Secretary of State

State of Oregon

DEPARTMENT OF VETERANS' AFFAIRS

July 1, 1998, through June 30, 1999

Audits Division

-

Secretary of State

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Audits Division

No. 2000-02

January 10, 2000

OFFICE OF THE
SECRETARY OF STATE
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Secretary of State
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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol
Salem, Oregon 97310

Jon Mangis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97310

This report presents the results of our annual audit of the Oregon Department of Veterans' Affairs (department).

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the general-purpose financial statements as of and for the year ended June 30, 1999, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Auditing standards also require us to review the department's internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Audit Results section of this report. We noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any matters involving internal control over financial reporting and its operations that we considered to be material weaknesses.

We appreciate the cooperation and assistance of the department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
October 29, 1999

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BACKGROUND

The Oregon Department of Veterans' Affairs (department) has as its primary operations the veterans' loan program, the veterans' services program, and the veterans' home program. The loan program is financed through the sale of tax-exempt general obligation bonds. These bonds are then retired using borrower repayments and investment earnings. The veterans' services programs are funded by a combination of state General Fund Appropriations and fee income from its conservatorship program. These programs provide benefit counseling, claims assistance, conservatorship services, and education assistance. The Oregon Veterans' Home at The Dalles, Oregon became operational in November 1997. The Home is a 151-bed skilled nursing and Alzheimer's Disease care facility operated by a private long-term care provider under contract with the department. Resident veterans, or their health insurance providers, generally pay for the cost of care not paid by the United States Department of Veterans' Affairs.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the department's general-purpose financial statements for the year ended June 30, 1999, and on internal control and compliance with laws and regulations.

AUDIT RESULTS

This audit concludes the department's financial statements for the year ended June 30, 1999, are presented fairly. Our review and evaluation of the department's internal control and tests of compliance with laws and regulations disclosed no significant findings.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon Department of Veterans' Affairs (department) was created in 1945 to aid veterans in obtaining benefits and to provide home and farm loans to veterans at favorable interest rates. The director, who must be a war veteran chosen on the basis of executive and administrative ability, is appointed by the governor with written approval of the department's Advisory Committee, and is subject to confirmation by the Senate. Members of the department's Advisory Committee must be veterans and are appointed by the governor for four-year terms.

Employing 151 people, the department consists of four main divisions and the director’s senior management group.

The **Administrative Services Division** is responsible for collections, office and business services, and property management for the department.

The **Financial Administration Division** is responsible for accounting, budgeting, financial reporting, financial management, and information systems for the department. This division is also responsible for debt management including bond issuance, debt service, and tax and bond covenant compliance.

The **Veterans' Loan Division** is responsible for home loan processing and servicing. The department has made over 300,000 home and farm loans since it was created, with a principal amount of over $7 billion. These loans are financed with proceeds of general obligation bonds issued by the department.

The **Veterans' Services Division** is responsible for counseling and claims services to veterans, their dependents and survivors. It assists them in making application for benefits to which they may be entitled. This division is also responsible for the conservatorship program which manages the estates of veterans and their dependents who are considered “protected persons” by various Oregon courts and who are unable to manage their own affairs.

The **Administration Group** includes the director, deputy director, human resources section, program evaluation section, public information section, an executive officer, and staff responsible for oversight of the veterans' home.

The department was directed by the 1993 Oregon Legislative Assembly to develop and administer an Oregon Veterans' Home, a long-term skilled nursing and Alzheimer's Disease care facility for disabled veterans. Construction of the facility at The Dalles, Oregon, cost some $13 million, of which about one third was funded by a Wasco County bond levy and about two thirds was paid by federal funds. The 151-bed facility opened in November 1997. Resident veterans, or their health insurance providers, generally pay for the cost of care not paid by the United States Department of Veterans' Affairs. A private long-term care provider under contract with the department operates the facility.

FINANCIAL ACTIVITIES

The primary source of revenue in the Enterprise Fund is the interest portion of mortgage loan and contract repayments. Another major source of income is investment income derived from Enterprise Fund investments and cash held by the State Treasury. Major expenses of the Enterprise Fund include interest on outstanding bonds and general administrative expenses (e.g. employee salaries and benefits, and services and supplies). The primary source of funds in the Expendable Trust Fund is from veterans' benefits (e.g. Social Security, and pension benefits). The primary expenditure is related to beneficiary care.

The veterans' loan program and the veterans' home program are accounted for as Enterprise Funds. Under generally accepted accounting principles applicable to state and local governmental units, Enterprise Funds are used to account for activities which operate primarily on a self-sustaining basis. The veterans' home trust fund and the conservatorship program, within the Veterans' Services Division, are accounted for as Expendable Trust

Funds. Expendable Trust Funds are used to account for the collection and disbursement of assets held in trust for a group of individuals.

The department utilizes the Department of Administrative Services' Statewide Financial Management System to record its financial transactions and account balances.

AUDIT RESULTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general-purpose financial statements of the Department of Veterans' Affairs (department), as of and for the year ended June 30, 1999, and have issued our report thereon dated October 29, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the department's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Oregon Department of Veterans' Affairs management, 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 those specified parties.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

October 29, 1999

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Oregon Department of Veterans' Affairs during the course of our audit were commendable and are much appreciated.

AUDIT TEAM

Andy Bromeland, CPA, Audit Administrator
Tomás Flores, CPA
Ron Forehand
Aaron Hunter

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general-purpose financial statements of the Department of Veterans' Affairs, state of Oregon (department) as of and for the years ended June 30, 1999, and June 30, 1998. These general-purpose financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

As discussed in Note 1, the general-purpose financial statements of the Department of Veterans' Affairs, state of Oregon, are intended to present the financial position and results of operations and the cash flows of the proprietary fund type of only that portion of the financial reporting entity of the state of Oregon that is attributable to the transactions of the department.

The Year 2000 supplementary information on page 45 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement

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and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the department's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the department does business are or will become Year 2000 compliant.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Department of Veterans' Affairs as of June 30, 1999, and June 30, 1998, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

The combining financial statements and schedule are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, our report on consideration of the department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants is separately presented in the AUDIT RESULTS section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

October 29, 1999

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State of Oregon
Department of Veterans' Affairs
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1999 and June 30, 1998

	Proprietary Fund Type		Fiduciary Fund Type	
	Enterprise Fund		Expendable Trust Fund	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
ASSETS AND OTHER DEBITS				
Cash and Cash Equivalents	$ 414,816,153	$ 430,763,512	$ 20,086,458	$ 18,573,824
Cash and Cash Equivalents – Securities Lending Collateral	34,613,210	35,751,853	1,778,288	1,612,866
Investments (Net)	340,006,507	691,857,238	1,878,158	1,902,957
Receivables:				
Mortgage Loans and Contracts (Net)	863,723,925	1,076,651,021	181,270	22,824
Accrued Interest	11,477,199	18,678,211	1,072	87,706
Loan Cancellation Life Insurance Premiums	492,000	584,000	–	–
Other	272,100	98,540	82,788	–
Due From Other Funds	27,451	26,627	–	–
Due From State General Fund	–	–	–	–
Advances to Other Funds	734,000	200,000	–	–
Real Estate Owned	239,819	175,164	–	–
Supplies Inventory	37,311	41,730	–	–
Deferred Underwriter's Discount	1,088,801	4,715,954	–	–
Conservatorship Real Property	–	–	2,413,530	2,462,298
Conservatorship Personal Property	–	–	625,022	592,107
Fixed Assets (Net)	17,717,613	18,143,689	–	–
Amount to be Provided for Long–Term Obligation	–	–	–	–
TOTAL ASSETS	$ 1,685,246,089	$ 2,277,687,539	$ 27,046,586	$ 25,254,582
LIABILITIES AND FUND EQUITY				
Liabilities:				
Current Liabilities:				
Bonds Payable – Maturing Within One Year (Net)	$ 142,403,824	$ 181,776,601	$ –	$ –
Matured Bonds Payable	14,444,363	14,047,136	–	–
Accrued Interest on Bonds	29,576,000	36,175,000	–	–
Obligations under Securities Lending	34,613,210	35,751,853	1,778,288	1,612,866
Accounts Payable	1,059,285	1,106,427	–	–
Loan Cancellation Life Insurance Premium	986,521	1,128,746	–	–
Compensated Absences Payable	128,244	127,229	–	–
Due to Other Funds	–	–	28,219	26,627
Deposit Liabilities	1,440,859	1,355,015	–	–
Long–Term Liabilities:				
Bonds Payable – Maturing After One Year (Net)	1,368,606,917	1,903,532,007	–	–
Arbitrage Rebate Payable	151,049	47,062	–	–
Compensated Absences Payable	384,732	381,689	–	–
Advances from Other Funds	734,000	200,000	–	–
Mortgages on Conservatorship Real Property	–	–	638,852	694,196
TOTAL LIABILITIES	$ 1,594,529,004	$ 2,175,628,765	$ 2,445,359	$ 2,333,689
Fund Equity:				
Contributed Capital	$ 13,225,867	$ 13,443,696	$ –	$ –
Retained Earnings–Unreserved	77,491,218	88,615,078	–	–
Fund Balances:				
Reserved for Trust Fund	–	–	24,601,227	22,920,893
TOTAL FUND EQUITY	$ 90,717,085	$ 102,058,774	$ 24,601,227	$ 22,920,893
TOTAL LIABILITIES AND FUND EQUITY	$ 1,685,246,089	$ 2,277,687,539	$ 27,046,586	$ 25,254,582

