.6 million, a decrease of approximately $28.7 million from fiscal year 2008.

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://egov.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 at June 30, 2009 were approximately $1.1 billion, a decrease of $59.7 million from June 30, 2008. The change in assets consists primarily of $15.7 million increase in cash and cash equivalents, a $54.3 million decrease in investments, a $10.3 million decrease in securities lending cash collateral, and an $8.3 million decrease in net loans and contracts receivable.

Total liabilities at June 30, 2009, were $958.1 million, a decrease of $55.8 million from June 30, 2008. The change in liabilities consists primarily of a decrease of $1.0 million in line of credit payable, a decrease of $44.2 million in bonds payable, a decrease of $10.3 million in obligations under securities lending, and an increase of $2.8 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		
	2009	**2008**	**2007**
Assets:			
Current and Other Assets	$ 1,088,844,530	$ 1,148,148,658	$ 1,081,928,669
Capital Assets	13,961,323	14,389,085	14,591,852
Total Assets	$ 1,102,805,853	$ 1,162,537,743	$ 1,096,520,521
Liabilities:			
Long Term Liabilities	$ 736,299,328	$ 738,454,687	$ 678,779,706
Other Liabilities	221,758,560	275,389,350	278,196,417
Total Liabilities	$ 958,057,888	$ 1,013,844,037	$ 956,976,123
Net Assets:			
Invested in Capital Assets	$ 13,961,323	$ 14,389,085	$ 14,591,852
Unrestricted	130,786,642	134,304,621	124,952,546
Total Net Assets	$ 144,747,965	$ 148,693,706	$ 139,544,398

Cash and Cash Equivalents and Investments
Total cash and cash equivalents and investments decreased by approximately $38.6 million, or 6.3%, from June 30, 2008 to June 30, 2009. The decrease reflects the Department's continued use of available receipts for early bond redemptions *($2.8 million in fiscal year 2009)* and receipt of less mortgage and investment interest income.

Loans Receivable
Total mortgages and other loans receivable decreased by $8.3 million in fiscal year 2009. This decrease was primarily due to higher prepayments on outstanding mortgage loans *(an increase of $4.2 million from fiscal year 2008)* and a decrease of $28.7 million in new mortgage originations from fiscal year 2008.

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

Bonds Payable
Bonds Payable decreased by $44.2 million *(par value)* from June 30, 2008 to June 30, 2009. During fiscal year 2009, the Department did not issue any general obligation bonds. This is a decrease compared to the combined issuance of $110.0 million *(par value)* in the previous fiscal year. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Assets

The Department experienced a net reduction in the loan portfolio which contributed to a decrease in interest income from mortgage loans. This coupled with a reduction of income from investments resulted in a negative 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		
	2009	**2008**	**2007**
Operating Revenues:			
Interest Income:			
Mortgage Loans	$ 16,014,046	$ 17,611,704	$ 17,526,662
Contracts	302,145	434,945	593,760
Other	-	3,219	7,595
Investment Income:			
Interest and Income	14,344,500	32,819,451	34,133,538
Change in Fair Value of Investments	(9,636,859)	397,105	3,599,026
LCLI Premium Revenue	1,142,192	1,356,657	1,626,287
LCLI Processing Fee	102,000	102,000	180,000
Resident Related Revenues	11,709,871	10,985,553	10,223,934
Other Fees and Charges	1,843,045	2,157,422	2,133,913
Conservatorship Fees	294,951	313,493	333,974
Gain on Sale of Foreclosed Property	35,160	-	-
Total Operating Revenue	$ 36,151,051	$ 66,181,549	$ 70,358,689
Operating Expenses:			
Bond Interest	$ 15,702,350	$ 26,856,570	$ 34,581,972
Interest on Line of Credit	49,948	721,945	279,906
Salaries and Other Payroll Expenses	5,919,076	6,073,854	5,544,122
Bond Costs	1,247,214	1,242,882	1,581,932
Securities Lending Investment Expense	1,273,378	6,694,172	6,279,386
Real Estate Owned Expense	29,547	2,324	2,267
Services and Supplies	1,730,622	2,052,371	2,717,430
LCLI Claims & Admin. Expense	1,938,157	2,312,867	2,717,581
Mortgage Broker Fees	249,630	512,448	467,853
Veterans' Home Operations	11,044,368	10,365,986	9,632,303
Depreciation Expense	426,971	475,284	445,508
Bad Debt Expense	-	-	(545,135)
Other Expenses	74,934	274,220	177,305
Total Operating Expenses	$ 39,686,195	$ 57,584,923	$ 63,882,430
Transfers	(402,746)	552,682	19,457
Gain/(Loss) on Disposition of Assets	(7,851)	-	-
Total Transfers & Extraordinary Items	(410,597)	552,682	19,457
Change in Net Assets	(3,945,741)	9,149,308	6,495,716
Net Assets – Beginning	148,693,706	139,544,398	133,048,682
Net Assets – Ending	$ 144,747,965	$ 148,693,706	$ 139,544,398

The Department's proprietary fund revenue is generated principally from interest earned on mortgage loans, investment income, and resident-related revenues. In fiscal year 2009, revenue generated through proprietary funds totaled approximately $36.2 million, of which approximately $21 million, or 58.2% is from income earned on loans and investments. 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 $39.9 million, of which approximately $15.7 million, or 39.3% is bond interest expense.

The change in net assets for the year ended June 30, 2009 resulted in a decrease of approximately $3.9 million compared to a $9.2 million increase for the year ending June 30, 2008. The primary factors contributing to this change include an $18.5 million decrease in investment interest income, a $9.6 million decrease in the change in fair value of investments, and a $11.2 million decrease in interest expense on bonds.

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, 2009, the Department had a total of $732,955,000 *(par value)* in outstanding general obligation bonds. During fiscal year 2009, no general obligation bonds were issued.

Information on the Department's long-term debt can be found in Notes 6 and 7.

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, 2009 AND JUNE 30, 2008

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 63,666,685	$ 87,234,247	$ 1,982,432	$ 1,653,358
Cash and Cash Equivalents - Restricted	5,454,658	6,685,594	-	-
Securities Lending Cash Collateral	209,834,541	220,256,145	907,514	818,718
Investments	22,126,185	2,511,661	-	-
Investments - Restricted	25,537,018	56,189,591	-	-
Receivables:				
Accrued Interest	2,157,552	2,945,247	-	-
Loan Cancellation Life Insurance Premiums	92,070	107,214	-	-
Resident Care Related	-	-	1,398,921	1,136,487
Other	13,256	10,817	-	-
Due from Other Funds	72,172	63,499	-	-
Real Estate Owned	591,530	9,842	-	-
Prepaid Expenses	5,379	16,145	-	-
Total Current Assets	329,551,046	376,030,002	4,288,867	3,608,563
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	413,146,725	372,930,995	-	-
Investments	15,815,890	-	-	-
Investments - Restricted	25,520,715	84,613,906	-	-
Mortgage Loans and Contracts Receivable (Net)	298,087,844	306,408,188	-	-
Resident Care Receivable (Net)	-	-	138,125	6,693
Other Receivable	270,279	2,391,606	-	-
Deferred Underwriter's Discount	2,025,039	2,158,705	-	-
Capital Assets:				
Building, Property and Equipment	8,911,904	9,484,489	12,715,158	12,708,097
Improvements Other than Buildings	-	-	7,250	7,250
Land	-	-	600,073	600,073
Works of Art and Historical Treasures	85,170	85,170	70,000	70,000
Accumulated Depreciation	(4,774,826)	(5,226,182)	(3,653,406)	(3,339,812)
Total Noncurrent Assets	759,088,740	772,846,877	9,877,200	10,052,301
TOTAL ASSETS	$ 1,088,639,786	$ 1,148,876,879	$ 14,166,067	$ 13,660,864
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 240,559	$ 358,119	$ 963,037	$ 889,510
Line of Credit Payable	-	1,000,000	-	-
Loan Cancellation Life Insurance Premium Payable	86,853	99,208	-	-
Loan Cancellation Life Insurance Claims Payable	108,999	108,164	-	-
Due to Other Funds	-	-	71,991	63,499
Deposit Liabilities	2,200,352	2,187,904	7,990	361
Deferred Revenue	-	-	131,604	-
Accrued Interest on Bonds	1,249,984	3,201,652	-	-
Obligations under Securities Lending	209,834,541	220,256,145	907,514	818,718
Compensated Absences Payable	283,340	279,685	9,945	5,345
Excess Interest and Arbitrage Rebate Payable	452,944	268,193	-	-
Bonds Payable-Maturing Within One Year (Net)	2,041,454	41,454,365	-	-
Matured Bonds Payable	3,167,453	4,398,482	-	-
Total Current Liabilities	219,666,479	273,611,917	2,092,081	1,777,433
Noncurrent Liabilities				
Bonds Payable-Maturing After One Year (Net)	730,324,401	735,100,855	-	-
Compensated Absences Payable	139,556	137,755	4,898	2,632
Excess Interest and Arbitrage Rebate Payable	5,766,794	3,180,198	-	-
Other Postemployment Benefits Obligation (Net)	63,679	33,247	-	-
Total Noncurrent Liabilities	736,294,430	738,452,055	4,898	2,632
TOTAL LIABILITIES	955,960,909	1,012,063,972	2,096,979	1,780,065
NET ASSETS				
Invested in Capital Assets	4,222,248	4,343,477	9,739,075	10,045,608
Net Assets, Unrestricted	128,456,629	132,469,430	2,330,013	1,835,191
TOTAL NET ASSETS	$ 132,678,877	$ 136,812,907	$ 12,069,088	$ 11,880,799

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

Enterprise Funds	
TOTAL	
June 30, 2009	June 30, 2008
$ 65,649,117	$ 88,887,605
5,454,658	6,685,594
210,742,055	221,074,863
22,126,185	2,511,661
25,537,018	56,189,591
2,157,552	2,945,247
92,070	107,214
1,398,921	1,136,487
13,256	10,817
72,172	63,499
591,530	9,842
5,379	16,145
333,839,913	379,638,565
413,146,725	372,930,995
15,815,890	-
25,520,715	84,613,906
298,087,844	306,408,188
138,125	6,693
270,279	2,391,606
2,025,039	2,158,705
21,627,062	22,192,586
7,250	7,250
600,073	600,073
155,170	155,170
(8,428,232)	(8,565,994)
768,965,940	782,899,178
$ 1,102,805,853	$ 1,162,537,743
$ 1,203,596	$ 1,247,629
-	1,000,000
86,853	99,208
108,999	108,164
71,991	63,499
2,208,342	2,188,265
131,604	-
1,249,984	3,201,652
210,742,055	221,074,863
293,285	285,030
452,944	268,193
2,041,454	41,454,365
3,167,453	4,398,482
221,758,560	275,389,350
730,324,401	735,100,855
144,454	140,387
5,766,794	3,180,198
63,679	33,247
736,299,328	738,454,687
958,057,888	1,013,844,037
13,961,323	14,389,085
130,786,642	134,304,621
$ 144,747,965	$ 148,693,706

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, 2009 AND JUNE 30, 2008

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
OPERATING REVENUES				
Interest Income:				
Mortgage Loans	$ 16,014,046	$ 17,611,704	$ -	$ -
Contracts	302,145	434,945	-	-
Other	-	3,219	-	-
Investment Income	4,673,050	33,154,407	34,591	62,149
Loan Cancellation Life Insurance Premiums	1,142,192	1,356,657	-	-
Loan Cancellation Life Insurance Processing Fee	102,000	102,000	-	-
Resident Revenue (Net)	-	-	11,709,871	10,985,553
Other Fees and Charges	1,841,337	2,155,231	1,708	2,191
Conservatorship Fees	294,951	313,493	-	-
Gain on Sale of Foreclosed Property	35,160	-	-	-
TOTAL OPERATING REVENUES	24,404,881	55,131,656	11,746,170	11,049,893
OPERATING EXPENSES				
Bond Interest	15,702,350	26,856,570	-	-
Interest on Line of Credit	49,948	721,945	-	-
Salaries and Other Payroll Expenses	5,773,576	5,953,581	145,500	120,273
Bond Expenses	1,247,214	1,242,882	-	-
Securities Lending Investment Expense	1,270,291	6,678,572	3,087	15,600
Real Estate Owned Expense	29,547	2,324	-	-
Services and Supplies	1,665,656	1,971,272	64,966	81,099
Claims Expense - Loan Cancellation Life Insurance	1,938,157	2,312,867	-	-
Mortgage Broker Fees	249,630	512,448	-	-
Veterans' Home Operations	-	-	11,044,368	10,365,986
Depreciation Expense	113,378	160,174	313,593	315,110
Other Expenses	74,934	274,220	-	-
TOTAL OPERATING EXPENSES	28,114,681	46,686,855	11,571,514	10,898,068
OPERATING INCOME (LOSS)	(3,709,800)	8,444,801	174,656	151,825
Nonoperating Revenues (Expenses):				
Net Transfers from Veterans' Home Trust Fund	-	-	18,060	153,858
Net Transfers from Military Dept.	-	98,824	-	-
Net Transfers from/(to) General Fund	(185,941)	300,000	-	-
Net Transfers to Dept. of Administrative Services	(230,438)	-	(4,427)	
Gain/(Loss) on Disposition of Assets	(7,851)	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(424,230)	398,824	13,633	153,858
CHANGE IN NET ASSETS	(4,134,030)	8,843,625	188,289	305,683
NET ASSETS				
NET ASSETS - Beginning	136,812,907	127,969,282	11,880,799	11,575,116
NET ASSETS - Ending	$ 132,678,877	$ 136,812,907	$ 12,069,088	$ 11,880,799

