

Oregon Department of Veterans' Affairs



Comprehensive Annual Financial Report

For The Fiscal Years Ended June 30, 2001 and June 30, 2000

A Department of The State Of Oregon



Serving Those Who Served

Oregon Department of Veterans' Affairs

Comprehensive Annual Financial Report

For The Fiscal Years Ended June 30, 2001 and June 30, 2000

A Department of The State of Oregon



Jon Mangis
Director

Bruce Shriver, CPA
Chief Financial Officer

Report Prepared By

John McIntyre, CPA
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Melody Ditter

With the assistance of the entire
Financial Administration Division

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INTRODUCTORY SECTION



The Adjutant General's Select Honor Guard participate in the November 2000 Veterans Day parade in Albany.

We, the employees of the Oregon Department of Veterans' Affairs, are advocates for veterans, their dependents and survivors. We are dedicated to providing quality programs and services to meet their current and future needs.

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Oregon

John A. Kitzhaber, M.D., Governor

Oregon Department of Veterans' Affairs

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

October 29, 2001

SERVING
OREGON VETERANS
SINCE 1945

The Honorable John A. Kitzhaber, M.D.
Governor of the State of Oregon
State Capitol
Salem, Oregon 97301-4047

We are pleased to provide you with the Comprehensive Annual Financial Report of the Oregon Department of Veterans' Affairs (*the "Department"*) for the fiscal years ended June 30, 2001 and June 30, 2000. We believe the information presented herein is accurate in all material respects, that it is presented in a manner which fairly sets forth the financial position and results of operations of the Department as measured and reported by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain an understanding of the Department's financial affairs have been included. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department.

This report is organized and presented in three sections. The **Introductory Section** includes this transmittal letter and an organizational chart. The **Financial Section** includes the general purpose financial statements and accompanying notes, as well as the independent auditor's report on the financial statements, the combining and individual fund financial statements, and the required supplementary information. The **Statistical Section** includes selected financial and programmatic information, much of which is presented on a multi-year basis.

The Department is identified as the reporting entity of this Comprehensive Annual Financial Report. All of the Department's funds and account groups are contained within this report. The Department is not financially accountable for any component unit. The Department provides a range of services for veterans such as mortgage and home improvement loans, a skilled care nursing facility, benefits and claims counseling, and other veterans' services. More information about the Department reporting entity can be found in the notes accompanying the general purpose financial statements.

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, and other recognized standard-setting bodies. A summary of significant accounting policies of the Department is found in Note 1 of the general purpose financial statements.

OREGON ECONOMY

Recent Trends – The second quarter initial estimate of the job growth was negative 3.5 percent at an annual rate. This is the lowest growth rate since a negative 3.8 percent recorded for the first quarter of 1991. The last recorded job growth above one percent was in the second quarter of 2000. On a year-over-year (Y/Y) basis, job growth in the second quarter was at negative 0.4



percent. The last time jobs declined on a Y/Y basis was during the third quarter of 1991 with a negative 0.8 percent.

Recent job losses in the manufacturing sector spilled over to the non-manufacturing sector. Second quarter growth on an annualized basis was a negative 5.4 percent for manufacturing while non-manufacturing jobs declined by 3.2 percent. Within manufacturing, high tech jobs posted losses, continuing a slide that commenced last quarter. Lumber and wood products job losses were not as deep, but the transportation equipment sector continued deep job cuts. Among non-manufacturing sectors, most sectors were down with large drops in construction, mining, wholesale trade, and non-health services. Health services posted solid job gains while finance, insurance, and real estate managed positive growth. Within the government sector, state government showed an increase in employment because of the legislative session.

The most recent Blue Chip Job Growth rankings place Oregon 48th in the nation. For Y/Y job growth, between June 2000 and June 2001, jobs decreased by 15,900 or -0.98 percent. A year ago, Oregon ranked 21st. The low ranking for Oregon reflects a rapid ramping up of employment in June of 2000 compared to the falling employment coming into June 2001.

Future Outlook – While the U.S. economy flirts with recession, the Oregon economy is engaged in a serious courtship. This year will mark the fourth in a row that Oregon will grow slower than the U.S. economy. Growth will continue to be slow in 2002 before reaching above 2.0 percent growth in 2003. The Office of Economic Analysis (OEA) forecasts employment growth to be essentially flat for 2001. Employment is forecast to grow 1.4 percent in 2002 and 2.3 percent in 2003. Additional OEA forecasts for specific sectors of Oregon's economy are discussed in the following paragraphs.

Manufacturing will sharply decline in 2001 with an annual growth rate of negative 2.6 percent. The sector will bottom out and start to improve in 2002. This will still result in a decline of 0.4 percent in 2002. Manufacturing will grow 2.4 percent in 2003, but the level of employment will still be below average job levels in 2000. Non-manufacturing jobs will slightly increase by 0.5 percent in 2001, 1.7 percent in 2002, and 2.2 percent in 2003.

Lumber and wood products are projected to be down 4.5 percent in 2001 before an improvement of 1.1 percent expected in 2002. Employment is forecast to grow 2.0 percent in 2003.