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

Governmental Fund Type		Account Groups		***TOTALS***	
General Fund		General Long-Term Debt		***(Memorandum only)***	
June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
$ –	$ –	$ –	$ –	$ 434,902,611	$ 449,337,336
–	–	–	–	36,391,498	37,364,719
–	–	–	–	341,884,665	693,760,195
–	–	–	–	863,905,195	1,076,673,845
–	–	–	–	11,478,271	18,765,917
–	–	–	–	492,000	584,000
–	–	–	–	354,888	98,540
768	–	–	–	28,219	26,627
209,007	124,907	–	–	209,007	124,907
–	–	–	–	734,000	200,000
–	–	–	–	239,819	175,164
273	384	–	–	37,584	42,114
–	–	–	–	1,088,801	4,715,954
–	–	–	–	2,413,530	2,462,298
–	–	–	–	625,022	592,107
–	–	–	–	17,717,613	18,143,689
–	–	32,849	13,303	32,849	13,303
$ 210,048	$ 125,291	$ 32,849	$ 13,303	$ 1,712,535,572	$ 2,303,080,715
$ –	$ –	$ –	$ –	$ 142,403,824	$ 181,776,601
–	–	–	–	14,444,363	14,047,136
–	–	–	–	29,576,000	36,175,000
–	–	–	–	36,391,498	37,364,719
199,099	120,857	–	–	1,258,384	1,227,284
–	–	–	–	986,521	1,128,746
10,949	4,434	–	–	139,193	131,663
–	–	–	–	28,219	26,627
–	–	–	–	1,440,859	1,355,015
–	–	–	–	1,368,606,917	1,903,532,007
–	–	–	–	151,049	47,062
–	–	32,849	13,303	417,581	394,992
–	–	–	–	734,000	200,000
–	–	–	–	638,852	694,196
$ 210,048	$ 125,291	$ 32,849	$ 13,303	$ 1,597,217,260	$ 2,178,101,048
–	$ –	$ –	$ –	$ 13,225,867	$ 13,443,696
–	–	–	–	77,491,218	88,615,078
–	–	–	–	24,601,227	22,920,893
–	$ –	$ –	$ –	$ 115,318,312	$ 124,979,667
$ 210,048	$ 125,291	$ 32,849	$ 13,303	$ 1,712,535,572	$ 2,303,080,715

State of Oregon
Department of Veterans' Affairs
Combined Statement of Revenues, Expenses, and Changes in Fund Equity
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

EXHIBIT B

	Enterprise Fund	
	June 30, 1999	June 30, 1998
REVENUES		
Interest Income:		
Mortgage Loans	$ 68,967,805	$ 84,739,050
Contracts	7,603,132	10,413,658
Investment Income	48,839,936	80,232,794
Gain on Sale of Foreclosed Property	32,324	106,330
Loan Cancellation Life Insurance Processing Fee	327,540	433,763
Other Fees and Charges	4,571,618	1,458,064
Conservatorship Fees	322,973	334,784
TOTAL REVENUES	$ 130,665,328	$ 177,718,443
EXPENSES		
Bond Interest	$ 117,276,619	$ 153,677,775
Salaries and Other Payroll Expenses	6,974,766	7,058,341
Bond Expenses	952,673	1,478,508
Securities Lending Investment Expense	1,607,836	1,593,386
Real Estate Owned Expense	49,096	50,806
Services and Supplies	3,218,359	4,533,059
Veterans Home Operations	3,088,796	1,086,621
Depreciation Expense	646,820	546,668
Bad Debt Expense	(3,346,273)	(2,934,825)
Other Expenses	42,477	53,475
TOTAL EXPENSES	$ 130,511,169	$ 167,143,814
NET INCOME BEFORE OPERATING TRANSFERS	$ 154,159	$ 10,574,629
OPERATING TRANSFERS		
Transfers In from Veterans Home Trust Fund	$ 9,960	$ 28,218
NET INCOME BEFORE EXTRAORDINARY ITEMS	$ 164,119	$ 10,602,847
Extraordinary Gain from Litigation	$ 654,385	$ –
Extraordinary Loss from Early Extinguishment of Debt	(12,271,433)	(3,870,466)
NET INCOME/(LOSS)	$ (11,452,929)	$ 6,732,381
FUND EQUITY		
Beginning Retained Earnings	$ 88,615,078	$ 79,086,601
Cumulative Effect of Change in Accounting Principle	–	2,588,248
Beginning Retained Earnings, as restated	$ 88,615,078	$ 81,674,849
Net Income/(Loss)	$ (11,452,929)	$ 6,732,381
Add: Depreciation Charged to Contributions	329,069	207,848
Increase/(Decrease) in Retained Earnings	$ (11,123,860)	$ 6,940,229
Ending Retained Earnings	$ 77,491,218	$ 88,615,078
Beginning Contributed Capital	$ 13,443,696	$ 12,314,393
Changes in Contributed Capital	(217,829)	1,129,303
Ending Contributed Capital	$ 13,225,867	$ 13,443,696
Total Fund Equity	$ 90,717,085	$ 102,058,774

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

State of Oregon
Department of Veterans' Affairs
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiduciary Fund Type and Governmental Fund Type
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

EXHIBIT C

	Fiduciary Fund Type		Governmental Fund Type	
	Expendable Trust		General Fund	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
REVENUES				
Veterans' Benefits	$ 6,669,731	$ 6,522,611	$ –	$ –
Interest Income	1,083,514	929,292	–	–
Donations	36,195	60,890	–	–
State Appropriations	–	–	1,182,671	1,181,321
TOTAL REVENUES	$ 7,789,440	$ 7,512,793	$ 1,182,671	$ 1,181,321
EXPENDITURES				
Veterans' Services	$ –	$ –	$ 1,182,671	$ 1,181,321
Securitites Lending Investment Expense	81,549	84,176	–	–
Beneficiary Care	6,017,597	7,179,246	–	–
TOTAL EXPENDITURES	$ 6,099,146	$ 7,263,422	$ 1,182,671	$ 1,181,321
Excess of Revenues Over/(Under) Expenditures	$ 1,690,294	$ 249,371	$ –	$ –
OTHER FINANCING SOURCES/(USES)				
Operating Transfer to Veterans' Home Program	$ (9,960)	$ (28,218)	$ –	$ –
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	$ 1,680,334	$ 221,153	$ –	$ –
Beginning Fund Balance	$ 22,920,893	$ 21,087,494	$ –	$ –
Cumulative effect of change in accounting principle	–	1,612,246	–	–
Beginning Fund Balance, as restated	22,920,893	22,699,740	–	–
Ending Fund Balance	$ 24,601,227	$ 22,920,893	$ –	$ –

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

State of Oregon
Department of Veterans' Affairs
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual – Budgetary Basis – General Fund
For the Biennium Ended June 30, 1999

EXHIBIT D

	General Fund			
	1997-1999 Budget	1st Year Actuals	2nd Year Actuals	Variance: Favorable/ (Unfavorable)
REVENUES				
State Appropriations	$ 2,367,395	$ 1,191,238	$ 1,176,157	$ –
TOTAL REVENUES	$ 2,367,395	$ 1,191,238	$ 1,176,157	$ –
EXPENDITURES				
Veterans' Services	$ 2,367,395	$ 1,191,238	$ 1,176,157	$ –
TOTAL EXPENDITURES	$ 2,367,395	$ 1,191,238	$ 1,176,157	$ –
Excess of Revenues Over (Under) Expenditures	$ –	$ –	$ –	$ –

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

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State of Oregon
Department of Veterans' Affairs
Combined Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

	Enterprise Fund	
	June 30, 1999	June 30, 1998
Cash Flows from Operating Activities:		
Operating Income / (Loss)	$ 154,159	$ 10,574,629
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	646,820	546,668
Amortization of Bond Premium & Discount	(334,333)	1,037,487
Amortization of Underwriters Discount	–	–
Amortization of Investment Premium & Discount	–	–
Amortization of Remarketing Fees	95,034	228,083
Amortization of Loan Origination Fees	364,768	364,768
Amortization of Capitalized Letter of Credit Fees	–	–
Accreted Bond Interest	–	–
Interest Received on Investments Reported as Operating Income	(47,232,100)	(72,443,586)
Interest Payments on Bonds Reported as Operating Expense	117,610,952	153,960,352
Letter of Credit and Remarketing Fees Reported as Operating Expense	857,638	1,250,425
Bad Debt Expense	(3,346,273)	(2,934,825)
(Gain)/Loss on Sale of Investments	–	–
(Gain)/Loss on Sale of Equipment	(1,822)	(3,296)
Change in Fair Value of Investments and Related Adjustments	6,184,911	(11,393,389)
(Increase)/Decrease in Receivables	(616,384)	685,908
(Increase)/Decrease in Loans and Contracts Receivable	215,908,601	231,919,709
(Increase)/Decrease in Accrued Interest Receivable	7,201,012	4,659,238
(Increase)/Decrease in Real Estate Owned	(64,655)	189,194
(Increase)/Decrease in Supplies Inventory	4,419	53,170
(Increase)/Decrease in Prepaid Remarketing Fees and Bond Issuance Costs	62,150	(273,642)
Increase/(Decrease) in Matured Bonds Payable	397,227	(3,757,707)
Increase/(Decrease) in Accrued Interest Payable – Bonds	(6,599,000)	(6,950,000)
Increase/(Decrease) in Obligations Under Securities Lending	(1,138,643)	17,560,400
Increase/(Decrease) in Arbitrage Payable	103,987	47,062
Increase/(Decrease) in Accounts Payable	486,858	(1,856,441)
Increase/(Decrease) in LCLI Premium Payable	(142,225)	(186,595)
Increase/(Decrease) in Compensated Absences Payable	4,058	3,887
Increase/(Decrease) in Deposit Liabilities	85,844	129,433
Total Adjustments	$ 290,538,844	$ 312,836,303
Net Cash and Cash Equivalents Provided in Operating Activities	$ 290,693,003	$ 323,410,932