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

Enterprise Funds	
TOTAL	
June 30, 2009	June 30, 2008
$ 16,014,046	$ 17,611,704
302,145	434,945
-	3,219
4,707,641	33,216,556
1,142,192	1,356,657
102,000	102,000
11,709,871	10,985,553
1,843,045	2,157,422
294,951	313,493
35,160	-
36,151,051	66,181,549
15,702,350	26,856,570
49,948	721,945
5,919,076	6,073,854
1,247,214	1,242,882
1,273,378	6,694,172
29,547	2,324
1,730,622	2,052,371
1,938,157	2,312,867
249,630	512,448
11,044,368	10,365,986
426,971	475,284
74,934	274,220
39,686,195	57,584,923
(3,535,144)	8,596,626
18,060	153,858
-	98,824
(185,941)	300,000
(234,865)	-
(7,851)	-
(410,597)	552,682
(3,945,741)	9,149,308
148,693,706	139,544,398
$ 144,747,965	$ 148,693,706

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2009	June 30, 2008
Cash Flows from Operating Activities:		
Receipts from Customers	$ 1,969,896	$ 3,238,978
Receipts from Other Funds for Services	1,466,414	640,089
Loan Principal Repayments	45,178,411	43,404,948
Loan Interest Received	19,220,412	19,407,784
Payments to Employees for Services	(5,739,139)	(5,930,314)
Payments to Suppliers	(3,038,966)	(4,686,766)
Payments to Other Funds for Services	(964,952)	(432,986)
Loans Made	(35,293,597)	(66,541,897)
Other Receipts (Payments)	93,972	184,238
Net Cash Provided (Used) in Operating Activities	22,892,451	(10,715,926)
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	-	110,015,000
Line of Credit Proceeds	10,000,000	30,000,000
Principal Payments on Bonds	(45,476,029)	(71,915,000)
Principal Payments on Line of Credit	(11,000,000)	(59,835,000)
Interest Payments on Bonds	(17,598,383)	(29,772,123)
Interest Payments on Line of Credit	(49,948)	(721,945)
Bond Issuance Costs	(1,172,720)	(1,091,900)
Loss on Bond Call	-	(52,711)
Transfers from Other Funds	(416,379)	398,824
Net Cash Provided (Used) in Noncapital Financing Activities	(65,713,459)	(22,974,855)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	-	(123,628)
Net Cash Provided (Used) in Capital and Related Financing Activities	-	(123,628)
Cash Flows from Investing Activities:		
Purchases of Investments	(35,200,120)	(240,290,410)
Proceeds from Sales or Maturities of Investments	79,878,611	225,064,749
Interest on Investments and Cash Balances	13,559,749	26,078,728
Investment Income from Securities Lending	1,270,291	6,678,572
Investment Expense from Securities Lending	(1,270,291)	(6,678,572)
Net Cash Provided (Used) in Investing Activities	58,238,240	10,853,067
Net Increase (Decrease) in Cash and Cash Equivalents	15,417,232	(22,961,342)
Cash and Cash Equivalents - Beginning	466,850,836	489,812,178
Cash and Cash Equivalents - Ending	$ 482,268,068	$ 466,850,836
Reconciled to Statement of Net Assets:		
Cash and Cash Equivalents - Current	$ 63,666,685	$ 87,234,247
Cash and Cash Equivalents - Current, Restricted	5,454,658	6,685,594
Cash and Cash Equivalents - Noncurrent, Restricted	413,146,725	372,930,995
Cash and Cash Equivalents - Ending (shown above)	$ 482,268,068	$ 466,850,836

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

Enterprise Funds		**Enterprise Funds**	
Veterans' Home Program		TOTAL	
June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
$ 11,447,609	$ 11,014,514	$ 13,417,505	$ 14,253,492
-	-	1,466,414	640,089
-	-	45,178,411	43,404,948
-	-	19,220,412	19,407,784
(138,634)	(115,694)	(5,877,773)	(6,046,008)
(10,147,707)	(9,565,338)	(13,186,673)	(14,252,104)
(879,608)	(839,821)	(1,844,560)	(1,272,807)
-	-	(35,293,597)	(66,541,897)
9,335	2,190	103,307	186,428
290,995	495,851	23,183,446	(10,220,075)
-	-	-	110,015,000
-	-	10,000,000	30,000,000
-	-	(45,476,029)	(71,915,000)
-	-	(11,000,000)	(59,835,000)
-	-	(17,598,383)	(29,772,123)
-	-	(49,948)	(721,945)
-	-	(1,172,720)	(1,091,900)
-	-	-	(52,711)
13,633	153,858	(402,746)	552,682
13,633	153,858	(65,699,826)	(22,820,997)
(7,060)	(148,889)	(7,060)	(272,517)
(7,060)	(148,889)	(7,060)	(272,517)
-	-	(35,200,120)	(240,290,410)
-	-	79,878,611	225,064,749
31,506	46,549	13,591,255	26,125,277
3,087	15,600	1,273,378	6,694,172
(3,087)	(15,600)	(1,273,378)	(6,694,172)
31,506	46,549	58,269,746	10,899,616
329,074	547,369	15,746,306	(22,413,973)
1,653,358	1,105,989	468,504,194	490,918,167
$ 1,982,432	$ 1,653,358	$ 484,250,500	$ 468,504,194
$ 1,982,432	$ 1,653,358	$ 65,649,117	$ 88,887,605
-	-	5,454,658	6,685,594
-	-	413,146,725	372,930,995
$ 1,982,432	$ 1,653,358	$ 484,250,500	$ 468,504,194

(Continued on next page)

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

(Continued from prior page)

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2009	June 30, 2008
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ (3,709,800)	$ 8,444,801
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	113,378	160,174
Amortization of Bond Premium, Discount and Underwriter's Discount on Called Bonds	189,301	177,829
Bad Debt Expense	-	-
Interest Received on Investments Reported as Operating Revenue	(4,673,050)	(33,154,407)
Investment Expense	1,270,291	6,678,572
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	17,648,330	27,578,515
Bond Costs	1,172,720	1,065,053
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	205,655	(68,451)
Due from Other Funds	(8,673)	10,351
Prepaid Items	10,766	23,652
Loans and Contracts Receivable	10,441,671	(23,237,264)
Foreclosed and Deeded Property	(581,688)	-
Accounts Payable	777,569	1,400,976
Due to Other Funds	-	-
Deposit Liabilities	93	182,709
Deferred Revenue	-	-
Compensated Absences Payable	5,456	(11,683)
Post Employmemt Benefits	30,432	33,247
Total Adjustments	26,602,251	(19,160,727)
Net Cash Provided (Used) by Operating Activities	$ 22,892,451	$ (10,715,926)
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	(9,636,859)	(397,105)
Foreclosed Property	591,530	-
Total Noncash Investing and Capital and Related Financing Activities	$ (9,045,329)	$ (397,105)

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
$ 174,656	$ 151,825	$ (3,535,144)	$ 8,596,626
313,593	315,110	426,971	475,284
-	-	189,301	177,829
23,828	20,553	23,828	20,553
(34,591)	(62,149)	(4,707,641)	(33,216,556)
3,087	15,600	1,273,378	6,694,172
-	-	17,648,330	27,578,515
-	-	1,172,720	1,065,053
(417,694)	8,409	(212,039)	(60,042)
-	-	(8,673)	10,351
-	-	10,766	23,652
-	-	10,441,671	(23,237,264)
-	-	(581,688)	-
73,525	34,335	851,094	1,435,311
8,492	7,590	8,492	7,590
7,629	-	7,722	182,709
131,604	-	131,604	-
6,866	4,578	12,322	(7,105)
-	-	30,432	33,247
116,339	344,026	26,718,590	(18,816,701)
$ 290,995	$ 495,851	$ 23,183,446	$ (10,220,075)
-	-	(9,636,859)	(397,105)
-	-	591,530	-
$ -	$ -	$ (9,045,329)	$ (397,105)

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 scope of services increased in 1949 when the Oregon Legislative Assembly authorized the Department, acting through the Director, to provide social services and rehabilitative relief by assisting veterans, dependents, and survivors in applying for state and federal benefits. In 1964 the Department's responsibilities were increased again as the Legislative Assembly authorized the Director of the Department to act as a conservator to certain veterans and their survivors through the management of their financial affairs. In 1993 the Legislative Assembly authorized the Department to provide skilled nursing care to veterans residing at the Oregon Veterans' Home. The most recent expansion of services came in 2007 when the Legislative Assembly authorized the Department to provide small business repair loans to qualified veterans whose small business incurred a setback during the veteran's mobilization or deployment.

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.

The Oregon Veterans' Home *(Veterans' Home Program)* provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans. The single-story, 75,000 square foot facility offers care in a home-like environment, complementing the philosophy of personal independence.

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. The Department has other programs, namely conservatorship duties and social services to veterans *(claims assistance & counseling)*, which are accounted for in other, non-proprietary funds. The financial activities of these programs have no material impact on proprietary fund activity and are presented in the **Other Supplemental Section**.

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 Financial Accounting Standards Board *(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 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.

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 returns to 350 hours and employees will 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 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 *(See Note 7)*. These fees are payable quarterly in arrears.

Comparative Data and Reclassifications

Certain amounts presented in the prior year data 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, 2009 and June 30, 2008 are included in the table below:

	Veterans' Loan Program	Veterans' Home Program	Total June 30, 2009	Total June 30, 2008
Book Balance - Cash and Cash Equivalents				
Current unrestricted	$ 63,666,685	$ 1,982,432	$ 65,649,117	$ 88,887,605
Current restricted	5,454,658	-	5,454,658	6,685,594
Noncurrent restricted	413,146,725	-	413,146,725	372,930,995
Combined Book Balance	$482,268,068	$ 1,982,432	$484,250,500	$468,504,194
Bank Balance - Cash and Cash Equivalents	$482,296,911	$ 1,970,768	$484,267,679	$469,355,982

As of June 30, 2009, a combined total of $460,376,185 *(Veterans' Loan Program with $458,405,417 and the Veterans' Home Program with $1,970,768)* 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 Oregon Short-Term Fund held in state banks are insured or collateralized in excess of Federal Deposit Insurance Corporation *(FDIC)* coverage for a minimum of 25 percent in accordance with State statute. Additionally, all deposits are with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. 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, 2009, the OSTF consisted of approximately 44 percent U.S. government & agency securities; 17 percent short-term commercial paper; 28 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 $20,724,041 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, 2009, the Department estimated that required balance to be $2,256,000. 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 5.

At June 30, 2009, the Department held $3,167,453 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, 2008, the matured bonds payable balance was $4,398,482.

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, 2009, the State Treasurer invested the Department's funds primarily in U.S. agency securities, corporate bonds, and investment agreements.

A portion of the proceeds of Bond Series 77 and 79A are invested in specified accounts called Guaranteed Investment Contracts. These monies are held by institutions outside of the State Treasury. The Guaranteed Investment Contracts feature fixed rates of return over the length of the contracts. The Guaranteed Investment Contract accounts are currently uncollateralized but are subject to collateralization by the providers in the event that the debt rating of a provider falls below a specified level or transfer the agreement to a subsidiary or affiliate of the provider with a higher debt rating. In addition, Guaranteed Investment Contracts evidenced by contracts, rather than by securities, are uncategorized with regard to credit risk.

During fiscal year 2009, State Street Bank at the direction of the Department requested AIG Matched Funding Corp. to either collateralize its two Series 80 guaranteed investment contracts with the Department or to repay the full amount of the funds deposited with them plus accrued interest. On September 24, 2008, AIG Matched Funding paid off both investment agreements with payments of approximately $1.9 million and $52,000 covering both principal and accrued interest respectively.