The sector that contains semiconductors, electrical machinery, should grow 2.6 percent in 2001 and 2.1 percent in 2002. These annual growth rates mask a slowing in 2001 with several quarters of negative growth projected. Jobs are expected to grow 4.7 percent in 2003.

Transportation equipment will decline by 15.9 percent in 2001. Slow positive growth will prevail at 0.4 percent in 2002 and 1.1 percent in 2003.

Construction is expected to be flat relative to the growth of the last two years. Job growth will be 0.1 percent in 2001 and negative 0.2 percent in 2002. Growth will turn positive in 2003 at 1.9 percent.

Trade job growth will remain relatively weak in 2001 with a decline of 0.3 percent. Job growth will be stronger in 2002 at 1.4 percent and in 2003 at 1.8 percent. Services should see annual job growth of 1.2 percent in 2001, 2.6 percent in 2002, and 3.1 percent in 2003.

Population growth is expected to be higher than the U.S. average, but slower than the growth experienced in the mid-1990's. Slower growth will prevail over the next three years, with increases of 1.1 percent in 2001 and 1.2 percent in 2002 and 2003.

MAJOR INITIATIVES

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

- ◆ The ***Veterans' Loan Program*** provides home loans to Oregon veterans at favorable interest rates. Eligibility requirements on who may receive a veterans' home loan are governed by both federal and State laws. As of June 30, 2001, this Program had approximately 22,000 mortgage loans and contracts outstanding, with a principal balance of approximately \$680 million.

- ◆ ***Veterans' Services*** consists of the following four areas of activities and responsibilities:
 - Providing claims preparation and counseling services to help obtain disability and survivor benefits for Oregon veterans, dependents and survivors. Securing disability benefits for veterans makes them eligible for vocational rehabilitation and educational training. Department counselors assist veterans to obtain medical care and treatment at USDVA medical centers and outpatient care in their local communities on a fee-paid basis.

 - Acting as conservator of the estates of mentally and/or physically disabled persons who are recipients of federal veterans' benefits. At June 30, 2001, the Conservatorship Program served approximately 275 veterans, survivors and minor or helpless children of veterans.

 - Providing financial assistance and training to County Veterans Service Officers and Veterans Organizations. This assistance and training provides a veterans' services network throughout Oregon which helps veterans obtain entitled benefits.

 - Providing financial assistance to veterans taking approved educational courses or vocational training. The maximum monthly benefit currently available to the eligible veterans is \$50 per month.

- ◆ The ***Veterans' Home Program*** provides professional medical, nursing, rehabilitative, social and other support services to United States veterans residing in the Oregon Veterans' Home (OVH), located in The Dalles, Oregon. The OVH, which opened in November 1997, has the capacity to serve 151 veterans and had an occupancy of approximately 125 residents at June 30, 2001. The Department owns the OVH and has entered into a contract with Healthcare for the Mid-Columbia Region to provide the daily services needed by the veteran residents.

The major issue related to the Department's client base is that the composition and needs of the veteran population are changing due to the passage of time and external events. As the veteran population ages, it is necessary to be more responsive to the increasing health and disability

issues of the elderly. While the U.S. Armed Forces continues to downsize, new veterans re-enter the general population, many with service-connected disabilities or health concerns resulting from service.

FINANCIAL INFORMATION

Internal Controls - Management is responsible for establishing and maintaining internal controls designed to ensure the Department's assets are safeguarded against loss from unauthorized use or disposition and that financial transactions are properly executed in accordance with generally accepted accounting principles. These internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Budgetary controls are maintained by the Department of Administrative Services and the Oregon Legislature.

Proprietary Fund Type - Enterprise Funds includes both the Veterans' Loan Program and the Veterans' Home Program. At June 30, 2001, the Veterans' Loan Program had approximately \$1.44 billion in assets (*primarily consisting of loan and contract receivables, cash and cash equivalents, and investment securities*) and about \$1.35 billion in liabilities (*primarily consisting of general obligation bonds*). Revenues from the Department's home loan program are generated through interest on loans originated and investment income. These revenues are used to pay interest expense on outstanding debt and related program and administrative expenses. At June 30, 2001, the Veterans' Home Program had assets of approximately \$12 million consisting primarily of net fixed assets, receivables and cash and cash equivalents.

Fiduciary Fund Type - Expendable Trust Funds include primarily the Veterans' Home Trust Fund and the Conservatorship Trust Fund. The Veterans' Home Trust Fund consists of monies contributed by individuals and outside organizations for the operation and benefit of the residents of the OVH. The Conservatorship Trust Fund consists of the assets and liabilities of the protected persons, with the Director of the Department acting as conservator. The revenues of the Conservatorship Program consist primarily of social security and veteran benefits payable to the protected persons, while the expenses incurred relate to the protected persons' cost of care and living expenses.

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

Moody's Investor Service	Aa 2
Fitch Investors Service	AA
Standard & Poor's	AA

As of June 30, 2001, the Department had approximately \$1.3 billion in outstanding debt. During fiscal year 2001, the Department issued approximately \$78 million in bonds and other obligations and retired approximately \$170 million.