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

	Enterprise Fund	
	June 30, 1999	June 30, 1998
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	$ –	$ 40,000,000
Principal Payments on Bonds	(575,365,000)	(397,435,000)
Interest Payments on Bonds	(117,610,952)	(153,960,352)
Operating Transfers In	9,960	28,218
Investment Expense from Securities Lending	(1,607,836)	(1,593,386)
Payment of Letter of Credit and Remarketing Fees	(857,638)	(1,250,425)
Bond Call Premium	(7,400,000)	(3,870,466)
Net Cash and Cash Equivalents Used in Noncapital Financing Activities	$ (702,831,466)	$ (518,081,411)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	$ (220,742)	$ (1,167,966)
Proceeds from Sale of Fixed Assets	1,822	3,296
Contributions Restricted For Capital Purposes	111,240	–
Gain from Litigation Settlement	654,385	1,337,151
Net Cash and Cash Equivalents Provided by Capital and Related Financing Activities	$ 546,705	$ 172,481
Cash Flows from Investing Activities:		
Purchases of Investments	$ (116,245,854)	$ (90,509,577)
Proceeds from Sales or Maturities of Investments	461,911,674	281,937,132
Interest on Investments and Cash Balances	47,232,100	72,820,895
Investment Income from Securities Lending	1,607,836	1,593,386
Net Cash and Cash Equivalents Provided by Investing Activities	$ 394,505,756	$ 265,841,836
Net Increase/(Decrease) in Cash and Cash Equivalents	$ (17,086,002)	$ 71,343,838
Cash and Cash Equivalents at Beginning of Year	$ 466,515,365	$ 395,171,527
Cash and Cash Equivalents at End of Year	$ 449,429,363	$ 466,515,365

Reconciliation to Balance Sheet:

Cash and Cash Equivalents	$ 414,816,153	$ 430,763,512
Cash and Cash Equivalents – Securities Lending Collateral	34,613,210	35,751,853
Cash and Cash Equivalents at End of Year	$ 449,429,363	$ 466,515,365

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State of Oregon
DEPARTMENT OF VETERANS' AFFAIRS
Notes to the Financial Statements
June 30, 1999

(1)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Department of Veterans' Affairs (Department) is a department of the State of Oregon. 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 war 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.

The Department was created in 1945 to help veterans in obtaining benefits under federal, state, and local programs and to undertake the Veterans' Loan Program to provide home and farm loans to veterans at favorable interest rates. The Veterans' Loan Program is operated through earnings of the program itself, which is financed through the sale of tax-exempt general obligation bonds. These bonds are then retired through regular principal and interest payments from borrowers and earnings from invested funds.

The Department also acts as conservator of estates for approximately 290 veterans, survivors, and minor or helpless children of veterans who the court has determined are unable to manage their own financial affairs.

The Oregon Veterans' Home 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.

MEASUREMENT FOCUS OF ACCOUNTING

The accompanying financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). 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. The Department complies with the State of Oregon guidelines in applying GAAP following GASB Statement No. 20.

The accounts of the Department are organized on the basis of funds and account groups. 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 within the Enterprise Fund. The Enterprise Fund is 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 Conservatorship Program and donations for the Veterans' Home Program are accounted for within the Expendable Trust Fund. A trust fund is established to account for assets received and held by an agency acting in the capacity of trustee or custodian. The Expendable Trust Fund is presented using the modified accrual basis of accounting and the flow of current financial resources measurement focus. Under this method, revenues and other sources of financial resources as well as related current assets are recognized when they become measurable and available. Expenditures and other uses of financial resources are recognized when the liabilities are incurred. Veterans' benefits and donations, which are the primary revenue sources, are susceptible to accrual.

The Veterans' Services Division is accounted for within the General Fund. It is presented using the modified accrual basis of accounting and the flow of current financial resources measurement focus. Revenues and expenditures are recognized in essentially the same manner as the Expendable Trust Fund described above.

The General long-term Debt Account Group consists of a long-term liability for compensated absences payable. The liability was incurred by the Veterans' Services Division and is an obligation of the General Fund.

BUDGETARY PROCESS

The Department's budget for all funds is approved biennially by the Oregon Legislature. Any increase in the budget that may be necessary during the interim is approved by the Emergency Board of the Legislature. Appropriations are financed from general governmental revenues of the State General Fund. Limitations, which represent an authority to spend as approved by the Executive and the Legislative branches, are financed from general governmental revenues or revenues of self-supporting activities. Appropriations and limitations are treated identically for budgetary and accounting purposes. Both lapse at the end of the biennium.

The appropriated budget is prepared by fund, function and department. Within the Department, the Director may make transfers of appropriations without legislative approval. The legal level of budgetary control is at the department level.

The budgetary basis of accounting is materially consistent with the GAAP basis of accounting, except for transactions related to long-term receivables and payables, debt service, and the acquisition and depreciation of fixed assets. For budgetary purposes, these transactions may or may not be treated as revenues and expenditures. Encumbrance accounting is allowed during the biennium. Encumbrances are not allowed at the end of a biennium, however, except those related to capital construction, capital improvement, continuing contracts, and contested claims, which are continuously appropriated.

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), and cash deposits held by the state's fiscal agent for payment of matured bonds and coupons. 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. 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 balance sheet as Cash and Cash Equivalents – Securities Lending Collateral.

INVESTMENTS AND INVESTMENT INCOME

The Department's investments are stated at fair value. Quoted market values were used to value investments with the following exceptions: nonparticipating interest-earning investment contracts and certain conservatorship investments. Nonparticipating interest-earning investment contracts are exempt from fair value reporting and are shown on the financial statements at amortized cost. Conservatorship investments include U.S. Savings bonds which were valued at current redemption values as a substitute for quoted market value. In addition, equity securities in privately held entities were valued at estimated market value.

Investment Income includes changes in the fair value of investments and is recognized as a revenue in the operating statement or statement of changes in fund balance. Realized gains based on the net increase in fair value of investments are included as a component of Investment Income.

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 net realizable value. Cost is defined as the outstanding principal balance of the mortgage loan or contract on the date of foreclosure. Professional appraisers estimate fair market value. The lower of cost or fair market value is adjusted, if necessary, for estimated selling expenses to arrive at the net realizable value shown on the financial statements.

CONSERVATORSHIP ASSETS

Conservatorship personal property with an estimated value less than $1,000 is presented at a nominal value of one dollar to maintain accountability. Conservatorship real property is shown at cost. Cost is defined as the original cost of the real property to the protected person or the tax assessed value of the real property at the time the Department became conservator.

FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded at cost. Depreciation is calculated using the straight-line method. Furniture and equipment are depreciated over a period of five years. The Veterans' Building and the Oregon Veterans' Home are depreciated over their useful life (50 years and 40 years, respectively). 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.

SUPPLIES INVENTORIES

Supplies inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. Supplies inventories include prepaid postage on hand at year end. In both governmental and proprietary fund types, inventories are recorded as expenditures when used (consumption method).

COMPENSATED ABSENCES PAYABLE

Employees accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 250 hours per classified employee. Accumulated vacation leave that is expected to be paid with expendable available financial resources, generally within 90 days, is reported as an expenditure and a fund liability of the governmental fund type that will pay for it. Accumulated vacation leave of proprietary fund types is recorded as an expense and a liability of those funds as the benefits accrue to the employees.

ARBITRAGE REBATE LIABILITY

The Department discloses a liability to the federal government for excess earnings on tax-exempt bonds. The liability is long-term in nature with payments due to the federal government every five years. The Department treats excess earnings which are rebatable to the federal government as a reduction of revenue.

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. Underwriter's discounts are among miscellaneous bond expenses and are amortized over the life of the bond issue. Included in bond expenses are fees related to Series 73 variable-rate bonds, amortization of prepaid remarketing fees from fixed-rate conversions, expenses of the matured bond and coupon account with the State's Fiscal Agent, and bond attorney fees.

Expenses of Series 73 variable rate bonds include Standby Bond Purchase Agreement commitment fees and remarketing agent fees (See Note 7). These fees are payable quarterly in arrears.

TOTAL COLUMN

The Total column on the Combined Balance Sheet is captioned "memorandum only" to indicate that they are presented only for use in financial analysis. Data in this column do not present financial position in conformity with generally accepted accounting principles.

Furthermore, this information is not comparable to a consolidation of funds, as interfund balances have not been eliminated.

(2)
DEPOSITS AND INVESTMENTS

DEPOSITS

At June 30, 1999 the book balance of Cash and Cash Equivalents was $434,902,611. This is shown in the balance sheet as $414,816,153 in Enterprise funds and $20,086,458 in Expendable Trust funds. The bank balance of cash was $434,428,700, of which $413,905,971 was for Enterprise funds and $20,522,729 in Expendable Trust funds. These amounts were on deposit with the State Treasurer and the State's Fiscal Agent (Bank of New York) on June 30, 1999. According to the Governmental Accounting Standards Board, deposits are classified in three categories of credit risk assumed by the Department:

- Category 1 includes deposits that are insured or collateralized with securities held by the Department or its agent in the Department's name.
- Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Department's name.
- Category 3 includes deposits which are uncollateralized. This category may include any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Department's name.