A portion of the proceeds of Bond Series 81 and 82 are invested in Repurchase Agreements. These investments are fully collateralized with permitted securities at a current level of 105% of the repurchase price. The Repurchase Agreements have fixed rates of return over the length of the contract. In the event of a rating downgrade of the seller, the collateralization levels may be increased.

The schedule below presents investments, credit ratings and maturities as of June 30, 2009:

Investment type	S&P Credit rating	Investment Maturities (in years): Less than 1 year	1-5 years	6-10 years	More than 10 years	Total Fair Value
U.S. Agency Securities	AAA	$ -	$20,389,826	-	-	$ 20,389,826
Corporate Bonds	AAA	10,039,417	-	-	-	10,039,417
Corporate Bonds	AA	-	2,294,294	-	-	2,294,294
Corporate Bonds	A	25,537,017	18,138,818	-	-	43,675,835
Corporate Bonds	NR	2,028,125	-	-	-	2,028,125
Guaranteed Investment Contracts and Repurchase Agreements	N/A	-	-	-	10,572,312	10,572,312
Total Investments		$ 37,604,559	$40,822,938	-	$10,572,312	$88,999,809

During fiscal year 2009, Lehman Brothers Holdings Inc., the fourth largest investment banking firm in the United States, 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, 2009, the estimated market value of these investments was approximately $2,028,125. 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.

Interest Rate and Credit Risk:

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 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, 2009, 14.2% of the Department's total investments were in Merrill Lynch, 11.3% in General Electric Cap Corp (TLGP/FDIC guarantee), 11.3% in Federal Natl Mtg Assn, 11.2% in JP Morgan Chase, 11.2% in Bear Stearns and 2.3% in Lehman Brothers Hldgs Inc.

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, 2009, the Department had restricted assets of $469,659,116. As of June 30, 2008, the Department had restricted assets of $520,420,086.

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. On June 30, 2009, the Department had no securities on loan.

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, 2009, the fair value of all securities on loan from the OSTF was $3,843,361,213. The total cash collateral received for the securities on loan from OSTF was $3,923,673,246. The fair value of all investments made with the cash collateral received for those securities on loan was $3,890,281,485.

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 $210,742,056. Total fair value of all investments made with cash collateral was $208,948,571. Total securities on loan (Department's share of OSTF securities on loan) was $206,428,464. Securities on loan from the OSTF in total included 9.9% in U.S. Treasury securities, 74.5% in U.S. Agency securities, and 15.6% in domestic corporate bonds.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2009 and June 30, 2008:

	June 30, 2009	June 30, 2008
Veterans' Loan Program:		
Investment Income: Accrual Basis	$ 13,039,618	$ 26,078,730
Securities Lending Revenue	1,270,291	6,678,572
Increase/(Decrease) in Fair Value of Investments	(9,636,859)	397,105
Investment Income	$ 4,673,050	$ 33,154,407
Veterans' Home Program:		
Investment Income: Accrual Basis	$ 31,504	$ 46,549
Securities Lending Revenue	3,087	15,600
Investment Income	$ 34,591	$ 62,149

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, 2009 is approximately $302 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 2009 the Department determined the balance of the allowance account to be in line with projected losses for the remaining loan and contract portfolio. Accordingly, the account balance was $4.2 million at June 30, 2009. The balance of the allowance account represents approximately 1.39 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the balance sheet for June 30, 2009 and June 30, 2008.

	June 30, 2009		June 30, 2008	
Loans Receivable	$	299,390,741	$	306,343,695
Contracts Receivable		2,935,266		4,385,493
Total Loans and Contracts Receivable	$	302,326,007	$	310,729,188
Less: Allowance for Principal Losses		(4,238,163)		(4,321,000)
Net Loans and Contracts Receivable	$	298,087,844	$	306,408,188

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, 2009, there were 120 non-amortizing accounts with an aggregate principal balance of $12,211,980. This represents 4.09 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, 2009, the department made no new home loans to an eligible veteran employee. At June 30, 2009, the balance of existing home loans was $445,926 based on loans made to three employees. This amount represents approximately 0.1% of the total net loans and contracts receivable. At June 30, 2008 the balance of existing home loans was $458,569 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, 2009, the Department provided this relief to two borrowers and deferred loan interest income of $7,714. This interest amount was subsequently capitalized on these loans. In total, $274,733 in loans were restructured in this fashion. From these restructured loans the Department received approximately $11,723 in mortgage interest income during the fiscal year. For the year ended June 30, 2008, the Department deferred loan interest income of approximately $7,000 to borrowers.

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, 2009, the Department had 299 insured accounts with seven private mortgage insurers totaling approximately $61 million. The majority of insured accounts are with MGIC (37%) and Triad Guaranty Insurance (43%). As of July 2, 2009, the Moody's ratings for MGIC and Triad were "Ba2" and "Not Rated" respectively. Additionally, effective June 1, 2009, the Illinois Department of Insurance has required that all valid claims under Triad's mortgage guaranty insurance policies will 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, 2009, the Department did not have any deferred payment obligation from Triad.

Real Estate Owned

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

	June 30, 2009	June 30, 2008
Number of Properties	4	1
Lower of Cost or Fair Market Value	$591,530	$9,842

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, 2009 and June 30, 2008:

		June 30, 2009		June 30, 2008
Veterans' Loan Program				
Building, Property, and Equipment	$	8,911,904	$	9,484,489
Less: Accumulated Depreciation		(4,774,826)		(5,226,182)
Building, Property and Equipment, Carrying Value	$	4,137,078	$	4,258,307
Works of Art and Historical Treasures, Non-Depreciating	$	85,170	$	85,170
Total Capital Assets, Net	$	4,222,248	$	4,343,477
Veterans' Home Program				
Building, Property and Equipment	$	12,715,158	$	12,708,097
Improvements Other than Buildings		7,250		7,250
Works of Art and Historical Treasures, Depreciating		30,000		30,000
Less: Accumulated Depreciation		(3,653,406)		(3,339,812)
Depreciable Capital Assets, Carrying Value	$	9,099,002	$	9,405,535
Works of Art and Historical Treasures, Non-Depreciating		40,000		40,000
Land		600,073		600,073
Total Capital Assets, Net	$	9,739,075	$	10,045,608
Total Capital Assets, Net	$	13,961,323	$	14,389,085

The following table provides detail on the balances and activities of the Department's Proprietary fund capital assets for the year ended June 30, 2009:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 600,073	$ -	$ -	$ 600,073
Works of Art and Historical Treasures	125,170	-	-	125,170
Total Capital Assets Not Being Depreciated	725,243	-	-	725,243
Capital Assets Being Depreciated:				
Buildings	19,768,032	-	-	19,768,032
Improvements Other than Buildings	7,250	-	-	7,250
Property and Equipment	2,424,554	7,060	(572,584)	1,859,030
Works of Art and Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	22,229,836	7,060	(572,585)	21,664,312
Less Accumulated Depreciation:				
Buildings	(6,340,508)	(369,111)	-	(6,709,619)
Improvements Other Than Buildings	(2,175)	(725)	-	(2,900)
Property and Equipment	(2,193,561)	(56,886)	564,733	(1,685,713)
Works of Art and Historical Treasures	(29,750)	(250)	-	(30,000)
Total Accumulated Depreciation	(8,565,994)	(426,971)	564,734	(8,428,232)
Total Capital Assets, Net	$ 14,389,085	$ (419,911)	$ (7,851)	$ 13,961,323

5. 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. The balance of the LCLI Contingency Fund is disclosed in Note 2.

6. 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, 2008 and June 30, 2009:

Bonds Payable (Par) at June 30, 2007	$	739,100,000
Bonds Issued		110,015,000
Bonds Retired		(71,915,000)
Bonds Payable *(Par)* at June 30, 2008	$	777,200,000
Bonds Issued		-
Bonds Retired		(44,245,000)
Bonds Payable *(Par)* at June 30, 2009	$	732,955,000

Shown below are the components of net bonds payable as disclosed on the balance sheet for June 30, 2009:

	Current	Noncurrent	Total
Bonds Payable (Par)	$ 2,100,000	$ 730,855,000	$ 732,955,000
Premium on Bonds Sold	-	-	-
Discount on Bonds Sold	(58,547)	(530,598)	(589,145)
Net Bonds Payable	$ 2,041,453	$ 730,324,402	$ 732,365,855

The following schedule summarizes future debt service requirements to maturity as of June 30, 2009:

Fiscal Year	***Principal***	***Interest***	***Total***
2010	$ 2,100,000	$ 8,277,350	$ 10,377,350
2011	2,175,000	8,199,308	10,374,308
2012	2,290,000	8,113,986	10,403,986
2013	2,400,000	8,019,906	10,419,906
2014	2,525,000	7,918,222	10,443,222
2015-2019	301,670,000	36,768,077	338,438,077
2020-2024	136,370,000	28,786,199	165,156,199
2025-2029	59,660,000	21,160,628	80,820,628
2030-2034	72,590,000	15,078,265	87,668,265
2035-2039	92,375,000	9,637,574	102,012,574
2040-2044	54,550,000	2,300,288	56,850,288
2045-2049	4,250,000	27,853	4,277,853
TOTAL	$ 732,955,000	$ 154,287,656	$ 887,242,656

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2009:

		Original Coupon Rates				Final
Series	**Dated**	**From**	**To**	**Issued**	**Outstanding**	**Maturity**
73	December 19, 1985	**		$ 740,000,000	$ 370,000,000	2020
77	April 1, 1998	3.850	5.300%	40,000,000	12,895,000	2030
79A	March 1, 2000	4.550	6.000%	22,000,000	4,055,000	2032
80A	August 15, 2000	4.300	5.700%	35,000,000	11,435,000	2033
81	September 1, 2001	5.125	5.250%	60,150,000	33,665,000	2043
82	June 1, 2002	5.375	5.500%	60,000,000	23,910,000	2043
83	December 15, 2004	**		30,000,000	30,000,000	2040
84	June 29, 2005	**		30,000,000	30,000,000	2040
85	June 21, 2006	***		49,000,000	49,000,000	2041
86	December 1, 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	9,715,000	2020
89B	September 20, 2007	***		10,000,000	10,000,000	2039
90A	June 24, 2008	1.750	4.400%	11,115,000	11,115,000	2024
90B	June 24, 2008	**		38,885,000	38,885,000	2046
Total Bonds Outstanding as of June 30, 2009:					$ 732,955,000	

** Interest rates are adjusted weekly based on the weekly rate determined by the Remarketing Agent, not to exceed 14% for Series 73 E, F, G and H and 12% for Series 83, Series 84 and Series 90B. The interest rate at the end of the fiscal year was 0.205% for Series 73E, F, G, H and 0.65% for Series 83, Series 84, and 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 0.18% for Series 85, Series 86, Series 87C, Series 88B and Series 89B.

7. DEMAND BONDS

Included in long-term debt at June 30, 2009 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 73 E & G	$ 185,000,000	JPMorgan Chase Bank	6/30/2010	40 days/14%	0.0850%
Series 73 F & H	$ 185,000,000	Bayerische Landesbank	11/30/2015 (1)	40 days/14%	0.0850%
Series 83	$ 30,000,000	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	$ 49,000,000	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 89B	$ 10,000,000	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) Bayerishe Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2010.

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 Agents are 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 73 E & F	$ 185,000,000	Morgan Stanley	Weekly	0.085%
Series 73 G & H	$ 185,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 83	$ 30,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 84	$ 30,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 85	$ 49,000,000	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 89B	$ 10,000,000	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 SBPAs for Series 73, JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company, will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale (BLG) will commit to purchase any Series 73 F and H 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, 89B, 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 73 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). 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 73 SBPAs, a default would have occurred.

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 73 SBPAs. Therefore, no tender advances or draws are outstanding as of June 30, 2009.

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.

During October 2008, a portion of the Department's Series 83, Series 84 and Series 90 bonds were unable to be remarketed and became bank bonds. Additional bank bond differential interest was paid to Dexia Credit Local of approximately $14,500, $2,000, and $11,800 for the respective bonds. All bonds were remarketed by October 31, 2008. No tender advances or draws were outstanding as of June 30, 2009.

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. As of June 30, 2009, the Department is required to pay a yearly commitment fee, which is payable quarterly in arrears.