Cash Management - All monies collected by the Department are turned over to the State Treasurer, who is responsible for the control of cash and the investment of State funds. On June 30, 2001 and June 30, 2000, the Department's cash, cash equivalents (*excluding securities lending collateral*), and investments totaled approximately \$770 million and \$750 million respectively. The Oregon Investment Council, of which the State Treasurer is a member,

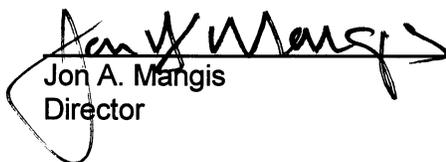
the Council's continuing policy has been to invest locally when investments of comparable yield, quality, and maturity can be found in-state without damaging portfolio diversity. Fortunately for Oregonians, State-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments which have been a cause of national concern. The State Treasurer pools all available cash into the Oregon Short-Term Fund from which investments are made in a variety of instruments.

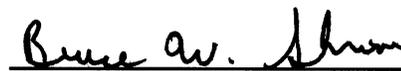
Risk Management - The Department of Administrative Services, through the Insurance Fund, provides for the State's self-insurance programs and for the administration, investigation, and settlement of claims against the Insurance Fund. In accordance with legislative directives, the Insurance Fund must operate on an actuarially sound basis.

Independent Audit - The Secretary of State, Audits Division, has audited the financial records, books of account, and transactions of the Department for the years ended June 30, 2001 and June 30, 2000. The auditors used generally accepted government auditing standards in conducting the engagement. Their opinion on the financial statements is included in the Financial Section of this report.

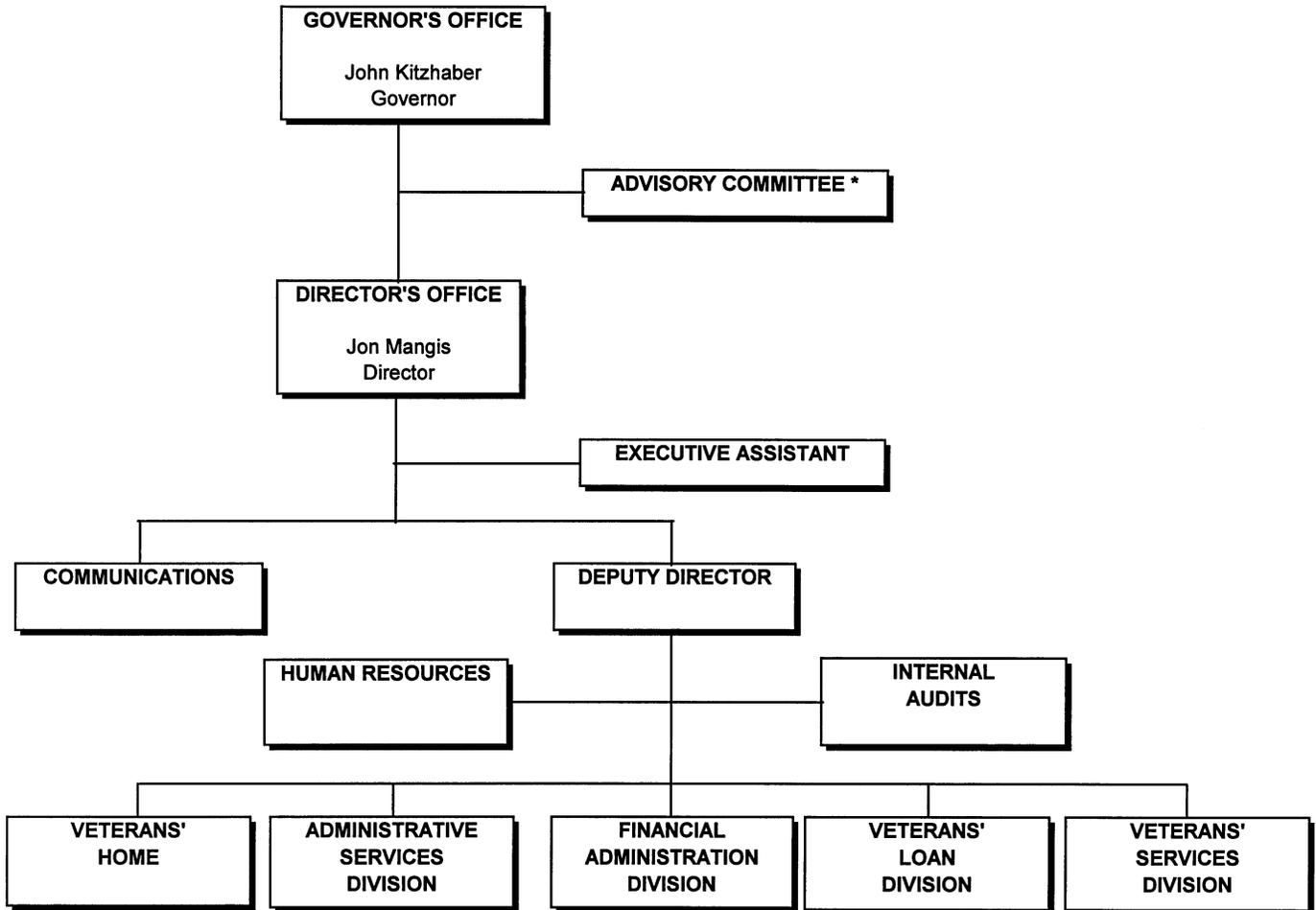
Acknowledgements - The preparation of this report reflects the combined efforts of the Department's staff. The professionalism, commitment, and effort of the individuals involved is very much appreciated.