Deposit balances as of June 30, 1999 consisted of the following:

	Category			Bank	Carrying
Form of Deposit	1	2	3	Balance	Amount
Enterprise Funds:					
Oregon Short-Term fund	$ 400,371,790	$ –	$ –	$ 399,461,608	$ 400,371,790
Cash with Fiscal Agent	14,444,363	–	–	14,444,363	14,444,363
Subtotal	$ 414,816,153	$ –	$ –	$ 413,905,971	$ 414,816,153
Expendable Trust Funds:					
Oregon Short-Term fund	20,086,458	–	–	20,522,729	20,086,458
Total Deposits	$ 434,902,611	$ –	$ –	$ 434,428,700	$ 434,902,611

The State Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Combined Balance Sheet as Cash and Cash Equivalents. Deposits in the State Treasury's OSTF are insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with state statute. All funds over FDIC coverage of $100,000 are included in the statewide collateral pool, a multiple financial institution collateral pool which protects public deposits pursuant to Oregon Revised Statutes (ORS) 295.015.

Securities in the OSTF are held by the State Treasurer's agent in the name of the State of Oregon. They consist of 48 percent in U.S. government securities; 35 percent in short-term commercial paper; and the remainder in bankers acceptances, time certificates of deposit, and repurchase agreements.

The funds held by the state's Fiscal Agent are restricted for payment of matured bonds and interest payable. These funds are deposited at the Bank of New York and are backed by the full faith and credit of the Bank of New York. Further, these funds, while not collateralized, are insured up to $100,000 per bondholder as specified by FDIC regulations. On June 30, 1999, the state's Fiscal Agent was holding $14,444,363 for redemption of Oregon War Veterans' bonds and coupons that have matured, but have not yet been redeemed. On June 30, 1998, the matured bonds payable balance was $14,047,136.

At June 30, 1998 the Department had a book balance of Cash and Cash Equivalents of $449,337,336, which was composed of $430,763,512 in Enterprise funds and $18,573,824 in Expendable Trust funds. The bank balance of cash as of June 30, 1998 was $447,735,877, composed of $429,015,487 in Enterprise funds and $18,720,390 in Expendable Trust funds.

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. The State Treasurer may invest in any instrument which persons of prudence, discretion, and intelligence would invest in for their own account. The State Treasurer is prohibited from investing in common stock pursuant to ORS 293.736. As of June 30, 1999, the State Treasurer invested the Department's funds primarily in U.S. government securities, international securities, and corporate bonds.

A portion of the proceeds of Bond Series 75, Series 76, and Series 77 was invested in specified accounts called Guaranteed Investment Contracts. The State Treasurer named a securities custodian to oversee these deposits, which are held in institutions (providers) outside of the State Treasury. The Guaranteed Investment Contracts feature fixed rates of return over the length of the contracts. The accounts require collateralization by the providers as specified by the state and contain default provisions in the event that the debt rating of a provider falls below a specified level. Guaranteed Investment Contracts are investments evidenced by contracts, rather than by securities, and are uncategorized with regard to credit risk.

Investments in Expendable Trust funds include holdings of protected persons whose funds are managed by the Department under the conservatorship laws of the state. Those investments are, in effect, held in the Department's name. These items are presented in the schedule below as "Other Investments."

There are three categories of credit risk that apply to investments:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the Department or its agent in the Department's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Department's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Department's name.

The schedule below presents the credit risk and carrying amount (fair value) as of June 30, 1999. The Department's portion of securities lending balances in the OSTF is unclassified with regard to risk and is included in the investment schedule below.

	Category 1	Category 2	Category 3	Carrying Amount
Investments				
Investments held by State Treasurer				
U.S. Government and agency securities	$ 162,649,577	$ –	$ –	$ 162,649,577
International Bonds	43,531,175	–	–	43,531,175
Corporate Bonds	90,279,600	–	–	90,279,600
Total Investments held by State Treasurer	$ 296,460,352	$ –	$ –	$ 296,460,352
Other Investments				
U.S. Savings Bonds	$ 1,729,831	$ –	$ –	$ 1,729,831
Stocks and other equity	148,327	–	–	148,327
Total Other Investments	$ 1,878,158	$ –	$ –	$ 1,878,158
Subtotal	$ 298,338,510	$	$	$ 298,338,510
Investments – Not Categorized				
Guaranteed Investment Contracts				$ 43,546,155
Investments held by broker-dealers under securities loans with cash collateral:				
U.S. Government and agency securities				$ 35,222,435
Securities Lending Short-Term collateral				
Investment Pool (Oregon Short-Term Fund only):				$ 36,402,814
Less:				
Securities Lending Amounts				$ (71,625,249)
Total Investments				$ 341,884,665

At June 30, 1998, the Department had investments with a carrying value of $693,760,195, composed of $691,857,238 in Enterprise funds and $1,902,957 in Expendable Trust funds.

RESTRICTED ASSETS

Included in Cash and Cash Equivalents and Investments are amounts recorded in the Department's Debt Service Reserve Account. Funds in the Debt Service Reserve Account are restricted for retirement of future bond principal and interest. The Debt Service Reserve Account was established to provide a reserve that is to be maintained at a level equal to the maximum annual debt service of the program. As of June 30, 1999, the Debt Service Reserve Account has a balance of $252,969,998, which includes $41,964,180 in cash and $211,005,818 in net investments (fair value). The Debt Service Account as of June 30, 1999 exceeded the maximum yearly requirement by $4.21 million due to the fair value market valuation, which occurred at year end. The balance of the Debt Service Reserve Account at June 30, 1998 was $338,853,911, which included $5,860,825 in cash and $332,993,086 in net investments (fair value). The Debt Service Reserve Account as of June 30, 1998, exceeded the maximum yearly requirement by $9.41 million as a result of the fair value market valuation at year end.

SECURITIES LENDING

In accordance with state investment policies, state agencies may participate in securities lending and the state has, through a Securities Lending Authorization Agreement, authorized its custodian to lend the state’s securities pursuant to a form of loan agreement. There have been no significant violations of the agreement during the period of these financial statements.

During the year, the state’s custodian lent fixed income securities and received as collateral United States cash or securities issued or guaranteed by the United States government. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default and the state did not impose any restrictions during the year on the amount of the loans the custodian made on its behalf. The state, through its Securities Lending Agreement, is fully indemnified against borrower default. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

Because the loans were terminable at will their maturities did not generally match the maturities of the investments made with cash collateral. On June 30, 1999 the state had no credit risk exposure to borrowers. On June 30, 1999, the Department had no securities on loan.

The Department’s cash balances are invested in the OSTF, as is the cash of other state agencies. As of June 30, 1999, the fair value of the securities on loan from the OSTF and the fair value of securities purchased with the cash collateral was $514,834,680 and $532,087,901, respectively. The Department’s allocated portion of the securities on loan and the related collateral is presented in the schedule of investments shown above.

INVESTMENT INCOME

Investment income for the fiscal year ended June 30, 1999 included the change in fair value of investments.

The following table details the components of Investment Income for the year ended June 30, 1999 and June 30, 1998:

		June 30, 1999		June 30, 1998
Enterprise funds:				
Investment income: Cash and Accrual basis	$	50,855,945	$	67,070,749
Securities lending revenue		1,607,836		1,593,386
Increase/(Decrease) in fair value of investments		(3,623,845)		11,568,659
Investment income	$	48,839,936	$	80,232,794
Expendable trust funds:				
Investment income: Cash and Accrual basis	$	1,011,021	$	1,068,379
Securities lending revenue		81,549		84,176
Increase/(Decrease) in fair value of investments		(9,056)		(223,263)
Investment income	$	1,083,514	$	929,292

(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 new 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 as of June 30, 1999 is approximately $864 million. All mortgaged property is located within Oregon. The Department is exposed to a statewide concentration of credit risk in the amount of approximately $864 million.

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 which may affect the ultimate collectibility of the mortgage loans and contracts. In 1999 the Department determined the balance of the allowance account to be in excess of projected losses for the remaining loan and contract portfolio. Accordingly, the account balance was reduced as of June 30, 1999 from $17 million to $14 million, or approximately 1½ percent of gross loans and contracts receivable.

The Department recognizes the net amount of certain nonrefundable loan fees and costs associated with its lending activities over the life of the loan. The unamortized balance of these net loan fees and costs are included on the balance sheet as part of the net mortgage loan and contract balances.

The following table details the mortgage loans and contracts receivable, unamortized loan fees and costs, and allowance accounts as disclosed on the balance sheets for June 30, 1999 and June 30, 1998.

		June 30, 1999		**June 30, 1998**
Loans Receivable	$	800,353,980	$	987,304,672
Contracts Receivable		77,353,381		107,054,200
Total Loans and Contracts Receivable	$	877,707,361	$	1,094,358,872
Less: Unamortized Loan Fees/Costs		380,436		745,204
Less: Allowance for Principal Losses		13,603,000		16,962,647
Net Loans and Contracts Receivable	$	863,723,925	$	1,076,651,021

Included in mortgage loans receivable are loans that will not amortize at their current monthly payment amounts. These loans became nonamortizing 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, 1999, there were approximately 500 nonamortizing accounts with an aggregate principal balance of approximately $50,000,000. This represents 5.8 percent of the total net loans and contracts receivable.

(4)
FIXED ASSETS AND CONSTRUCTION IN PROCESS

Furniture and equipment assets costing $5,000 or more are capitalized and then depreciated over a useful life of five years. Building-related assets are capitalized and then depreciated over the remaining estimated life of the building.