8. INTEREST RATE SWAPS

On February 21, 2008, the Department with the approval of Oregon State Treasury, entered into an interest rate swap to hedge its interest rate risk in connection with its General Obligation Veterans' Welfare Bonds, Series 84. The swap and underlying floating-rate bonds together create "synthetic" fixed-rate debt. The following table lists the terms, fair value and credit rating of the outstanding swap as of June 30, 2009.

Series	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty	Counterparty Rating
84	$25,000,000	03/01/2008	3.665%	62.6% of LIBOR* + .265%	$ (1,333,067)	06/01/2040	Morgan Stanley Capital Services	A2 / A **

* London Interbank Offered Rate
** Moody's/S&P

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.

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2009 is negative. The valuations provided are from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and are provided by an independent third party source. This valuation methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

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, 2009, debt service requirements of the variable-rate debt and net swap payments are as follows:

Fiscal Year	*Principal*	*Interest*	*Interest Rate Swaps (Net)*	*Total*
2010	$ 0	$ 162,500	$ 801,514	$ 964,014
2011	0	162,500	801,514	964,014
2012	0	162,724	801,827	964,551
2013	0	162,276	801,514	963,790
2014	0	162,500	801,514	964,014
2015-2019	1,840,000	791,719	3,880,675	6,512,394
2020-2024	3,085,000	708,742	3,453,889	7,247,631
2025-2029	4,245,000	591,547	2,861,975	7,698,522
2030-2034	5,850,000	430,815	2,046,578	8,327,393
2035-2039	8,035,000	209,365	1,355,648	9,600,013
2040	1,945,000	8,518	15,870	1,969,388
TOTAL	$ 25,000,000	$ 3,553,206	$ 17,622,518	$ 46,175,724

9. SHORT TERM DEBT

The Department entered into a revolving line of credit agreement on December 29, 2006 to help preserve certain refunding opportunities that may be used to finance veterans' housing loans. The revolving line of credit is with KeyBank National Association and interest rates on draws are based on a LIBOR index *(London InterBank Offered Rate)* or the bank's prime rate. Draws on the revolving line of credit are used to refund certain bonds. A subsequent long-term bond issue then refunds the draws. The borrowing limit on the revolving line of credit cannot exceed $45 million. The line of credit expired on December 31, 2008 and the Department repaid the outstanding amount in full.

Beginning Balance	Issued	Repaid	Ending Balance
$ 1,000,000	$ 10,000,000	$ 11,000,000	$ -

10. CHANGES IN LONG TERM LIABILITIES

The following table provides detail on the long-term liability activity as of June 30, 2009:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	$ 777,200,000	-	$ (44,245,000)	$ 732,955,000	$ 2,100,000
Bond Discount	(647,692)	-	58,547	(589,145)	(58,547)
Bond Premium	2,912	-	(2,912)	-	-
Total Bonds Payable	776,555,220	-	(44,189,365)	732,365,855	2,041,453
Compensated Absences Payable	425,417	12,322	-	437,739	293,285
Arbitrage Rebate Payable	3,448,391	2,771,347	-	6,219,738	452,944
OPEB Obligation (Net)	33,247	30,432	-	63,679	-
Total Long-Term Liabilities	$ 780,462,275	$ 2,814,101	$ (44,189,365)	$ 739,087,011	$ 2,787,682

11. INTERFUND TRANSACTIONS

At June 30, 2009, the Veterans' Loan Program had outstanding interfund receivables of $72,172, which consisted of $71,991 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $181 due from the Department's Conservatorship Trust Fund. The balances are shown as a "Due from Other Funds" and "Due to Other Funds" on the Statement of Net Assets.

At June 30, 2008, the Veterans' Loan Program had outstanding interfund receivables of $63,499, due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home.

12. 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.

<u>Oregon Public Service Retirement Plan</u>

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 6.54%; and the OPSRP rate is 8.03%.

Combined employer contributions for the years ended June 30, 2009, 2008, and 2007 were approximately $264,500, $249,500, and $289,000 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2009, 2008, and 2007 were approximately $230,600, $235,300, and $215,100 respectively.

13. 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

<u>Retirement Health Insurance Account</u>

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, 2009 was .37 percent which is embedded within the total PERS contribution rate.

Combined employer contributions for the years ended June 30, 2009, 2008, and 2007 were approximately $14,800, $14,600 and $21,100 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.

Retiree Health Insurance Premium Account

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, 2008 was .10 percent, which is embedded within the total PERS contribution rate. The Department's actual contribution for the year ended June 30, 2009 was approximately $4,000, 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.

Public Employees Benefit Board Plan

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.

14. 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, 2009, the total rental income received from tenants was $621,027.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	July 1, 2009	June 30, 2011	$320,125
Tenant 2	July 1, 2009	June 30, 2013	$1,390,807
Tenant 3	January 15, 2009	January 14, 2014	$646,140
Total			$2,357,072

Future rental income may increase to a higher rental rate due to inflation. The approximate historical cost of this office space is $2,176,002 with a carrying value of $1,199,321 (historical cost less accumulated depreciation of $976,681).

15. 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, 2009 and June 30, 2008 there has been no significant reductions in insurance coverage in any risk category. Also, for the past nine fiscal years *(July 1, 2000 through June 30, 2009)* there have been no claims that exceeded the Department's property or liability coverage.

16. 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 $23,828 for fiscal year 2009 and $20,553 for fiscal year 2008.

17. SUBSEQUENT EVENTS

The following subsequent event occurred after June 30, 2009.

Early Bond Redemptions

The Department exercised the following early bond redemptions on October 1, 2009:

Bond Series	Amount Redeemed
77	$ 725,000
79A	$ 675,000
80A	$1,200,000

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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, these activities include counseling and other services to veterans and partial funding of the Department's conservatorship responsibilities. 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.

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STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009 and JUNE 30, 2008

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ -	$ -	$ 1,077,787	$ 910,349
Securities Lending Cash Collateral	-	-	493,387	451,151
Receivables:				
Due from State General Fund	478,075	707,522	-	-
Due from Other Funds	-	-	3,244	2,907
Prepaid Items	939	2,000	-	-
Total Current Assets	479,014	709,522	1,574,418	1,364,407
TOTAL ASSETS	$ 479,014	$ 709,522	$ 1,574,418	$ 1,364,407
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 478,075	$ 707,522	$ -	$ -
Obligations under Securities Lending	-	-	493,387	451,151
Total Current Liabilities	478,075	707,522	493,387	451,151
TOTAL LIABILITIES	$ 478,075	$ 707,522	$ 493,387	$ 451,151
FUND BALANCES				
Reserved for Prepaid Items	$ 939	$ 2,000	$ -	$ -
Unreserved, Undesignated Fund Balance	-	-	1,081,031	913,256
TOTAL FUND BALANCES	$ 939	$ 2,000	$ 1,081,031	$ 913,256
TOTAL LIABILITIES AND FUND BALANCES	$ 479,014	$ 709,522	$ 1,574,418	$ 1,364,407

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
$ 88,213	$ 91,212	$ 1,166,000	$ 1,001,561
40,382	45,379	533,769	496,530
-	-	478,075	707,522
-	-	3,244	2,907
-	-	939	2,000
128,595	136,591	2,182,027	2,210,520
$ 128,595	$ 136,591	$ 2,182,027	$ 2,210,520
$ -	$ -	$ 478,075	$ 707,522
40,382	45,379	533,769	496,530
40,382	45,379	1,011,844	1,204,052
$ 40,382	$ 45,379	$ 1,011,844	$ 1,204,052
$ -	$ -	$ 939	$ 2,000
88,213	91,212	1,169,244	1,004,468
$ 88,213	$ 91,212	$ 1,170,183	$ 1,006,468
$ 128,595	$ 136,591	$ 2,182,027	$ 2,210,520

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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, 2009 and JUNE 30, 2008

	General Fund		Special Revenue Fund Veterans' Home Trust	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Revenues				
Donations	$ -	$ -	$ 130,223	$ 117,970
Interest Income	-	-	21,781	50,316
Total Revenues	-	-	152,004	168,286
Expenditures				
Veterans' Services				
Personal Services	805,469	699,405	-	-
Services and Supplies	163,065	189,188	-	-
Securities Lending Investment Expense	-	-	1,962	12,779
State Treasury Charges	-	-	-	-
Trust Fund Grants	-	-	-	-
Special Payments	1,925,045	2,419,541	-	-
Total Expenditures	2,893,579	3,308,134	1,962	12,779
Other Financing Sources (Uses)				
State Appropriations	2,893,579	3,308,134	-	-
Operating Transfer In from DMV	-	-	35,793	29,627
Operating Transfer Out to Veterans' Home	-	-	(18,060)	(153,858)
Total Other Financing Sources (Uses)	2,893,579	3,308,134	17,733	(124,231)
Net Change in Fund Balance	-	-	167,775	31,276
Beginning Fund Balance	2,000	329	913,256	881,980
Change in Reserve for Prepaid Items	(1,061)	1,671	-	-
Ending Fund Balance	$ 939	$ 2,000	$ 1,081,031	$ 913,256

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
$ -	$ 200	$ 130,223	$ 118,170
2,012	5,289	23,793	55,605
2,012	5,489	154,016	173,775
-	-	805,469	699,405
-	-	163,065	189,188
161	1,343	2,123	14,122
120	121	120	121
4,730	86	4,730	86
-	-	1,925,045	2,419,541
5,011	1,550	2,900,552	3,322,463
-	-	2,893,579	3,308,134
-	-	35,793	29,627
-	-	(18,060)	(153,858)
-	-	2,911,312	3,183,903
(2,999)	3,939	164,776	35,215
91,212	87,273	1,006,468	969,582
-	-	(1,061)	1,671
$ 88,213	$ 91,212	$ 1,170,183	$ 1,006,468

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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, 2009

	General Fund				
	2007-2009 Original Budget	2007-2009 Final Budget	First Year Actual June 30, 2008	Second Year Actual June 30, 2009	Variance Favorable/ (Unfavorable)
General Fund:					
Veterans' Services Division - Appropriation	$ 6,334,088	$ 6,037,716	$ 3,308,134	$ 2,893,579	$ (163,997)
Total General Fund	$ 6,334,088	$ 6,037,716	$ 3,308,134	$ 2,893,579	$ (163,997)

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 165 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.

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND

JUNE 30, 2009 and JUNE 30, 2008

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2009	June 30, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 23,414,006	$ 22,933,018
Investments	1,107,746	1,270,851
Securities Lending Cash Collateral	10,718,422	11,757,284
Receivables:		
Accrued Interest	18,449	62,013
Other	3,750	5,100
Total Current Assets	35,262,373	36,028,266
Noncurrent Assets		
Conservatorship Real Property	3,640,506	3,415,626
Conservatorship Personal Property	355,887	335,409
Total Noncurrent Assets	3,996,393	3,751,035
TOTAL ASSETS	$ 39,258,766	$ 39,779,301
LIABILITIES		
Current Liabilities		
Due to Other Funds	$ 181	$ -
Mortgages on Conservatorship Real Property	63,000	64,176
Obligations under Securities Lending	10,718,422	11,757,284
Total Current Liabilities	10,781,603	11,821,460
Noncurrent Liabilities		
Mortgages on Conservatorship Real Property	2,027,609	1,864,038
Total Noncurrent Liabilities	2,027,609	1,864,038
TOTAL LIABILITIES	12,809,212	13,685,498
NET ASSETS		
Net Assets Held in Trust for Individuals	26,449,554	26,093,803
TOTAL NET ASSETS	$ 26,449,554	$ 26,093,803

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF CHANGES IN

FIDUCIARY NET ASSETS

FIDUCIARY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and JUNE 30, 2008

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2009	June 30, 2008
ADDITIONS		
Contributions:		
Veterans' Benefits	$ 7,385,697	$ 6,694,114
Investment Income:		
Interest Income	521,345	1,395,241
Valuation Changes and Redemptions of Investments	(4,977)	(114,250)
TOTAL ADDITIONS	$ 7,902,065	$ 7,975,105
DEDUCTIONS		
Veterans' Services: Beneficiary Care	$ 7,499,795	$ 7,508,137
Securities Lending Investment Expense	46,519	354,354
TOTAL DEDUCTIONS	7,546,314	7,862,491
Net Increase/ (Decrease)	355,751	112,614
CHANGE IN NET ASSETS	355,751	112,614
BEGINNING NET ASSETS	26,093,803	25,981,189
ENDING NET ASSETS	$ 26,449,554	$ 26,093,803

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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 2000 - 2009