Respectfully submitted,


Jon A. Mangis
Director


Bruce W. Shriver
Chief Financial Officer

OREGON DEPARTMENT OF VETERANS' AFFAIRS



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

Advisory Committee Members

James L. Abbott
Dale S. Albee
Evelyn F. Anderson
Staryl C. Austin, Jr.
Robert B. Brown

Term Expires

March 16, 2003
March 15, 2003
July 31, 2005
March 15, 2004
March 15, 2004

Advisory Committee Members

Fulton M. Burns
Walter R. Crews
Robert Haltiner
Jim Willis

Term Expires

March 15, 2004
March 15, 2004
March 15, 2004
September 30, 2004

FINANCIAL SECTION



We, the employees of the Oregon Department of Veterans' Affairs, are advocates for veterans, their dependents and survivors. We are dedicated to providing quality programs and services to meet their current and future needs.



Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Jon Mangis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97310-1201

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Department of Veterans' Affairs (department), an agency of the state of Oregon, as of and for the years ended June 30, 2001, and June 30, 2000, as listed in the table of contents. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the state of Oregon's Veterans' Loan Program and the Veterans' Home Program and the portions of the state of Oregon's General Fund, expendable trust funds, and General Long-Term Account Group that are attributable to the department and are not intended to present fairly the financial position of the state of Oregon and the results of its operations and the cash flows in conformity with accounting principles generally accepted in the United States of America.

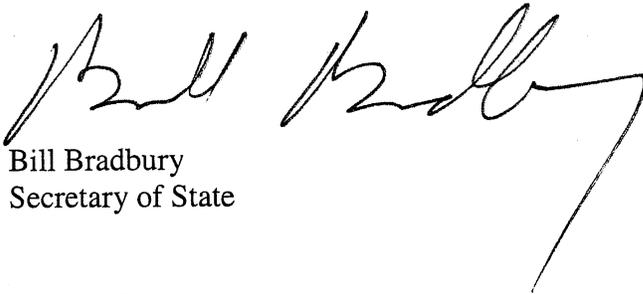
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the department as of June 30, 2001, and June 30, 2000, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying combining financial statements and schedule listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The other data in this report, designated as the introductory section and statistical section in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2001, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

OREGON AUDITS DIVISION



Bill Bradbury
Secretary of State

October 30, 2001



Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Jon Mangis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97310-1201

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

We have audited the financial statements of the Department of Veterans' Affairs (department), an agency of the state of Oregon, as of and for the year ended June 30, 2001, and have issued our report dated October 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

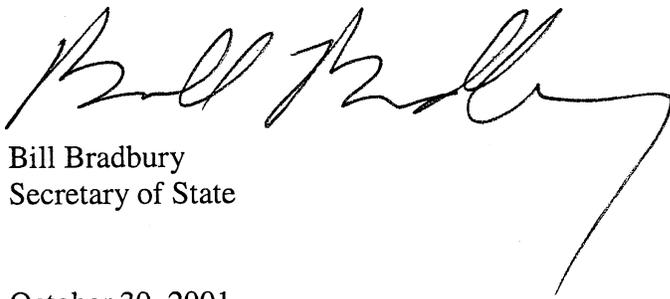
Internal Control Over Financial Reporting

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

operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the 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 department's 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 these specified parties.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury", with a long, sweeping underline that extends to the right.