The table below details the composition of the Department's net fixed assets (Proprietary fund Type) as of June 30, 1999 and June 30, 1998:

		June 30, 1999		June 30, 1998
Veterans' Loan Program				
Building	$	7,232,201	$	7,232,201
Less: Accumulated Depreciation		2,186,023		2,041,156
Carrying Value, Building	$	5,046,178	$	5,191,045
Furniture and Equipment	$	3,610,667	$	3,429,746
Less: Accumulated Depreciation		2,959,434		2,826,373
Carrying Value, Furniture and Equipment	$	651,233	$	603,373
Net Fixed Assets, Loan Program	$	5,697,411	$	5,794,418
Veterans' Home Program				
Building	$	12,369,112	$	12,369,112
Less: Accumulated Depreciation		510,020		200,653
Carrying Value, Building	$	11,859,092	$	12,168,459
Furniture and Equipment	$	98,507	$	98,507
Less: Accumulated Depreciation		26,897		7,195
Carrying Value, Furniture and Equipment	$	71,610	$	91,312
Land	$	89,500	$	89,500
Net Fixed Assets, Home Program	$	12,020,202	$	12,349,271
Total Net Fixed Assets	$	17,717,613	$	18,143,689

(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. 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 reserve fund consisting of amounts generated by the group policy and interest earned on the fund balance. The money is 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. Annual accounting of premiums, claims, administrative costs, and interest earnings are provided by the insurance carrier for the fund once a year, at August 31. The balance of the fund as of August 31, 1999 and August 31, 1998 was approximately $43 million and $38 million, respectively.

(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, 1998 and June 30, 1999:

Bonds Payable (Par) as of June 30, 1997	$	2,443,195,000
Bonds Issued		40,000,000
Bonds Retired		(397,435,000)
Bonds Payable (Par) as of June 30, 1998	$	2,085,760,000
Bonds Issued		–
Bonds Retired		(575,365,000)
Bonds Payable (Par) as of June 30, 1999	$	1,510,395,000

Shown below are the components of net bonds payable as disclosed on the balance sheet for June 30, 1999:

		Short Term		Long Term		Total
Bonds Payable (Par)	$	142,095,000	$	1,368,300,000	$	1,510,395,000
Premium on Bonds Sold		362,784		1,269,201		1,631,985
Discount on Bonds Sold		(53,960)		(962,284)		(1,016,244)
Net Bonds Payable	$	142,403,824	$	1,368,606,917	$	1,511,010,741

The following schedule summarizes future debt service requirements to maturity as of June 30, 1999:

Fiscal Year	Principal	Interest*	Total
2000	$ 142,095,000	$ 106,663,178	$ 248,758,178
2001	122,495,000	96,200,453	218,695,453
2002	122,620,000	86,594,669	209,214,669
2003	112,750,000	77,015,090	189,765,090
2004	102,880,000	68,978,949	171,858,949
2005	103,025,000	61,271,126	164,296,126
2006	83,160,000	53,386,110	136,546,110
2007	83,340,000	46,480,415	129,820,415
2008	83,520,000	39,567,096	123,087,096
2009	63,660,000	32,673,031	96,333,031
2010	13,765,000	28,902,250	42,667,250
2011	3,665,000	28,303,511	31,968,511
2012	3,860,000	28,099,976	31,959,976
2013	4,085,000	27,879,948	31,964,948
2014	4,330,000	27,646,340	31,976,340
2015	4,590,000	27,396,824	31,986,824
2016	4,855,000	27,131,746	31,986,746
2017	97,655,000	26,850,507	124,505,507
2018	97,955,000	23,776,955	121,731,955
2019	98,250,000	17,908,947	116,158,947
2020	98,535,000	12,021,351	110,556,351
2021	6,405,000	6,113,854	12,518,854
2022	6,790,000	2,959,663	9,749,663
2023	7,205,000	2,557,196	9,762,196
2024	7,520,000	2,131,771	9,651,771
2025	7,640,000	1,689,115	9,329,115
2026	7,045,000	1,253,298	8,298,298
2027	6,530,000	841,995	7,371,995
2028	5,015,000	498,941	5,513,941
2029	3,870,000	209,149	4,079,149
2030	1,285,000	34,053	1,319,053
	$ 1,510,395,000	$ 963,037,507	$ 2,473,432,507

* $370,000,000 of the Series 73E, F, G, and H Variable Rate Bonds are included at an assumed interest rate of 6.0 percent. For each change of 1 percent in Series 73 interest rates, annual interest requirements would change by approximately $3,700,000.

Shown below are the outstanding bond issues and their final maturities (in fiscal years) as of June 30, 1999:

Series	Dated	Issued	Outstanding	Final Maturity
LIX (59)	August 1, 1979	$ 200,000,000	$ 100,000,000	2004
LX (60)	November 1, 1979	200,000,000	120,000,000	2005
LXI (61)	January 1, 1980	300,000,000	200,000,000	2009
LXII (62)	April 1, 1980	300,000,000	200,000,000	2009
LXIII (63)	July 1, 1980	300,000,000	190,000,000	2009
LXIV (64)	October 1, 1980	300,000,000	120,000,000	2010
LXVI (66)	June 1, 1981	240,000,000	70,000,000	2003
73	December 1, 1985	740,000,000	370,000,000	2020
75	October 1, 1995	70,000,000	60,665,000	2027
76A	April 1, 1997	40,000,000	39,730,000	2028
77	April 1, 1998	40,000,000	40,000,000	2030
Total Bonds Outstanding as of June 30, 1999:			$ 1,510,395,000	

(7)
DEMAND BONDS

Included in long-term debt as of June 30, 1999 is $370,000,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G & H. The bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. These bonds may be tendered by the bondholder on specified dates at a price equal to principal plus accrued interest.

The Department's Remarketing Agents (J.P. Morgan & Co. and Prudential Securities Incorporated) are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis. The interest rate borne by each series of bonds will be determined by the designated Remarketing Agent for such bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement (SBPA). Under the SBPA, Morgan Guaranty Trust Company will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA; therefore, no tender advances or draws are outstanding as of June 30, 1999. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher). If the tender advance is in default, interest would accrue at the bank's base rate plus 1 percent.

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 SBPA, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days' of accrued interest calculated at a rate of 14 percent per annum, 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 SBPA. The Department is required to pay a yearly commitment fee which is payable quarterly in arrears, at a rate of .08 percent per annum, applied to purchase commitment defined above.

The present purchase commitments by the banks will remain in effect from June 30, 1999 to the earlier of (a) June 28, 2000 (scheduled expiration date), unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate or a fixed (or term) rate; (c) the date on which no bonds of a given series are outstanding; or (d) the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA.

(8)
FUND EQUITY

DEFICIT RETAINED EARNINGS

The Enterprise fund – Veterans' Home Program had deficit unreserved retained earnings as of June 30, 1999. The deficit is $1,114,627 and resulted primarily from start-up expenses incurred to equip and begin operation of the Oregon Veterans' Home. The deficit for the fiscal year ended June 30, 1998 was $1,248,443.

CONTRIBUTED CAPITAL

Contributed capital represents contributions and federal grant monies restricted to capital acquisition and construction of the Oregon Veterans' Home in Wasco County.

The table below summarizes changes to the Department's contributed capital account for its proprietary fund type for the fiscal years ended June 30, 1999 and June 30, 1998:

Balance, June 30, 1997	$	12,314,393
Other grants		15,000
Federal grant		1,322,151
Less: Depreciation		(207,848)
Balance, June 30, 1998	$	13,443,696
Federal grant		111,240
Less: Depreciation		(329,069)
Balance, June 30, 1999	$	13,225,867

(9)
INTERFUND TRANSACTIONS

The following schedule summarizes interfund receivables and payables for the years ended June 30, 1999 and June 30, 1998:

Description	Receivables	Payables	June 30, 1999	June 30, 1998
Conservatorship fees	Veterans' Loan Program		$ 27,451	$ 26,627
Conservatorship fees	General Fund		768	—
Conservatorship fees		Conservatorship Trust Fund	$ 28,219	$ 26,627

The Veterans' Loan Program loaned monies to the Veterans' Home Program for operating expenses of the Oregon Veterans' Home. As of June 30, 1999 the advance from the Veterans' Loan Program was $734,000. As of June 30, 1998, the advance was $200,000.

(10)
BUDGETARY COMPLIANCE

A comparison of General Fund expenditures to budget authorization is presented in the Schedule of Legislative Authorization (Non-GAAP Budgetary Basis) Compared to Actual Expenditures Subject to Budget for the biennium ended June 30, 1999 (Schedule 6).

The following table reconciles General Fund budgetary expenditures with operating expenditures. Other adjustments include an adjustment to prepaid postage (supplies) and prior biennium transactions included in operating expenditures.

	Fiscal Year Ending 6/30/99	Fiscal Year Ending 6/30/98
Total Budgetary Expenditures	$ 1,176,157	$ 1,191,238
Changes (Nonbudgeted Expenditures):		
Change in Compensated Absences	6,514	(9,533)
Other adjustments	–	(384)
Total Operating Expenditures	$ 1,182,671	$ 1,181,321

In January 1998, the Emergency Board of the Legislature approved appropriation and limitation changes resulting from a compensation plan. All state agencies were affected. The changes increased the Department’s general fund appropriation by $45,004. The Department’s other fund limitation also increased by $1,206,018. The other fund category includes Veterans’ Loan Program, Veterans’ Home Program, and partial funding of Veterans’ Services Division.