ASSETS	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
Current Assets *(1)*				
Cash and Cash Equivalents *(2)*	$ 63,666,685	$ 87,234,247	$ 80,795,986	$ 68,536,698
Cash and Cash Equivalents - Restricted	5,454,658	6,685,594	6,308,466	5,775,565
Securities Lending Cash Collateral	209,834,541	220,256,145	171,313,426	56,088,643
Investments	22,126,185	2,511,661	-	-
Investments - Restricted	25,537,018	56,189,591	95,073,362	100,656,772
Receivables:				
Accrued Interest	2,157,552	2,945,247	2,753,190	3,240,750
Due from State Treasury	-	-	-	-
LCLI Premiums *(3)*	92,070	107,214	147,259	170,762
Other	13,256	10,817	10,875	34,301
Due from Other Funds	72,172	63,499	73,850	138,755
Advances to Other Funds	-	-	-	-
Real Estate Owned	591,530	9,842	-	-
Prepaid Expenses	5,379	16,145	39,796	27,271
Total Current Assets	$ 329,551,046	$ 376,030,002	$ 356,516,210	$ 234,669,517
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	$ 413,146,725	$ 372,930,995	$ 402,707,726	$ 419,260,547
Investments	15,815,890	-	2,544,843	2,564,209
Investments - Restricted	25,520,715	84,613,906	30,074,187	26,342,808
Mortgage Loans and Contracts Receivable (Net)	298,087,844	306,408,188	283,736,757	266,034,069
Notes Receivable	-	-	123,428	176,040
Other Receivable	270,279	2,391,606	1,712,187	1,931,151
Deferred Underwriter's Discount	2,025,039	2,158,705	1,847,213	1,991,927
Capital Assets:				
Building, Property and Equipment	8,911,904	9,484,489	9,563,859	9,949,641
Works of Art and Historical Treasures *(3)*	85,170	85,170	85,170	85,170
Accumulated Depreciation	(4,774,826)	(5,226,182)	(5,269,006)	(5,647,415)
Total Noncurrent Assets	$ 759,088,740	$ 772,846,877	$ 727,126,364	$ 722,688,147
TOTAL ASSETS	$ 1,088,639,786	$ 1,148,876,879	$ 1,083,642,574	$ 957,357,664
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 240,559	$ 358,119	$ 292,260	$ 301,996
Line of Credit Payable	-	1,000,000	30,835,000	1,000,000
LCLI Premium Payable	86,853	99,208	103,602	135,470
LCLI Claims Payable *(4)*	108,999	108,164	254,704	13,762
Deposit Liabilities	2,200,352	2,187,904	2,005,195	1,637,899
Accrued Interest on Bonds	1,249,984	3,201,652	6,144,051	8,234,121
Obligations Under Securities Lending	209,834,541	220,256,145	171,313,426	56,088,643
Claims and Judgements Payable	-	-	875	-
Compensated Absences Payable	283,340	279,685	287,513	294,236
Excess Interest and Arbitrage Rebate Payable	452,944	268,193	105,259	212,771
Bonds Payable - Maturing Within One Year (Net)	2,041,454	41,454,365	61,353,153	62,250,115
Matured Bonds Payable	3,167,453	4,398,482	4,199,669	4,002,196
Total Current Liabilities	$ 219,666,479	$ 273,611,917	$ 276,894,707	$ 134,171,209
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	$ 730,324,401	$ 735,100,855	$ 677,075,220	$ 701,016,462
Claims and Judgements Payable	-	-	-	15,518
Compensated Absences Payable	139,556	137,755	141,611	98,079
Excess Interest and Arbitrage Rebate Payable	5,766,794	3,180,198	1,561,754	891,286
Other Postemployment Benefits Obligation (Net)	63,679	33,247	-	-
Total Noncurrent Liabilities	$ 736,294,430	$ 738,452,055	$ 678,778,585	$ 702,021,345
TOTAL LIABILITIES	$ 955,960,909	$ 1,012,063,972	$ 955,673,292	$ 836,192,554
NET ASSETS *(5)*				
Invested in Capital Assets	$ 4,222,248	$ 4,343,477	$ 4,380,023	$ 4,387,396
Net Assets, Unrestricted	128,456,629	132,469,430	123,589,259	116,777,714
TOTAL NET ASSETS	$ 132,678,877	$ 136,812,907	$ 127,969,282	$ 121,165,110
TOTAL LIABILITIES AND NET ASSETS	$ 1,088,639,786	$ 1,148,876,879	$ 1,083,642,574	$ 957,357,664

(1) Prior to the fiscal year ended June 30, 2002, cash and investments were not reported as non-current or restricted.

(2) Current Cash and Cash Equivalents amounts have been adjusted for deposit liabilities.

(3) Starting in fiscal year 2002, Works of Art and Historical Treasures reported separately as required by GASB Statement 34.

(4) Starting in fiscal year 2005, a change was made to report Loan Cancellation Life Insurance (LCLI) Claims Payable separately.

(5) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."

June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
$ 73,133,598	$ 108,065,770	$ 127,071,341	$ 67,460,354	$ 442,430,164	$ 162,024,212
6,211,795	7,753,427	9,041,323	11,326,992	-	-
84,522,242	263,145,877	59,557,642	33,442,192	17,203,117	13,928,185
-	-	-	-	-	-
-	-	-	-	298,669,923	562,901,225
3,876,695	5,545,325	8,586,686	8,479,863	9,868,497	10,312,569
-	-	6,000,000	-	-	-
185,655	217,577	274,500	332,500	401,000	442,000
11,731	23,533	12,600	10,900	10,100	9,500
494,164	5,269	163	26,747	29,165	29,704
-	-	-	-	-	134,000
96,048	171,189	302,563	351,966	143,858	16,372
8,115	19,449	26,563	45,272	10,787	21,550
$ 168,540,043	$ 384,947,416	$ 210,873,381	$ 121,476,786	$ 768,766,611	$ 749,819,317
$ 428,157,516	$ 405,536,924	$ 353,982,441	$ 437,853,753	$ -	$ -
-	-	-	-	-	-
134,928,764	155,641,016	266,394,138	288,644,185	-	-
284,220,290	339,922,044	456,419,543	582,527,538	671,337,265	761,866,479
360,000	360,000	-	-	-	-
481,294	-	-	-	-	-
1,929,928	1,913,369	2,209,215	2,413,889	1,539,153	1,291,911
9,945,155	9,945,155	9,955,561	9,726,670	9,646,082	9,186,547
85,170	85,170	85,170	85,170	-	-
(5,391,789)	(5,032,348)	(4,647,330)	(4,215,939)	(3,677,384)	(3,224,225)
$ 854,716,328	$ 908,371,330	$ 1,084,398,738	$ 1,317,035,266	$ 678,845,116	$ 769,120,712
$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119	$ 1,438,512,052	$ 1,447,611,727	$ 1,518,940,029
$ 361,717	$ 566,738	$ 762,672	$ 410,616	$ 882,049	$ 634,643
-	-	-	-	20,000,000	-
171,010	347,345	455,246	562,197	698,213	810,146
137,379	-	-	-	-	-
1,503,156	1,495,581	1,910,501	2,154,231	1,957,767	1,607,665
9,891,835	12,368,445	16,329,000	20,183,563	23,140,000	26,576,000
84,522,242	263,145,877	59,557,642	33,442,192	17,203,117	13,928,185
-	-	-	-	-	-
252,202	417,495	453,859	552,488	136,007	132,097
-	-	-	186,645	-	-
62,727,149	83,314,364	104,119,165	114,325,964	136,922,950	141,015,992
4,537,629	6,257,846	7,130,822	9,172,761	9,226,844	7,492,359
$ 164,104,319	$ 367,913,691	$ 190,718,907	$ 180,990,657	$ 210,166,947	$ 192,197,087
$ 738,766,577	$ 798,269,848	$ 964,911,356	$ 1,113,899,221	$ 1,141,427,558	$ 1,249,408,908
-	-	-	-	-	-
108,087	-	-	-	408,020	396,292
402,055	385,380	287,175	319,483	678,122	346,385
-	-	-	-	-	-
$ 739,276,719	$ 798,655,228	$ 965,198,531	$ 1,114,218,704	$ 1,142,513,700	$ 1,250,151,585
$ 903,381,038	$ 1,166,568,919	$ 1,155,917,438	$ 1,295,209,361	$ 1,352,680,647	$ 1,442,348,672
$ 4,638,536	$ 4,997,977	$ 5,393,401	$ 5,595,901	$ 5,968,698	$ 5,962,322
115,236,797	121,751,850	133,961,280	137,706,790	88,962,382	70,629,035
$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357
$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119	$ 1,438,512,052	$ 1,447,611,727	$ 1,518,940,029

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 2000 - 2009

	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 16,014,046	$ 17,611,704	$ 17,526,662	$ 17,561,219
Contract Interest Income	302,145	434,945	593,760	806,376
Other Interest Income	-	3,219	7,595	10,953
Investment Income	4,673,050	33,154,407	37,675,500	28,198,335
Gain on Sale of Foreclosed Property	35,160	-	-	7,551
Loan Cancellation Life Insurance Premiums	1,142,192	1,356,657	1,626,287	1,962,357
Loan Cancellation Life Insurance Processing Fees	102,000	102,000	180,000	180,000
Other Fees and Charges	1,841,337	2,155,231	2,131,847	1,941,079
Conservatorship Fees	294,951	313,493	333,974	354,808
TOTAL OPERATING REVENUES	$ 24,404,881	$ 55,131,656	$ 60,075,625	$ 51,022,678
OPERATING EXPENSES				
Bond Interest Expense	$ 15,702,350	$ 26,856,570	$ 34,581,972	$ 35,121,631
Interest on Line of Credit	49,948	721,945	279,906	525,600
Salaries and Other Payroll Expenses	5,773,576	5,953,581	5,445,234	5,239,879
Bond Expenses	1,247,214	1,242,882	1,581,932	1,129,971
Securities Lending Investment Expense	1,270,291	6,678,572	6,266,412	2,910,155
Real Estate Owned Expense	29,547	2,324	2,267	9,485
Services and Supplies	1,665,656	1,971,272	2,133,903	2,174,420
Claims Expense - Loan Cancellation Life Insurance *(1)*	1,938,157	2,312,867	2,717,581	2,952,064
Depreciation Expense	113,378	160,174	156,656	255,626
Bad Debt Expense	-	-	(545,135)	(918,401)
Special Payments	(1,106)	98,674	-	-
Other Expenses	325,670	687,994	645,158	332,471
TOTAL OPERATING EXPENSES	$ 28,114,681	$ 46,686,855	$ 53,265,886	$ 49,732,901
OPERATING INCOME (LOSS)	$ (3,709,800)	$ 8,444,801	$ 6,809,739	$ 1,289,777
NONOPERATING INCOME (EXPENSES)				
Net Transfers to Dept. of Administrative Services	$ (230,438)	$ -	$ (5,567)	$ -
Net Transfers from Military Dept.	-	98,824	-	-
Net Transfers from/(to) General Fund	(185,941)	300,000	-	-
Gain/(Loss) on Early Extinguishment of Debt	(7,851)	-	-	-
CHANGE IN NET ASSETS	$ (4,134,030)	$ 8,843,625	$ 6,804,172	$ 1,289,777
NET ASSETS				
Beginning Net Assets *(2)*	$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333
Ending Net Assets	$ 132,678,877	$ 136,812,907	$ 127,969,282	$ 121,165,110

(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.
(2) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."