Bill Bradbury
Secretary of State

October 30, 2001

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001 AND JUNE 30, 2000

	Proprietary Fund Type		Fiduciary Fund Type	
	Enterprise Fund		Expendable Trust Fund	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
ASSETS AND OTHER DEBITS				
Cash and Cash Equivalents	\$ 442,966,226	\$ 162,531,674	\$ 22,220,586	\$ 20,471,787
Cash and Cash Equivalents - Securities Lending Collateral	17,224,640	13,976,208	896,397	1,851,195
Investments (Net)	298,669,923	562,901,225	2,729,008	2,199,049
Receivables:				
Mortgage Loans and Contracts (Net)	671,337,265	761,866,479	147,283	151,350
Accrued Interest	9,868,497	10,312,569	78,549	108,918
Loan Cancellation Life Insurance Premiums	401,000	442,000	-	-
Other	567,785	420,780	-	-
Due From Other Funds	29,165	29,704	-	-
Due From State General Fund	-	-	-	-
Advances to Other Funds	-	134,000	-	-
Real Estate Owned	143,858	16,372	-	-
Supplies Inventory	11,055	21,702	-	-
Deferred Underwriter's Discount	1,539,153	1,291,911	-	-
Conservatorship Real Property	-	-	3,226,691	2,564,211
Conservatorship Personal Property	-	-	598,150	723,857
Fixed Assets (Net)	17,330,760	17,653,454	-	-
Amount to be Provided for Long-Term Obligation	-	-	-	-
TOTAL ASSETS	\$ 1,460,089,327	\$ 1,531,598,078	\$ 29,896,664	\$ 28,070,367
LIABILITIES AND FUND EQUITY				
Liabilities:				
Current Liabilities:				
Bonds Payable - Maturing Within One Year (Net)	\$ 136,922,950	\$ 141,015,992	\$ -	\$ -
Matured Bonds Payable	9,226,844	7,492,359	-	-
Accrued Interest on Bonds	23,140,000	26,576,000	-	-
Obligations under Securities Lending	17,224,640	13,976,208	896,397	1,851,195
Accounts Payable	1,450,140	992,090	-	-
Loan Cancellation Life Insurance Premium	698,213	810,146	-	-
Compensated Absences Payable	139,658	135,446	-	-
Due to Other Funds	-	-	31,405	29,992
Line of Credit Payable	20,000,000	-	-	-
Deposit Liabilities	1,957,767	1,610,777	-	-
Long-Term Liabilities:				
Bonds Payable - Maturing After One Year (Net)	1,141,427,558	1,249,408,908	-	-
Arbitrage Rebate Payable	678,122	346,385	-	-
Compensated Absences Payable	418,973	406,339	-	-
Advances from Other Funds	-	134,000	-	-
Mortgages on Conservatorship Real Property	-	-	959,953	742,179
TOTAL LIABILITIES	\$ 1,353,284,865	\$ 1,442,904,650	\$ 1,887,755	\$ 2,623,366
Fund Equity:				
Contributed Capital	\$ 12,720,567	\$ 12,930,078	\$ -	\$ -
Retained Earnings-Unreserved	94,083,895	75,763,350	-	-
Fund Balances:				
Reserved for Prepaid Expenses	-	-	-	-
Reserved for Trust Fund	-	-	28,008,909	25,447,001
TOTAL FUND EQUITY	\$ 106,804,462	\$ 88,693,428	\$ 28,008,909	\$ 25,447,001
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,460,089,327	\$ 1,531,598,078	\$ 29,896,664	\$ 28,070,367

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

Governmental Fund Type		Account Groups		TOTALS	
General Fund		General Long-Term Debt		<i>(Memorandum only)</i>	
June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
\$ -	\$ -	\$ -	\$ -	\$ 465,186,812	\$ 183,003,461
-	-	-	-	18,121,037	15,827,403
-	-	-	-	301,398,931	565,100,274
-	-	-	-	671,484,548	762,017,829
-	-	-	-	9,947,046	10,421,487
-	-	-	-	401,000	442,000
-	-	-	-	567,785	420,780
2,240	288	-	-	31,405	29,992
310,354	134,497	-	-	310,354	134,497
-	-	-	-	-	134,000
-	-	-	-	143,858	16,372
267	293	-	-	11,322	21,995
-	-	-	-	1,539,153	1,291,911
-	-	-	-	3,226,691	2,564,211
-	-	-	-	598,150	723,857
-	-	-	-	17,330,760	17,653,454
-	-	33,744	31,598	33,744	31,598
<u>\$ 312,861</u>	<u>\$ 135,078</u>	<u>\$ 33,744</u>	<u>\$ 31,598</u>	<u>\$ 1,490,332,596</u>	<u>\$ 1,559,835,121</u>
\$ -	\$ -	\$ -	\$ -	\$ 136,922,950	\$ 141,015,992
-	-	-	-	9,226,844	7,492,359
-	-	-	-	23,140,000	26,576,000
-	-	-	-	18,121,037	15,827,403
301,346	124,252	-	-	1,751,486	1,116,342
-	-	-	-	698,213	810,146
11,248	10,533	-	-	150,906	145,979
-	-	-	-	31,405	29,992
-	-	-	-	20,000,000	-
-	-	-	-	1,957,767	1,610,777
-	-	-	-	1,141,427,558	1,249,408,908
-	-	-	-	678,122	346,385
-	-	33,744	31,598	452,717	437,937
-	-	-	-	-	134,000
-	-	-	-	959,953	742,179
<u>\$ 312,594</u>	<u>\$ 134,785</u>	<u>\$ 33,744</u>	<u>\$ 31,598</u>	<u>\$ 1,355,518,958</u>	<u>\$ 1,445,694,399</u>
\$ -	\$ -	\$ -	\$ -	\$ 12,720,567	\$ 12,930,078
-	-	-	-	94,083,895	75,763,350
267	293	-	-	267	293
-	-	-	-	28,008,909	25,447,001
<u>\$ 267</u>	<u>\$ 293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,813,638</u>	<u>\$ 114,140,722</u>
<u>\$ 312,861</u>	<u>\$ 135,078</u>	<u>\$ 33,744</u>	<u>\$ 31,598</u>	<u>\$ 1,490,332,596</u>	<u>\$ 1,559,835,121</u>