(11)
DEFINED BENEFIT RETIREMENT PLAN

The Department's employees participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. All Department employees are eligible to participate in the system after completing six months of service. PERS is administered by the Public Employees Retirement Board under the guidelines of ORS Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from 12 retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits also may be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits, which are established by state statutes. A copy of the PERS annual financial report may be obtained from PERS, P.O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by state statute to contribute 6.0 percent of their salaries to the plan. Current law permits employers to pay employee contributions to the Retirement Fund. 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. Currently, the rate is 8.692 percent of each covered employee's salary. The payroll for Department employees covered by the PERS for the years ended June 30, 1999, June 30, 1998, and June 30, 1997 was $5,515,864, $5,595,801, and $5,663,654, respectively. The employer contributions to PERS for the years ended June 30, 1999, 1998, and 1997 were approximately $479 thousand, $486 thousand, and $508 thousand, respectively, and were equal to the required contributions for those years. No pension liability existed as of June 30, 1998, determined in accordance with GASB Statement No. 27.

(12)
SEGMENT INFORMATION

The Department maintains two enterprise funds. The Veterans' Loan Program provides home and farm loans to veterans at favorable interest rates. The Veterans' Home Program provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans. Selected segment information for the year ended June 30, 1999 is as follows:

SEGMENT INFORMATION		**Veterans' Loan Program**		**Veterans' Home Program**
Operating revenues	$	127,144,533	$	3,520,795
Depreciation		317,751		329,069
Net income before operating transfers		359,372		(205,213)
Operating transfers		–-		9,960
Net income or (loss)		(11,257,676)		(195,253)
Capital contributions		–		111,240
Fixed asset additions		220,742		–-
Net working capital		576,258,040		579,360
Total assets		1,672,106,839		13,139,250
Bonds payable		1,511,010,741		–-
Total fund equity		78,605,845		12,111,240

(13)
EXTRAORDINARY ITEMS

GAIN FROM LITITGATION SETTLEMENT

In October 1994, the Department, through the State Attorney General's office, filed a lawsuit against a computer vendor for alleged failure to meet its contractual obligations. In July 1999, the Department, through the State Attorney General's office, received $654,385 as a result of an agreed-upon settlement with that vendor.

LOSSES FROM EARLY EXTINGUISHMENT OF DEBT

During the period from July 1, 1998 through June 30, 1999, the Department called (redeemed early) a total of $393,900,000 of its Series 64, 73, and 75. As a result of these early bond redemptions, the Department recognized a net loss of approximately $12.3 million due to bond call premium and accelerated amortization of issue premium and discount.

During the period from July 1, 1997 through June 30, 1998, the Department called (redeemed early) a total of $124,800,000 of its Series 64 , Series 69, and Series 75 general obligation bonds. A net loss of approximately $3.9 million was recognized as a result of these early bond redemptions due to bond call premium and accelerated amortization of issue premium and discount.

(14)
RISK FINANCING

The State of Oregon administers property and casualty insurance programs covering state government through its Insurance Fund. The Insurance Fund services claims for direct physical loss or damage to state property; tort liability claims brought against the state, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for honesty and faithful performance.

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 of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.

(15)
SUBSEQUENT EVENTS

October 1, 1999 Bond Call – Series 64,75 & 76

On October 1, 1999, the Department called $10,000,000 of its Series 64 general obligation bonds, $5,865,000 of its Series 75 general obligation bonds, and $2,375,000 of its Series 76 general obligation bonds. No call premium was required to be paid for this early redemption.

Required Supplementary Information

(UNAUDITED)
YEAR 2000 READINESS DISCLOSURE

This statement is a Year 2000 Readiness Disclosure for the purpose of the Year 2000 Information Readiness and Disclosure Act, Public Law 105-271, 112 Stat. 238.

The Department makes extensive use of computer systems. Some of its older systems must be modified if they are to operate properly after December 31, 1999. (The year 2000 could be problematic for older computer systems that identify the current year with two digits rather than four; such systems could mistake the year 2000 for the year 1900.)

The Department has identified six information systems that are critical to conducting the Department's business. There are several stages involved in making these information systems ready for the year 2000. These stages are:

- Awareness stage – Establishing a budget and project plan for dealing with the year 2000 issue.
- Assessment stage – Identifying the information systems and their components and checking them for readiness.
- Remediation stage – Making changes to achieve year 2000 readiness. This can involve purchasing new equipment or rewriting computer code.
- Validation/testing stage – Determining that the conversion of existing systems was successful.

The status of the Department's six mission-critical systems is as follows: three are in the Validation/testing stage, two are in the Remediation stage, and one is in the Assessment stage.

Because of the unprecedented nature of the year 2000 issue, its effect and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. The Department cannot assure that it is or will be year 2000 ready, that the Department's remediation efforts will be completely successful, or that parties with whom the Department does business will be year 2000 ready.

Enterprise Funds

Enterprise Funds account for goods and services that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily from user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

Veterans' Loan Program

The Veterans' Loan Program was authorized by a constitutional amendment approved by the voters in 1944. This program quickly became, and remains today, the largest program administered by the Department, with the purpose of providing funds to finance owner-occupied, single-family residential housing for qualified eligible veterans of the State of Oregon.

The program's first loan was made in 1945. Since that time, over 300 thousand loans have been granted, primarily to eligible veterans who served during World War II, the Korean War, and the Vietnam War, with a total original principal amount exceeding $7.2 billion.

The primary revenues for the Veterans' Loan Program consist of interest income from the mortgage portfolio and investment income from program investments. Funds for lending are provided through the issuance of State of Oregon, General Obligation, Veterans' Welfare Bonds, which currently represent over 60% of the outstanding general obligation debt of the State of Oregon.

Veterans' Home Program

The purpose of the Oregon Veterans' Home (OVH) is to provide a home for Oregon veterans who have honorably served the nation and are now in need of skilled nursing and Alzheimer's disease care. OVH programs include around-the-clock nursing care; occupational, speech and physical therapy; dietary services; and social and other support services to residents. The Department owns the OVH and it is privately managed by one of the nation's leading long-term care providers with experience in operating veteran nursing centers in several states. The OVH, which opened in November 1997, has the capacity to serve 151 veterans.

State of Oregon
Department of Veterans' Affairs
Combining Balance Sheet
Proprietary Fund Type
June 30, 1999 and June 30, 1998

	Enterprise Fund Veterans' Loan Program		Enterprise Fund Veterans' Home Program	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
ASSETS				
Cash and Cash Equivalents	$ 413,978,031	$ 430,484,659	$ 838,122	$ 278,853
Cash and Cash Equivalents – Securities Lending Collateral	34,606,571	35,742,718	6,639	9,135
Investments (Net)	340,006,507	691,857,238	–	–
Receivables:				
Mortgage Loans and Contracts (Net)	863,723,925	1,076,651,021	–	–
Accrued Interest	11,455,137	18,675,516	22,062	2,695
Loan Cancellation Life Insurance Premiums	492,000	584,000	–	–
Other	20,700	7,000	251,400	91,540
Due From Other Funds	27,451	26,627	–	–
Advances to Other Funds	734,000	200,000	–	–
Real Estate Owned	239,819	175,164	–	–
Supplies Inventory	36,486	41,730	825	–
Deferred Underwriter's Discount	1,088,801	4,715,954	–	–
Fixed Assets (Net)	5,697,411	5,794,418	12,020,202	12,349,271
TOTAL ASSETS	$ 1,672,106,839	$ 2,264,956,045	$ 13,139,250	$ 12,731,494
LIABILITIES & FUND EQUITY				
Liabilities:				
Current Liabilities:				
Bonds Payable – Maturing Within One Year (Net)	$ 142,403,824	$ 181,776,601	$ –	$ –
Matured Bonds Payable	14,444,363	14,047,136	–	–
Accrued Interest on Bonds	29,576,000	36,175,000	–	–
Obligations under Securities Lending	34,606,571	35,742,718	6,639	9,135
Accounts Payable	781,945	786,198	277,340	320,229
Loan Cancellation Life Insurance Premium	986,521	1,128,746	–	–
Compensated Absences Payable	126,062	125,510	2,182	1,719
Deposit Liabilities	1,439,557	1,355,015	1,302	–
Long–Term Liabilities:				
Bonds Payable – Maturing After One Year (Net)	1,368,606,917	1,903,532,007	–	–
Arbitrage Rebate Payable	151,049	47,062	–	–
Compensated Absences Payable	378,185	376,531	6,547	5,158
Advances from Other Funds	–	–	734,000	200,000
TOTAL LIABILITIES	$ 1,593,500,994	$ 2,175,092,524	$ 1,028,010	$ 536,241
Fund Equity:				
Contributed Capital	$ –	$ –	$ 13,225,867	$ 13,443,696
Retained Earnings–Unreserved	78,605,845	89,863,521	(1,114,627)	(1,248,443)
TOTAL FUND EQUITY	$ 78,605,845	$ 89,863,521	$ 12,111,240	$ 12,195,253
TOTAL LIABILITIES AND FUND EQUITY	$ 1,672,106,839	$ 2,264,956,045	$ 13,139,250	$ 12,731,494

	Total Enterprise Funds	
	June 30, 1999	June 30, 1998
	$ 414,816,153	$ 430,763,512
	34,613,210	35,751,853
	340,006,507	691,857,238
	863,723,925	1,076,651,021
	11,477,199	18,678,211
	492,000	584,000
	272,100	98,540
	27,451	26,627
	734,000	200,000
	239,819	175,164
	37,311	41,730
	1,088,801	4,715,954
	17,717,613	18,143,689
	$ 1,685,246,089	$ 2,277,687,539
	$ 142,403,824	$ 181,776,601
	14,444,363	14,047,136
	29,576,000	36,175,000
	34,613,210	35,751,853
	1,059,285	1,106,427
	986,521	1,128,746
	128,244	127,229
	1,440,859	1,355,015
	1,368,606,917	1,903,532,007
	151,049	47,062
	384,732	381,689
	734,000	200,000
	$ 1,594,529,004	$ 2,175,628,765
	$ 13,225,867	$ 13,443,696
	77,491,218	88,615,078
	$ 90,717,085	$ 102,058,774
	$ 1,685,246,089	$ 2,277,687,539