June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
$ 21,225,116	$ 26,789,783	$ 36,742,510	$ 43,749,526	$ 50,861,579	$ 57,259,424
1,169,324	1,687,323	2,535,147	3,522,372	4,562,401	5,648,408
19,050	11,208	-	-	-	-
18,013,534	13,338,726	24,675,139	35,956,850	57,521,901	38,492,961
139,199	493,409	39,121	172,472	9,052	16,892
2,523,140	2,704,444	3,642,487	-	-	-
220,834	425,004	425,004	425,004	425,004	399,937
947,834	939,950	1,189,691	1,447,451	1,342,762	1,402,798
334,340	345,750	364,510	338,136	353,417	345,554
$ 44,592,371	$ 46,735,597	$ 69,613,609	$ 85,611,811	$ 115,076,116	$ 103,565,974
$ 37,103,554	$ 44,537,191	$ 58,066,877	$ 68,560,732	$ 85,455,556	$ 93,957,700
159,267	-	7,500	580,883	-	-
4,793,870	5,875,969	6,838,554	6,974,557	6,932,307	6,886,703
1,324,123	1,155,355	909,379	868,243	925,722	819,421
2,199,165	1,899,175	630,893	522,316	1,156,100	2,006,704
47,490	52,526	80,757	73,308	57,863	42,230
1,776,839	2,140,262	2,958,497	2,480,268	2,741,678	2,679,295
4,637,009	4,927,874	5,121,239	-	-	-
359,441	408,883	431,391	538,555	453,159	360,840
(1,104,080)	(1,656,784)	(1,744,700)	(906,906)	(1,078,111)	(1,227,068)
-	-	51,000	-	-	-
170,187	-	210,232	180,045	74,888	42,749
$ 51,466,865	$ 59,340,451	$ 73,561,619	$ 79,872,001	$ 96,719,162	$ 105,568,574
$ (6,874,494)	$ (12,604,854)	$ (3,948,010)	$ 5,739,810	$ 18,356,954	$ (2,002,600)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(17,231)	(11,888)
$ (6,874,494)	$ (12,604,854)	$ (3,948,010)	$ 5,739,810	$ 18,339,723	$ (2,014,488)
$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357	$ 78,605,845
-	-	-	42,556,801	-	-
-	-	-	75,000	-	-
$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 137,562,881	$ 76,591,357	$ 78,605,845
$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET ASSETS
PROPRIETARY FUND - VETERANS' HOME PROGRAM only
FOR THE FISCAL YEARS ENDED 2000 - 2009

ASSETS	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
Current Assets *(1)*				
Cash and Cash Equivalents	$ 1,982,432	$ 1,653,358	$ 1,105,989	$ 1,474,963
Securities Lending Cash Collateral	907,514	818,718	387,988	189,105
Resident Care Receivable	1,398,921	1,136,487	1,158,387	707,089
Other	-	-	-	51,800
Due from Other Funds	-	-	-	-
Prepaid Expenses	-	-	-	571
Total Current Assets	$ 4,288,867	$ 3,608,563	$ 2,652,364	$ 2,423,528
Noncurrent Assets				
Resident Care Receivable (Net)	$ 138,125	$ 6,693	$ 13,754	$ 2,614
Capital Assets:				
Building, Property and Equipment	12,715,158	12,708,097	12,562,282	12,540,540
Improvements Other than Buildings	7,250	7,250	7,250	7,250
Land	600,073	600,073	600,073	600,073
Works of Art and Historical Treasures *(2)*	70,000	70,000	70,000	70,000
Accumulated Depreciation	(3,653,406)	(3,339,812)	(3,027,776)	(2,738,926)
Total Noncurrent Assets	$ 9,877,200	$ 10,052,301	$ 10,225,583	$ 10,481,551
TOTAL ASSETS	$ 14,166,067	$ 13,660,864	$ 12,877,947	$ 12,905,079
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 963,037	$ $ 889,510	$ 855,175	$ 705,069
Due to Other Funds	71,991	63,499	55,909	119,104
Deposit Liabilities	7,990	361	361	652
Deferred Revenue	131,604	-	-	-
Obligations Under Securities Lending	907,514	818,718	387,988	189,105
Compensated Absences Payable	9,945	5,345	2,277	437
Total Current Liabilities	$ 2,092,081	1,777,433	$ 1,301,710	$ 1,014,367
Noncurrent Liabilities				
Compensated Absences Payable	$ 4,898	2,632	$ 1,121	$ 146
Claims and Judgements Payable	-	-	-	6,994
Advances from Other Funds	-	-	-	-
Total Noncurrent Liabilities	$ 4,898	2,632	$ 1,121	$ 7,140
TOTAL LIABILITIES	$ 2,096,979	1,780,065	$ 1,302,831	$ 1,021,507
NET ASSETS *(3)*				
Invested in Capital Assets	$ 9,739,075	10,045,608	$ 10,211,829	$ 10,478,937
Contributed Capital	-	-	-	-
Net Assets, Unrestricted	2,330,013	1,835,191	1,363,287	1,404,635
TOTAL NET ASSETS	$ 12,069,088	11,880,799	$ 11,575,116	$ 11,883,572
TOTAL LIABILITIES AND NET ASSETS	$ 14,166,067	$ $ 13,660,864	$ 12,877,947	$ 12,905,079

(1) Prior to the fiscal year ended June 30, 2002, cash and investments were not reported as non-current or restricted.
(2) Starting in fiscal year 2002, Works of Art and Historical Treasures reported separately as required by GASB Statement 34.
(3) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."

June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
$ 1,414,057	$ 726,735	$ 478,842	$ 492,654	$ 536,062	$ 507,462
248,379	342,687	63,195	34,495	21,523	48,023
818,414	661,432	390,000	435,000	-	-
-	-	16,794	22,000	557,685	411,280
5,405	-	-	-	-	-
553	553	846	793	268	152
$ 2,486,808	$ 1,731,407	$ 949,677	$ 984,942	$ 1,115,538	$ 966,917
$ 3,572	$ 3,572	$ 3,606	$ -	$ -	$ -
12,517,677	12,517,677	12,506,729	12,507,774	12,467,619	12,467,619
7,250	-	-	-	-	-
600,073	600,073	600,073	593,578	89,500	89,500
70,000	70,000	70,000	70,000	-	-
(2,449,306)	(2,161,834)	(1,878,984)	(1,525,504)	(1,195,057)	(865,987)
$ 10,749,266	$ 11,029,488	$ 11,301,424	$ 11,645,848	$ 11,362,062	$ 11,691,132
$ 13,236,074	$ 12,760,895	$ 12,251,101	$ 12,630,790	$ 12,477,600	$ 12,658,049
$ 873,212	$ 958,079	$ 411,023	$ 457,983	$ 568,091	$ 357,447
493,755	-	-	-	-	-
361	-	976	7,097	-	3,112
-	-	-	-	-	-
248,379	342,687	63,195	34,495	21,523	48,023
3,455	16,073	13,480	16,746	3,651	3,349
$ 1,619,162	$ 1,316,839	$ 488,674	$ 516,321	$ 593,265	$ 411,931
$ 1,481	$ -	$ -	$ -	$ 10,953	$ 10,047
-	-	-	-	-	-
-	-	-	-	-	134,000
$ 1,481	$ -	$ -	$ -	$ 10,953	$ 144,047
$ 1,620,643	$ 1,316,839	$ 488,674	$ 516,321	$ 604,218	$ 555,978
$ 10,745,694	$ 11,025,916	$ 11,297,818	$ 11,645,848	$ -	$ -
-	-	-	-	12,720,567	12,930,078
869,737	418,140	464,609	468,621	(847,185)	(828,007)
$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071
$ 13,236,074	$ 12,760,895	$ 12,251,101	$ 12,630,790	$ 12,477,600	$ 12,658,049

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 2000 - 2009

	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
OPERATING REVENUES				
Investment Income	$ 34,591	$ 62,149	$ 57,064	$ 73,604
Resident Revenue (Net) *(1)*	11,709,871	10,985,553	10,223,934	9,809,017
Other Fees and Charges	1,708	2,191	2,066	1,946
TOTAL OPERATING REVENUES	$ 11,746,170	$ 11,049,893	$ 10,283,064	$ 9,884,567
OPERATING EXPENSES				
Salaries and Other Payroll Expenses	$ 145,500	$ 120,273	$ 98,888	$ 80,684
Securities Lending Investment Expense	3,087	15,600	12,974	10,346
Services and Supplies	64,966	81,099	583,527	157,869
Veterans' Home Operations	11,044,368	10,365,986	9,632,303	9,120,185
Depreciation Expense	313,593	315,110	288,852	289,619
TOTAL OPERATING EXPENSES	$ 11,571,514	$ 10,898,068	$ 10,616,544	$ 9,658,703
OPERATING INCOME (LOSS)	$ 174,656	$ 151,825	$ (333,480)	$ 225,864
NONOPERATING INCOME (EXPENSES)				
Net Transfers from Veterans' Home Trust Fund	$ 18,060	$ 153,858	$ 25,024	$ 25,483
Net Transfers to Dept. of Administrative Services	(4,427)	-	-	-
Capital Contributions	-	-	-	16,794
CHANGE IN NET ASSETS	$ 188,289	$ 305,683	$ (308,456)	$ 268,141
NET ASSETS				
Beginning Net Assets	$ 11,880,799	$ 11,575,116	$ 11,883,572	$ 11,615,431
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 11,880,799	$ 11,575,116	$ 11,883,572	$ 11,615,431
Net Contributed Construction Capital	-	-	-	-
Ending Net Assets	$ 12,069,088	$ 11,880,799	$ 11,575,116	$ 11,883,572

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

	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
	$ 24,217	$ 8,390	$ 8,487	$ 13,983	$ 38,155	$ 23,186
	8,674,907	6,157,225	5,043,010	5,465,696	5,194,921	4,557,751
	2,825	2,134	-	-	23,828	-
	$ 8,701,949	$ 6,167,749	$ 5,051,497	$ 5,479,679	$ 5,256,904	$ 4,580,937
	$ 512,025	$ 213,063	$ 205,262	$ 218,460	$ 203,790	$ 181,504
	4,349	1,846	654	590	1,917	1,969
	208,319	107,766	134,843	54,645	313,874	180,485
	7,596,750	6,181,784	4,732,459	5,238,567	4,773,004	3,945,157
	287,472	288,918	353,480	331,368	329,069	329,069
	$ 8,608,915	$ 6,793,377	$ 5,426,698	$ 5,843,630	$ 5,621,654	$ 4,638,184
	$ 93,034	$ (625,628)	$ (375,201)	$ (363,951)	$ (364,750)	$ (57,247)
	$ 71,091	$ 298,257	$ 17,709	$ 1,380	$ 16,503	$ 14,798
	-	-	-	-	-	-
	7,250	9,000	-	-	-	-
	$ 171,375	$ (318,371)	$ (357,492)	$ (362,571)	$ (348,247)	$ (42,449)
	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071	$ 12,111,240
	-	-	5,450	563,658	-	-
	-	-	-	40,000	-	-
	$ 11,444,056	$ 11,762,427	$ 12,119,919	$ 12,477,040	$ 12,102,071	$ 12,111,240
	-	-	-	-	119,558	33,280
	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071

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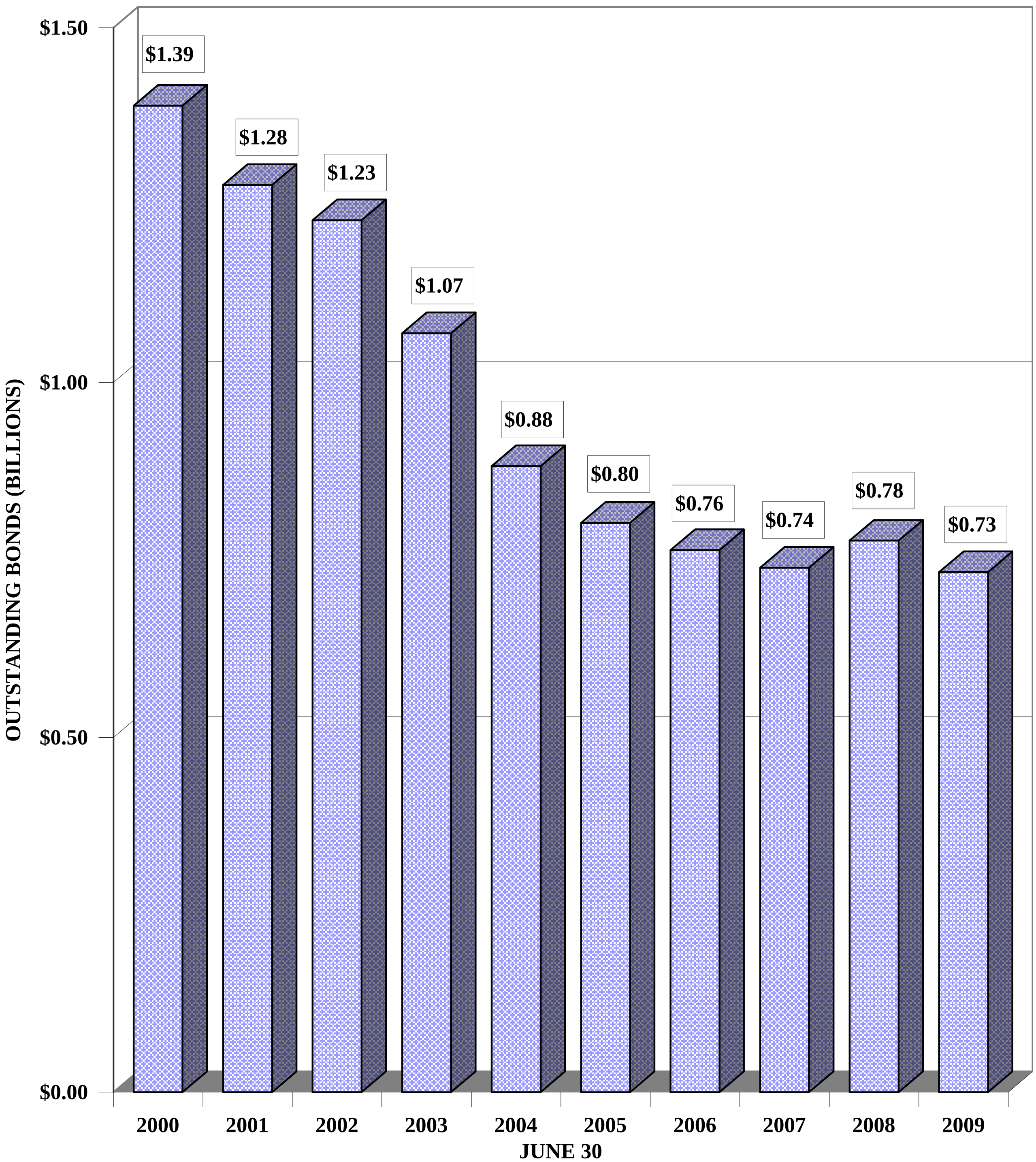
PRINCIPAL BALANCE OF BONDS OUTSTANDING