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

Exhibit B

	Enterprise Fund	
	June 30, 2001	June 30, 2000
REVENUES		
Interest Income:		
Mortgage Loans	\$ 50,861,579	\$ 57,259,424
Contracts	4,562,401	5,648,408
Investment Income	57,560,056	38,516,147
Gain on Sale of Foreclosed Property	9,052	16,892
Loan Cancellation Life Insurance Processing Fee	425,004	399,937
Other Fees and Charges	6,561,511	5,960,549
Conservatorship Fees	353,417	345,554
TOTAL REVENUES	\$ 120,333,020	\$ 108,146,911
EXPENSES		
Bond Interest	\$ 85,455,556	\$ 93,957,700
Salaries and Other Payroll Expenses	7,136,097	7,068,207
Bond Expenses	925,722	819,421
Securities Lending Investment Expense	1,158,017	2,008,673
Real Estate Owned Expense	57,863	42,230
Services and Supplies	3,055,552	2,859,780
Veterans Home Operations	4,773,004	3,945,157
Depreciation Expense	782,228	689,909
Bad Debt Expense	(1,078,111)	(1,227,068)
Other Expenses	74,888	42,749
TOTAL EXPENSES	\$ 102,340,816	\$ 110,206,758
NET INCOME BEFORE OPERATING TRANSFERS	\$ 17,992,204	\$ (2,059,847)
OPERATING TRANSFERS		
Transfers In from Veterans Home Trust Fund	\$ 16,503	\$ 14,798
NET INCOME BEFORE EXTRAORDINARY ITEMS	\$ 18,008,707	\$ (2,045,049)
Extraordinary Loss from Early Extinguishment of Debt	(17,231)	(11,888)
NET INCOME/(LOSS)	\$ 17,991,476	\$ (2,056,937)
FUND EQUITY		
Beginning Retained Earnings	\$ 75,763,350	\$ 77,491,218
Net Income/(Loss)	17,991,476	(2,056,937)
Add: Depreciation Charged to Contributions	329,069	329,069
Increase/(Decrease) in Retained Earnings	18,320,545	(1,727,868)
Ending Retained Earnings	\$ 94,083,895	\$ 75,763,350
Beginning Contributed Capital	\$ 12,930,078	\$ 13,225,867
Changes in Contributed Capital	(209,511)	(295,789)
Ending Contributed Capital	\$ 12,720,567	\$ 12,930,078
Total Fund Equity	\$ 106,804,462	\$ 88,693,428

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, 2001 AND JUNE 30, 2000

Exhibit C

	Fiduciary Fund Type		Governmental Fund Type	
	Expendable Trust		General Fund	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
REVENUES				
Veterans' Benefits	\$ 8,383,889	\$ 7,494,025	\$ -	\$ -
Interest Income	1,209,565	1,213,970	-	-
Donations	72,228	38,790	-	-
State Appropriations	-	-	1,336,187	1,238,132
TOTAL REVENUES	\$ 9,665,682	\$ 8,746,785	\$ 1,336,187	\$ 1,238,132
EXPENDITURES				
Veterans' Services	\$ -	\$ -	\$ 1,336,187	\$ 1,238,132
Securities Lending Investment Expenditures	67,990	109,475	-	-
Beneficiary Care	7,022,901	7,782,230	-	-
Other Expenditures	6,133	-	-	-
TOTAL EXPENDITURES	\$ 7,097,024	\$ 7,891,705	\$ 1,336,187	\$ 1,238,132
Excess of Revenues Over/(Under) Expenditures	\$ 2,568,658	\$ 855,080	\$ -	\$ -
OTHER FINANCING SOURCES/(USES)				
Operating Inter-agency transfers in	\$ 9,753	\$ 5,492	\$ -	\$ -
Operating Inter-agency transfers out	(16,503)	(14,798)	-	-
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	\$ 2,561,908	\$ 845,774	\$ -	\$ -
Beginning Fund Balance	\$ 25,447,001	\$ 24,601,227	\$ -	\$ -
Ending Fund Balance	\$ 28,008,909	\$ 25,447,001	\$ -	\$ -

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, 2001

Exhibit D

	General Fund			
	1999-2001 Budget	1st Year Actuals	2nd Year Actuals	Variance: Favorable/ (Unfavorable)
REVENUES				
State Appropriations	\$ 2,587,270	\$ 1,238,549	\$ 1,335,472	\$ 13,249
TOTAL REVENUES	\$ 2,587,270	\$ 1,238,549	\$ 1,335,472	\$ 13,249
EXPENDITURES				
Veterans' Services	\$ 2,587,270	\$ 1,238,549	\$ 1,335,472	\$ 13,249
TOTAL EXPENDITURES	\$ 2,587,270	\$ 1,238,549	\$ 1,335,472	\$ 13,249
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, 2001 AND JUNE 30, 2000