State of Oregon
Department of Veterans' Affairs
Combining Statement of Revenues, Expenses, and Changes in Fund Equity
Proprietary Fund Type
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

	Enterprise Fund – Veterans' Loan Program	
	June 30, 1999	June 30, 1998
REVENUES		
Interest Income:		
Mortgage Loans	$ 68,967,805	$ 84,739,050
Contracts	7,603,132	10,413,658
Investment Income	48,834,865	80,184,016
Gain on Sale of Foreclosed Property	32,324	106,330
Loan Cancellation Life Insurance Processing Fee	327,540	433,763
Other Fees and Charges	1,055,894	932,092
Conservatorship Fees	322,973	334,784
TOTAL REVENUES	$ 127,144,533	$ 177,143,693
EXPENSES		
Bond Interest	$ 117,276,619	$ 153,677,775
Salaries and Other Payroll Expenses	6,829,801	6,952,431
Bond Expenses	952,673	1,478,508
Securities Lending Investment Expense	1,607,492	1,588,540
Real Estate Owned Expense	49,096	50,806
Services and Supplies	3,055,525	3,473,771
Veterans Home Operations	–	–
Depreciation Expense	317,751	338,820
Bad Debt Expense	(3,346,273)	(2,934,825)
Other Expenses	42,477	53,475
TOTAL EXPENSES	$ 126,785,161	$ 164,679,301
NET INCOME BEFORE OPERATING TRANSFERS	$ 359,372	$ 12,464,392
OPERATING TRANSFERS		
Net Operating Transfers In from Veterans Home Trust Fund	–	–
NET INCOME BEFORE EXTRAORDINARY ITEMS	$ 359,372	$ 12,464,392
Extraordinary Gain on Litigation	$ 654,385	$ –
Extraordinary Loss from Early Extinguishment of Debt	(12,271,433)	(3,870,466)
NET INCOME/(LOSS)	$ (11,257,676)	$ 8,593,926
FUND EQUITY		
Beginning Retained Earnings–Unreserved	$ 89,863,521	$ 78,681,347
Cumulative Effect of Change in Accounting Principle	–	2,588,248
Beginning Retained Earnings, as restated	$ 89,863,521	$ 81,269,595
Net Income / (Loss)	$ (11,257,676)	$ 8,593,926
Add: Depreciation Charged to Contributions	–	–
Increase/(Decrease) in Retained Earnings	$ (11,257,676)	$ 8,593,926
Ending Retained Earnings–Unreserved	$ 78,605,845	$ 89,863,521
Beginning Contributed Capital	$ –	$ –
Changes in Contributed Capital	–	–
Ending Contributed Capital	$ –	$ –
Total Fund Equity	$ 78,605,845	$ 89,863,521

Enterprise Fund – Veterans' Home Program		Total Enterprise Funds	
June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
$ –	$ –	$ 68,967,805	$ 84,739,050
–	–	7,603,132	10,413,658
5,071	48,778	48,839,936	80,232,794
–	–	32,324	106,330
–	–	327,540	433,763
3,515,724	525,972	4,571,618	1,458,064
–	–	322,973	334,784
$ 3,520,795	$ 574,750	$ 130,665,328	$ 177,718,443
$ –	$ –	$ 117,276,619	$ 153,677,775
144,965	105,910	6,974,766	7,058,341
–	–	952,673	1,478,508
344	4,846	1,607,836	1,593,386
–	–	49,096	50,806
162,834	1,059,288	3,218,359	4,533,059
3,088,796	1,086,621	3,088,796	1,086,621
329,069	207,848	646,820	546,668
–	–	(3,346,273)	(2,934,825)
–	–	42,477	53,475
$ 3,726,008	$ 2,464,513	$ 130,511,169	$ 167,143,814
$ (205,213)	$ (1,889,763)	$ 154,159	$ 10,574,629
9,960	28,218	9,960	28,218
$ (195,253)	$ (1,861,545)	$ 164,119	$ 10,602,847
$ –	$ –	$ 654,385	$ –
–	–	(12,271,433)	(3,870,466)
$ (195,253)	$ (1,861,545)	$ (11,452,929)	$ 6,732,381
$ (1,248,443)	$ 405,254	$ 88,615,078	$ 79,086,601
–	–	–	2,588,248
$ (1,248,443)	$ 405,254	$ 88,615,078	$ 81,674,849
$ (195,253)	$ (1,861,545)	$ (11,452,929)	$ 6,732,381
329,069	207,848	329,069	207,848
$ 133,816	$ (1,653,697)	$ (11,123,860)	$ 6,940,229
$ (1,114,627)	$ (1,248,443)	$ 77,491,218	$ 88,615,078
$ 13,443,696	$ 12,314,393	$ 13,443,696	$ 12,314,393
(217,829)	1,129,303	(217,829)	1,129,303
$ 13,225,867	$ 13,443,696	$ 13,225,867	$ 13,443,696
$ 12,111,240	$ 12,195,253	$ 90,717,085	$ 102,058,774

State of Oregon
Department of Veterans' Affairs
Combining Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

	Enterprise Fund – Veterans' Loan Program	
	June 30, 1999	June 30, 1998
Cash Flows from Operating Activities:		
Operating Income / (Loss)	$ 359,372	$ 12,464,392
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation	317,751	338,820
Amortization of Bond Premium & Discount	(334,333)	1,037,487
Amortization of Underwriters Discount	–	–
Amortization of Investment Premium & Discount	–	–
Amortization of Remarketing Fees	95,034	228,083
Amortization of Loan Origination Fees	364,768	364,768
Amortization of Capitalized Letter of Credit Fees	–	–
Accreted Bond Interest	–	–
Interest Received on Investments Reported as Operating Income	(47,227,373)	(72,399,654)
Interest Payments on Bonds Reported as Operating Expense	117,610,952	153,960,352
Letter of Credit and Remarketing Fees Reported as Operating Expense	857,638	1,250,425
Bad Debt Expense	(3,346,273)	(2,934,825)
(Gain)/Loss on Sale of Investments	–	–
(Gain)/Loss on Sale of Equipment	(1,822)	(3,296)
Change in Fair Value of Investments and related adjustments	6,184,911	(11,393,389)
(Increase)/Decrease in Receivables	(456,524)	(72,579)
(Increase)/Decrease in Loans and Contracts Receivable	215,908,601	231,919,709
(Increase)/Decrease in Accrued Interest Receivable	7,220,379	4,650,239
(Increase)/Decrease in Real Estate Owned	(64,655)	189,194
(Increase)/Decrease in Supplies Inventory	5,244	53,170
(Increase)/Decrease in Prepaid Remarketing Fees and Bond Issuance Costs	62,150	(273,642)
Increase/(Decrease) in Matured Bonds Payable	397,227	(3,757,707)
Increase/(Decrease) in Accrued Interest Payable – Bonds	(6,599,000)	(6,950,000)
Increase/(Decrease) in Obligations Under Securities Lending	(1,136,147)	17,688,462
Increase/(Decrease) in Arbitrage Payable	103,987	47,062
Increase/(Decrease) in Accounts Payable	(4,253)	(679,903)
Increase/(Decrease) in LCLI Premium Payable	(142,225)	(186,595)
Increase/(Decrease) in Compensated Absences Payable	2,206	(2,990)
Increase/(Decrease) in Deposit Liabilities	84,542	142,255
Total Adjustments	$ 289,902,785	$ 313,215,446
Net Cash and Cash Equivalents Provided/(Used) in Operating Activities	$ 290,262,157	$ 325,679,838

Enterprise Fund – Veterans' Home Program		Total Enterprise Funds	
June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
$ (205,213)	$ (1,889,763)	$ 154,159	$ 10,574,629
329,069	207,848	646,820	546,668
–	–	(334,333)	1,037,487
–	–	–	–
–	–	–	–
–	–	95,034	228,083
–	–	364,768	364,768
–	–	–	–
–	–	–	–
(4,727)	(43,932)	(47,232,100)	(72,443,586)
–	–	117,610,952	153,960,352
–	–	857,638	1,250,425
–	–	(3,346,273)	(2,934,825)
–	–	–	–
–	–	(1,822)	(3,296)
		6,184,911	(11,393,389)
(159,860)	758,487	(616,384)	685,908
–	–	215,908,601	231,919,709
(19,367)	8,999	7,201,012	4,659,238
–	–	(64,655)	189,194
(825)	–	4,419	53,170
–	–	62,150	(273,642)
–	–	397,227	(3,757,707)
–	–	(6,599,000)	(6,950,000)
(2,496)	(128,062)	(1,138,643)	17,560,400
–	–	103,987	47,062
491,111	(1,176,538)	486,858	(1,856,441)
–	–	(142,225)	(186,595)
1,852	6,877	4,058	3,887
1,302	(12,822)	85,844	129,433
$ 636,059	$ (379,143)	$ 290,538,844	$ 312,836,303
$ 430,846	$ (2,268,906)	$ 290,693,003	$ 323,410,932

(Continued on next page)

State of Oregon
Department of Veterans' Affairs
Combining Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