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

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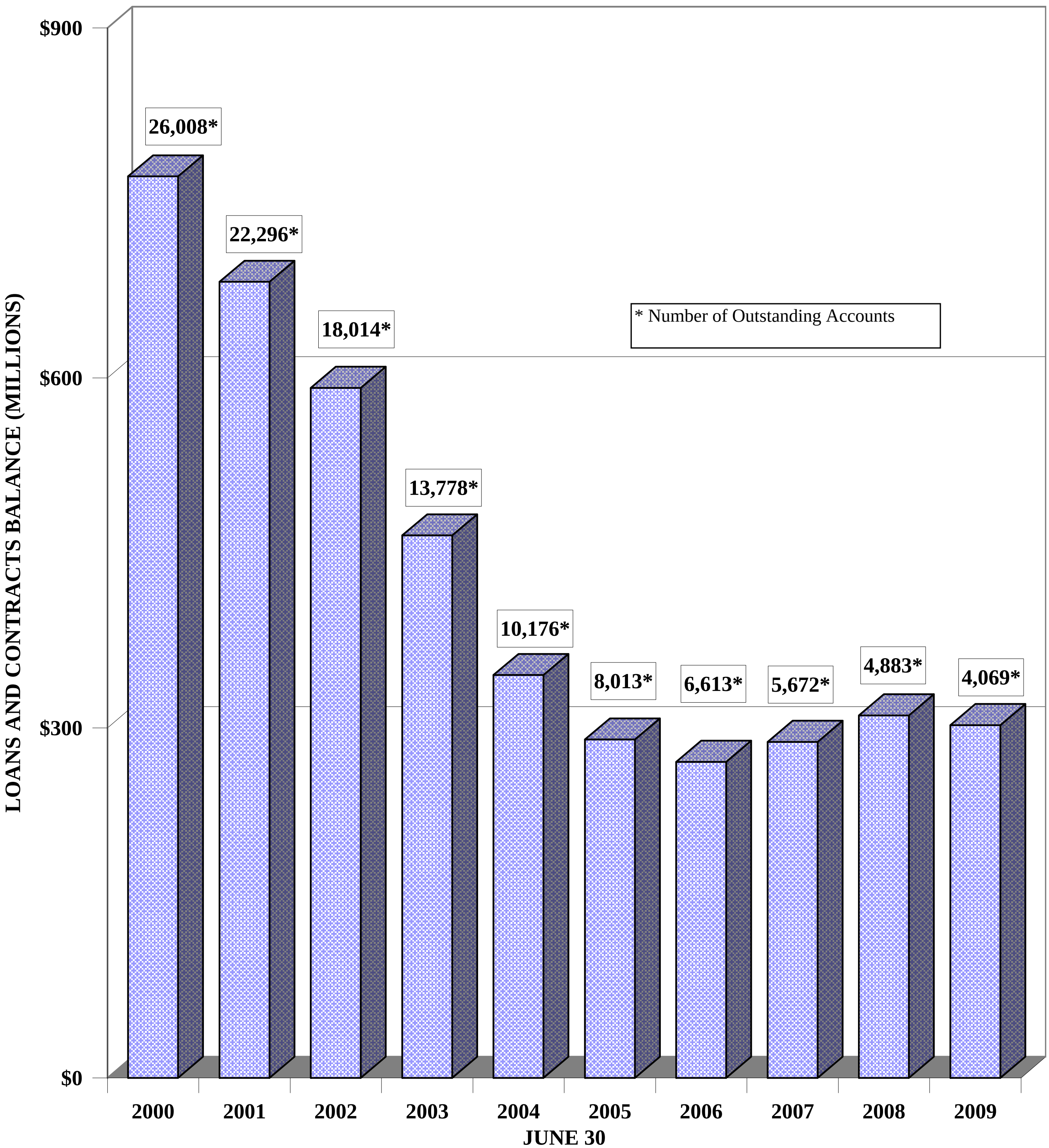
LOANS AND CONTRACTS OUTSTANDING



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

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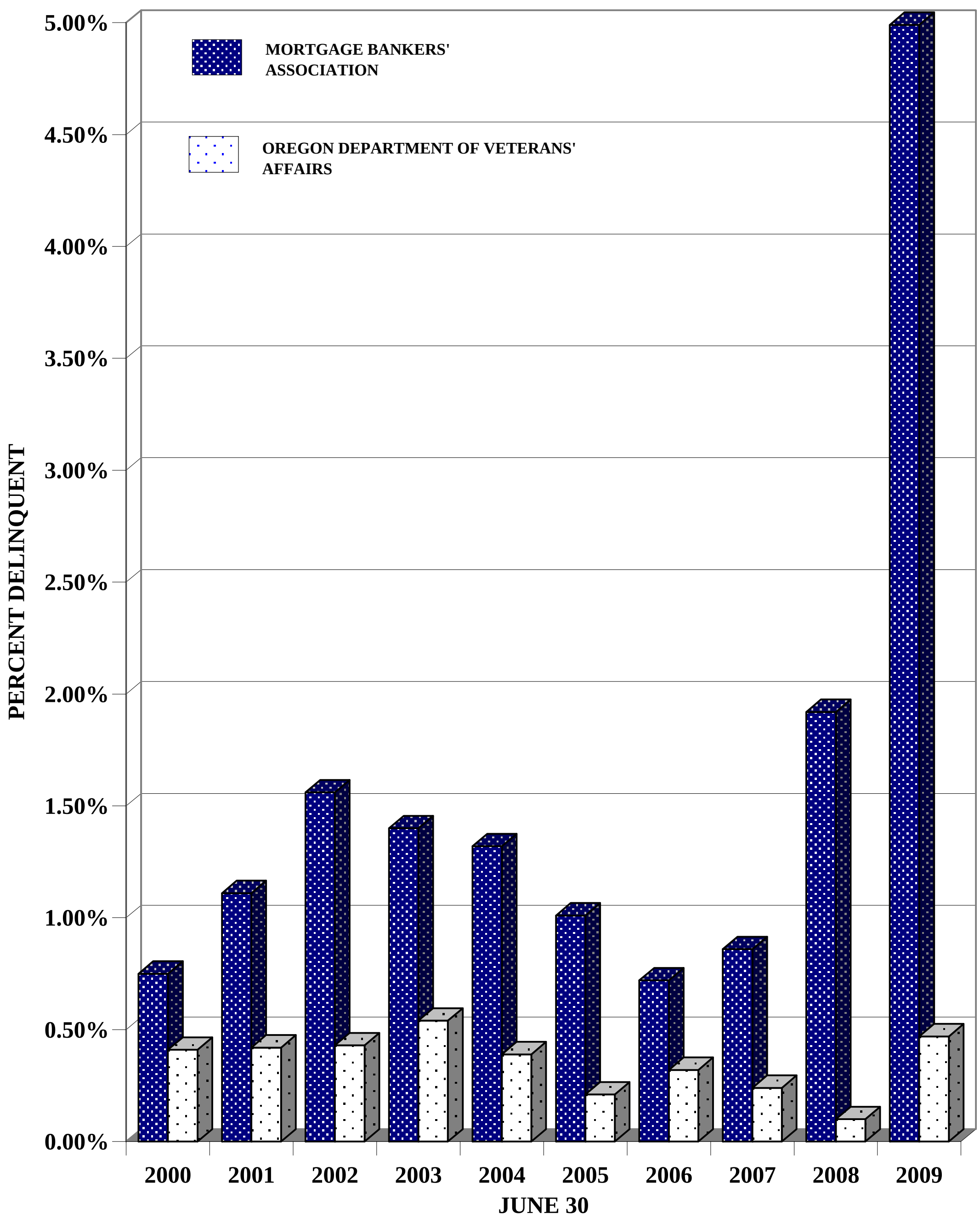
LOAN AND CONTRACT 90+ DAY DELINQUENCIES



Source: National Delinquency Survey (Oregon, All 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.

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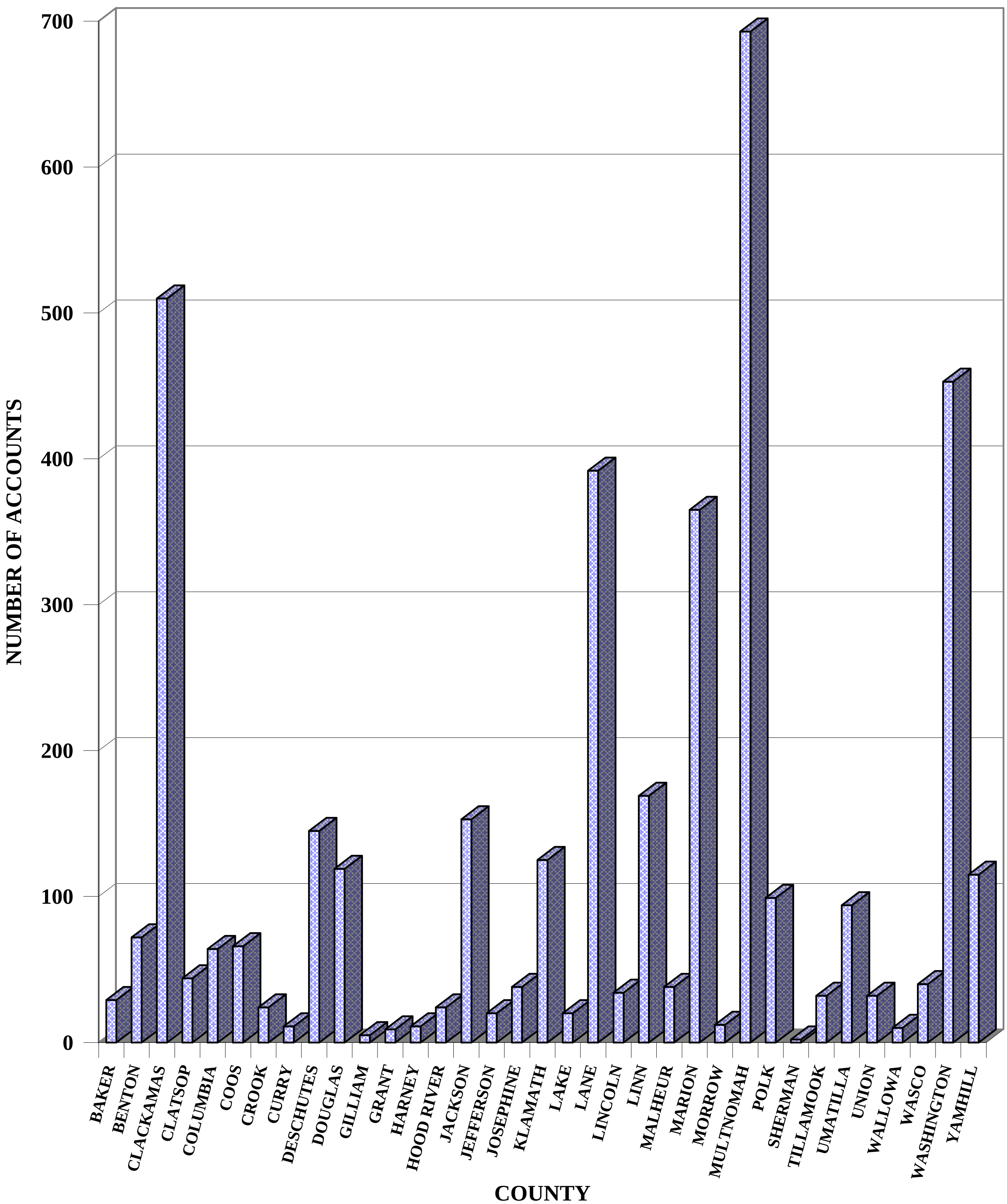
LOANS AND CONTRACTS OUTSTANDING BY COUNTY
AS OF JUNE 30, 2009