	Enterprise Fund	
	June 30, 2001	June 30, 2000
Cash Flows from Operating Activities:		
Operating Income / (Loss)	\$ 17,992,204	\$ (2,059,847)
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	782,229	689,909
Amortization of Bond Premium & Discount	(257,437)	(308,984)
Amortization of Remarketing Fees	-	-
Amortization of Loan Origination Fees	-	380,436
Interest Received on Investments Reported as Operating Income	(57,560,056)	(38,514,178)
Interest Payments on Bonds Reported as Operating Expense	85,712,993	94,266,684
Letter of Credit and Remarketing Fees Reported as Operating Expense	925,721	819,421
Bad Debt Expense	(1,078,111)	(1,227,068)
(Gain)/Loss on Sale of Equipment	(1,369)	(4,065)
Change in Fair Value of Investments and Related Adjustments	(16,095,289)	2,857,519
(Increase)/Decrease in Receivables	(105,466)	(100,933)
(Increase)/Decrease in Loans and Contracts Receivable	91,607,325	102,704,078
(Increase)/Decrease in Accrued Interest Receivable	444,072	1,164,630
(Increase)/Decrease in Real Estate Owned	(127,486)	223,447
(Increase)/Decrease in Supplies Inventory	10,647	15,609
(Increase)/Decrease in Prepaid Remarketing Fees and Bond Issuance Costs	(266,428)	(216,855)
Increase/(Decrease) in Matured Bonds Payable	1,734,485	(6,952,004)
Increase/(Decrease) in Accrued Interest Payable - Bonds	(3,436,000)	(3,000,000)
Increase/(Decrease) in Arbitrage Payable	331,737	195,336
Increase/(Decrease) in Accounts Payable	458,050	(67,195)
Increase/(Decrease) in LCLI Premium Payable	(111,933)	(176,375)
Increase/(Decrease) in Compensated Absences Payable	16,846	28,810
Increase/(Decrease) in Deposit Liabilities	346,990	169,918
	\$ 103,331,520	\$ 152,948,140
Net Cash and Cash Equivalents Provided in Operating Activities	\$ 121,323,724	\$ 150,888,293

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

Exhibit E

	Enterprise Fund	
	June 30, 2001	June 30, 2000
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	\$ 58,000,000	\$ 50,000,000
Proceeds from Line of Credit Draw	20,000,000	-
Principal Payments on Bonds	(169,815,000)	(170,275,000)
Interest Payments on Bonds	(85,712,993)	(94,266,684)
Operating Transfers In	16,503	14,798
Investment Expense from Securities Lending	1,154,183	2,004,735
Payment of Letter of Credit and Remarketing Fees	(925,721)	(819,421)
Net Cash and Cash Equivalents Used in Noncapital Financing Activities	\$ (177,283,028)	\$ (213,341,572)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	\$ (459,535)	\$ (625,751)
Proceeds from Sale of Fixed Assets	1,369	4,065
Contributions Restricted For Capital Purposes	119,558	33,280
Net Cash and Cash Equivalents Provided by Capital and Related Financing Activities	\$ (338,608)	\$ (588,406)
Cash Flows from Investing Activities:		
Purchases of Investments	\$ (121,564,406)	\$ (340,584,358)
Proceeds from Sales or Maturities of Investments	401,890,997	114,832,121
Interest on Investments and Cash Balances	57,560,056	38,514,178
Investment Income from Securities Lending	(1,154,183)	(2,004,735)
Net Cash and Cash Equivalents Provided by Investing Activities	\$ 336,732,464	\$ (189,242,794)
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ 280,434,552	\$ (252,284,479)
Cash and Cash Equivalents at Beginning of Year	\$ 162,531,674	\$ 414,816,153
Cash and Cash Equivalents at End of Year	\$ 442,966,226	\$ 162,531,674

**STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

**(1)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

REPORTING ENTITY

The Department of Veterans' Affairs (the "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 275 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.

Notes to the Financial Statements (continued)
June 30, 2001

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. However, encumbrances are not allowed at the end of a biennium except those related to capital construction, capital improvement, continuing contracts, and contested claims, which are continuously appropriated.

Notes to the Financial Statements (continued)
June 30, 2001

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 real property is shown at cost. Cost is defined as the original cost of the real property to the protected person or the market 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.

Notes to the Financial Statements (continued)
June 30, 2001

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. Amortization of Underwriter's discounts are also included as miscellaneous bond expenses. 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.