(Continued from prior page)

	Enterprise Fund – Veterans' Loan Program	
	June 30, 1999	June 30, 1998
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	$ –	$ 40,000,000
Principal Payments on Bonds	(575,365,000)	(397,435,000)
Interest Payments on Bonds	(117,610,952)	(153,960,352)
Operating Transfers In	–	–
Investment Expense from Securities Lending	(1,607,492)	(1,588,540)
Payment of Letter of Credit and Remarketing Fees	(857,638)	(1,250,425)
Bond Call Premium	(7,400,000)	(3,870,466)
Net Cash and Cash Equivalents Provided/(Used) in Noncapital Financing Activities	$ (702,841,082)	$ (518,104,783)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	$ (220,742)	$ (39,269)
Proceeds from Sale of Fixed Assets	1,822	3,296
Contributions Restricted For Capital Purposes	–	–
Gain from Litigation Settlement	654,385	–
Net Cash and Cash Equivalents Provided/(Used) by Capital and Related Financing Activities	$ 435,465	$ (35,973)
Cash Flows from Investing Activities:		
Purchases of Investments	$ (116,245,854)	$ (90,509,577)
Proceeds from Sales or Maturities of Investments	461,911,674	281,937,132
Interest on Investments and Cash Balances	47,227,373	72,776,963
Investment Income from Securities Lending	1,607,492	1,588,540
Net Cash and Cash Equivalents Provided by Investing Activities	$ 394,500,685	$ 265,793,058
Net Increase/(Decrease) in Cash and Cash Equivalents	$ (17,642,775)	$ 73,332,140
Net Cash and Cash Equivalents at Beginning of Year	$ 466,227,377	$ 392,895,237
Cash and Cash Equivalents at End of Year	$ 448,584,602	$ 466,227,377

Reconciliation to Balance Sheet:

Cash and Cash Equivalents	$ 413,978,031	$ 430,484,659
Cash and Cash Equivalents – Securities Lending Collateral	34,606,571	35,742,718
Cash and Cash Equivalents at End of Year	$ 448,584,602	$ 466,227,377

Enterprise Fund – Veterans' Home Program		Total Enterprise Funds	
June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
$ –	$ –	$ –	$ 40,000,000
–	–	(575,365,000)	(397,435,000)
–	–	(117,610,952)	(153,960,352)
9,960	28,218	9,960	28,218
(344)	(4,846)	(1,607,836)	(1,593,386)
–	–	(857,638)	(1,250,425)
–	–	(7,400,000)	(3,870,466)
$ 9,616	$ 23,372	$ (702,831,466)	$ (518,081,411)
$ –	$ (1,128,697)	$ (220,742)	$ (1,167,966)
–	–	1,822	3,296
111,240	–	111,240	–
–	1,337,151	654,385	1,337,151
$ 111,240	$ 208,454	$ 546,705	$ 172,481
$ –	$ –	$ (116,245,854)	$ (90,509,577)
–	–	461,911,674	281,937,132
4,727	43,932	47,232,100	72,820,895
344	4,846	1,607,836	1,593,386
$ 5,071	$ 48,778	$ 394,505,756	$ 265,841,836
$ 556,773	$ (1,988,302)	$ (17,086,002)	$ 71,343,838
$ 287,988	$ 2,276,290	$ 466,515,365	$ 395,171,527
$ 844,761	$ 287,988	$ 449,429,363	$ 466,515,365
$ 838,122	$ 278,853	$ 414,816,153	$ 430,763,512
6,639	9,135	34,613,210	35,751,853
$ 844,761	$ 287,988	$ 449,429,363	$ 466,515,365

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Expendable Trust Funds

Expendable Trust Funds account for assets held by the Department in a trustee capacity when the principal and income may be expended in the course of the fund's designated operations.

Conservatorship Trust

The Department acts as conservator of estates of approximately 290 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.

Veterans' Home Trust

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.

State of Oregon
Department of Veterans' Affairs
Combining Balance Sheet
Fiduciary Fund Type
June 30, 1999 and June 30, 1998

	Expendable Trust Fund Conservatorship Trust		Expendable Trust Fund Veterans' Home Trust	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Assets				
Cash and Cash Equivalents	$ 19,947,545	$ 18,467,987	$ 138,913	$ 105,837
Cash and Cash Equivalents – Securities Lending Collateral	1,766,251	1,603,748	12,037	9,118
Investments (Net)	1,878,158	1,902,957	–	–
Receivables				
Mortgage Loans and Contracts (Net)	181,270	22,824	–	–
Accrued Interest	1,072	87,112	–	594
Other	82,788	–	–	–
Conservatorship Real Property	2,413,530	2,462,298	–	–
Conservatorship Personal Property	625,022	592,107	–	–
TOTAL ASSETS	$ 26,895,636	$ 25,139,033	$ 150,950	$ 115,549
Liabilities and Fund Balance				
Liabilities				
Current Liabilities:				
Due to Other Funds	$ 28,219	$ 26,627	$ –	$ –
Obligations under Securities Lending	1,766,251	1,603,748	12,037	9,118
Long-Term Liabilities:				
Mortgages on Conservatorship Real Property	638,852	694,196	–	–
TOTAL LIABILITIES	$ 2,433,322	$ 2,324,571	$ 12,037	$ 9,118
Fund Balance:				
Reserved for Trust Fund	$ 24,462,314	$ 22,814,462	$ 138,913	$ 106,431
TOTAL FUND BALANCE	$ 24,462,314	$ 22,814,462	$ 138,913	$ 106,431
TOTAL LIABILITIES AND FUND BALANCE	$ 26,895,636	$ 25,139,033	$ 150,950	$ 115,549

Total Expendable Trust Funds	
June 30, 1999	June 30, 1998
$ 20,086,458	$ 18,573,824
1,778,288	1,612,866
1,878,158	1,902,957
181,270	22,824
1,072	87,706
82,788	–
2,413,530	2,462,298
625,022	592,107
$ 27,046,586	$ 25,254,582
$ 28,219	$ 26,627
1,778,288	1,612,866
638,852	694,196
$ 2,445,359	$ 2,333,689
$ 24,601,227	$ 22,920,893
$ 24,601,227	$ 22,920,893
$ 27,046,586	$ 25,254,582

State of Oregon
Department of Veterans' Affairs
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Fiduciary Fund Type
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

	Expendable Trust Fund Conservatorship Trust		Expendable Trust Fund Veterans' Home Trust	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
REVENUES				
Veterans' Benefits	$ 6,669,731	$ 6,522,611	$ –	$ –
Interest Income	1,076,762	922,929	6,752	6,363
Donations	–	–	36,195	60,890
TOTAL REVENUES	$ 7,746,493	$ 7,445,540	$ 42,947	$ 67,253
EXPENDITURES				
Veterans' Services	$ –	$ –	$ –	$ –
Securitites Lending Investment Expense	81,044	83,711	505	465
Beneficiary Care	6,017,597	7,179,246	–	–
TOTAL EXPENDITURES	$ 6,098,641	$ 7,262,957	$ 505	$ 465
Excess of Revenues Over/(Under) Expenditures	$ 1,647,852	$ 182,583	$ 42,442	$ 66,788
OTHER FINANCING SOURCES/(USES)				
Operating Transfer to Veterans' Home Program	$ –	$ –	$ (9,960)	$ (28,218)
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	$ 1,647,852	$ 182,583	$ 32,482	$ 38,570
Beginning Fund Balance	$ 22,814,462	$ 21,019,633	$ 106,431	$ 67,861
Cumulative effect of change in accounting principle	–	1,612,246	–	–
Beginning Fund Balance, as restated	$ 22,814,462	$ 22,631,879	$ 106,431	$ 67,861
Ending Fund Balance	$ 24,462,314	$ 22,814,462	$ 138,913	$ 106,431

	Total Expendable Trust Funds	
	June 30, 1999	June 30, 1998
	$ 6,669,731	$ 6,522,611
	1,083,514	929,292
	36,195	60,890
	$ 7,789,440	$ 7,512,793
	$ –	$ –
	81,549	84,176
	6,017,597	7,179,246
	$ 6,099,146	$ 7,263,422
	$ 1,690,294	$ 249,371
	$ (9,960)	$ (28,218)
	$ 1,680,334	$ 221,153
	$ 22,920,893	$ 21,087,494
	–	1,612,246
	$ 22,920,893	$ 22,699,740
	$ 24,601,227	$ 22,920,893

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 to certain veterans, as well as financial assistance and training to County Veterans' Service Offices and Veterans' Organizations.

State of Oregon
Department of Veterans' Affairs
Schedule of Legislative Authorization (Non-GAAP Budgetary Basis)
Compared To Actual Expenditures Subject to Budget
General Fund
For the Biennium Ended June 30, 1999

SCHEDULE 6

	General Fund			
	1997–99 Budget	First Year Actual June 30, 1998	Second Year Actual June 30, 1999	Variance Favorable/ (Unfavorable)
General Fund:				
Veterans' Services Division – Appropriation	$ 2,367,395	$ 1,191,238	$ 1,176,157	$ –
Total General Fund	$ 2,367,395	$ 1,191,238	$ 1,176,157	$ –

Facts About the Secretary of State Audits Division

The mission of the Audits Division is to "Protect the Public Interest and Improve Oregon Government." The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	John N. Lattimer
Deputy Director	Sharron E. Walker, CPA, CFE
Deputy Director	Catherine E. Pollino, CGFM

This report is intended to promote
the best possible management of public resources.

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Auditing to Protect the Public Interest and Improve Oregon Government