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

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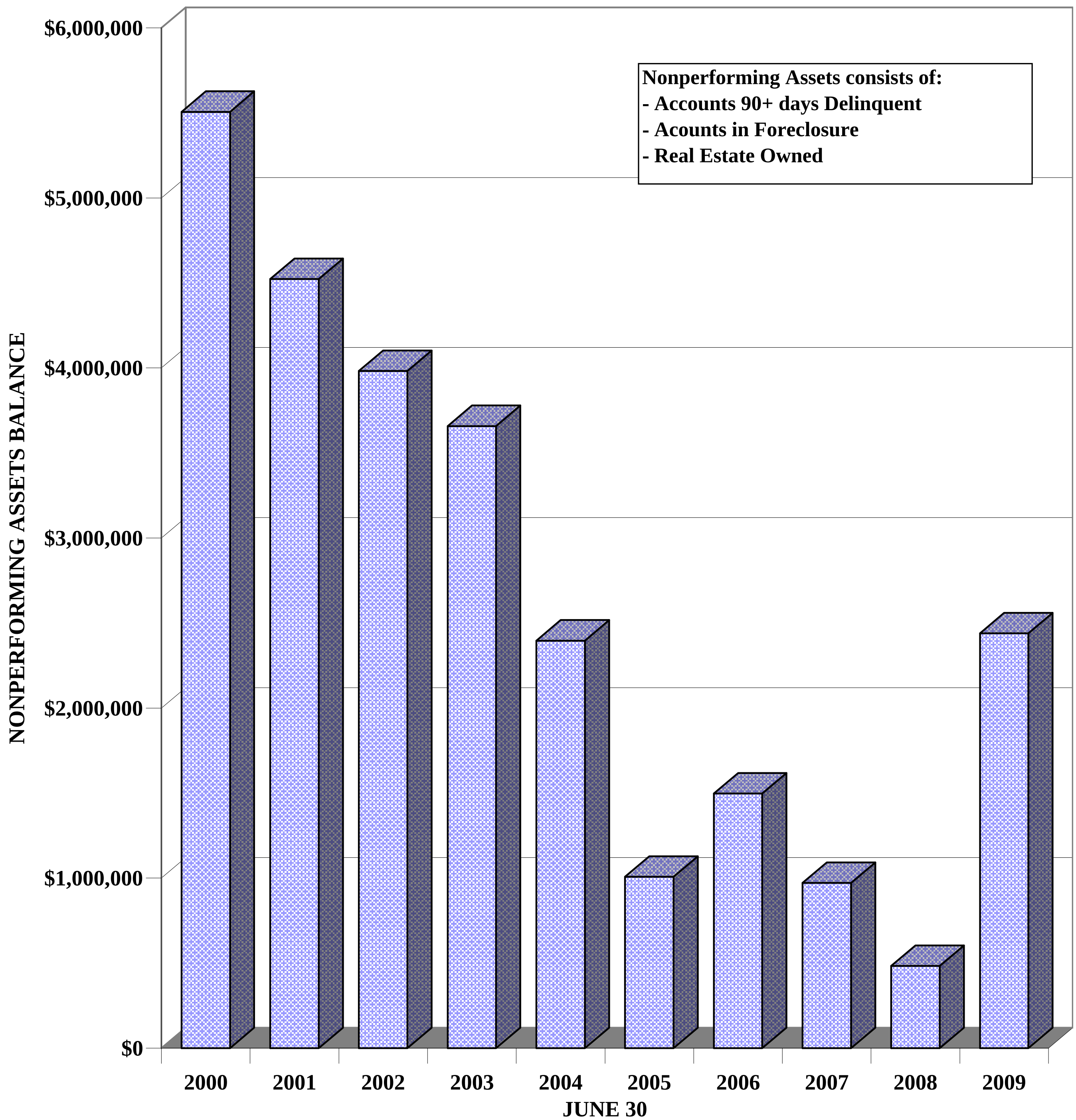
NONPERFORMING ASSETS OF THE VETERANS' LOAN PROGRAM



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

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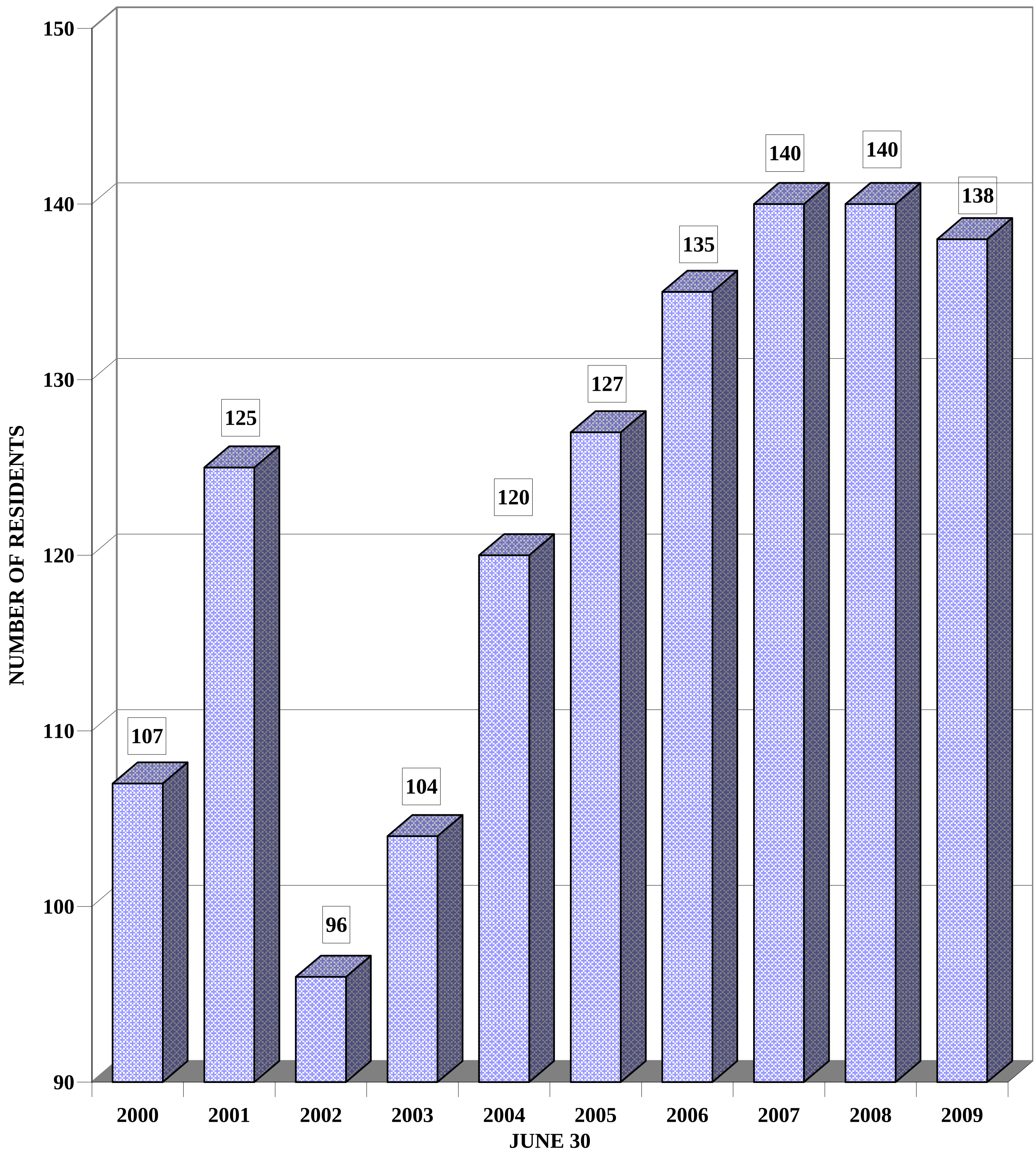
RESIDENT CENSUS AT THE OREGON VETERANS' HOME



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

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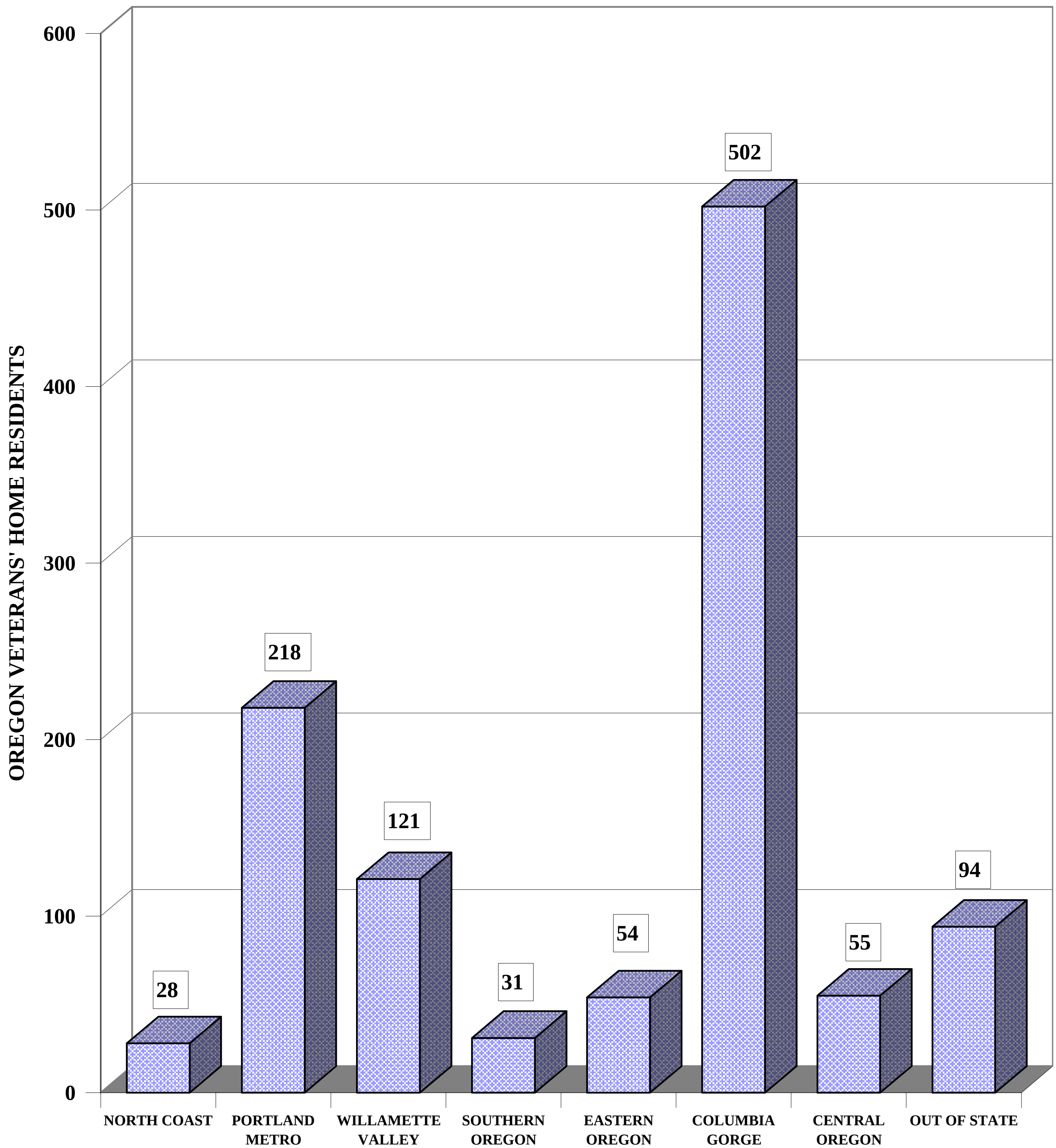
CUMULATIVE RESIDENT ADMISSIONS BY GEOGRAPHIC AREA
NOVEMBER 1, 1997 THROUGH JUNE 30, 2009



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

OTHER REPORTS

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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 Theodore R. Kulongoski
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, 2009, and have issued our report thereon dated November 18, 2009. 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.

<u>Internal Control Over Financial Reporting</u>

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, LLP

Merina & Company, LLP
West Linn, Oregon
November 18, 2009

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.

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