Notes to the Financial Statements (continued)
June 30, 2001

(2)
DEPOSITS AND INVESTMENTS

DEPOSITS

At June 30, 2001 the book balance of Cash and Cash Equivalents was \$465,186,812. This is shown in the balance sheet as \$ 442,966,226 in Enterprise funds and \$ 22,220,586 in Expendable Trust funds. The bank balance of cash was \$465,040,635, of which \$442,492,798 was for Enterprise funds and \$22,547,837 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, 2001. 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 at June 30, 2001 consisted of the following:

Form of Deposit	Category			Bank Balance	Carrying Amount
	1	2	3		
Enterprise Funds:					
Oregon Short-Term fund	\$ 433,739,382	\$ -	\$ -	\$ 433,265,954	\$ 433,739,382
Cash with Fiscal Agent	-	-	9,226,844	9,226,844	9,226,844
Subtotal	\$ 433,739,382	\$ -	\$ 9,226,844	\$ 442,492,798	\$ 442,966,226
Expendable Trust Funds:					
Oregon Short-Term fund	22,220,586	-	-	22,547,837	22,220,586
Total Deposits	\$ 455,959,968	\$ -	\$ 9,226,844	\$ 465,040,635	\$ 465,186,812

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 61 percent in U.S. government securities; 31 percent in short-term

Notes to the Financial Statements (continued)
June 30, 2001

commercial paper; and the remainder in bankers acceptances, time certificates of deposit, and securities lending holdings.

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, 2001, the State's Fiscal Agent was holding \$9,226,844 for redemption of Oregon War Veterans' bonds and coupons that have matured, but have not yet been redeemed. On June 30, 2000, the matured bonds payable balance was \$7,492,359.

At June 30, 2000 the Department had a book balance of Cash and Cash Equivalents of \$183,003,461, which was composed of \$162,531,674 in Enterprise funds and \$20,471,787 in Expendable Trust funds. The bank balance of cash at June 30, 2000 was \$183,886,251, composed of \$163,077,730 in Enterprise funds and \$20,808,521 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, 2001, 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, Series 77, Series 79 and Series 80 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.

Notes to the Financial Statements (continued)
June 30, 2001

The schedule below presents the credit risk and carrying amount (fair value) as of June 30, 2001. 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			Carrying Amount
	1	2	3	
Investments				
Investments held by State Treasurer				
U.S. Government and agency securities	\$ 152,577,675	\$ -	\$ -	\$ 152,577,675
International Bonds	44,956,470	-	-	44,956,470
Corporate Bonds	61,706,934	-	-	61,706,933
Total Investments held by State Treasurer	<u>\$ 259,241,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,241,078</u>
Other Investments				
U.S. Savings Bonds	\$ 1,546,329	\$ -	\$ -	\$ 1,546,329
Stocks and other equity		-	-	
	1,182,679			1,182,679
Total Other Investments	<u>\$ 2,729,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,729,008</u>
Subtotal	<u>\$ 261,970,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261,970,087</u>
Investments - Not Categorized				
Guaranteed Investment Contracts				\$ 39,428,845
Investments held by broker-dealers under securities loans with cash collateral:				
U.S. Government and agency securities				\$ 17,311,635
Securities Lending Short-Term collateral				
Investment Pool (Oregon Short-Term Fund only):				\$ 18,211,382
Less:				
Securities Lending Amounts				<u>\$ (35,523,017)</u>
Total Investments				<u>\$ 301,398,931</u>

At June 30, 2000, the Department had investments with a carrying value of \$565,100,274, composed of \$562,901,225 in Enterprise funds and \$2,199,049 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 which is to be maintained at a level equal to the maximum annual debt service of the program. As of June 30, 2001, the Debt Service Reserve Account has a balance of \$223,199,545, which includes \$60,703,021 in cash and \$162,496,524 in net investments (fair value). The Debt Service Account at June 30, 2001 equaled the maximum yearly requirement at year end. The balance of the Debt Service Reserve Account at June 30, 2000 was \$237,108,544, which included \$77,881,661 in cash and \$159,226,883 in net investments (fair value).

SECURITIES LENDING

In accordance with State investment policies, state agencies may participate in securities lending transactions. The Oregon State Treasury has, through a Securities Lending Agreement, authorized its custodian, State Street Bank and Trust Company ("State Street"), to lend the

Notes to the Financial Statements (continued)
June 30, 2001

Department's securities to broker-dealers and banks pursuant to a form of loan agreement. Both Oregon State Treasury and the broker-dealer borrowers maintained the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of securities lending agreements.

During the year, State Street lent the Department's fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the security on loan. Oregon State Treasury did not impose any restrictions during the year on loans of the Department's fixed income securities. The Oregon State Treasury is fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return securities on loan. However, the Department had no securities on loan as of June 30, 2001, and therefore no cash collateral was invested on the Department's behalf by State Street. Also, because the Department had no securities on loan as of June 30, 2001, it had no credit risk exposure to borrowers.

The Department's cash balances are invested in a short-term investment pool maintained by State Street. State Street is authorized by the Securities Lending Agreement to invest cash collateral received for securities loans in the OSTF. At June 30, 2001 the pool had an average weighted maturity of 347 days. Since the securities loans are callable on demand by either the lender or borrower, the life of the loans at June 30, 2001 is effectively one day and consequently does not generally match the life of the investments in the pool. The Department's allocated portion of the OSTF securities on loan and the related collateral is presented in the schedule of investments shown above. As of June 30, 2001, the fair value of the securities on loan from the OSTF and the fair value of securities purchased with the cash collateral was \$283,153,705 and \$297,870,212, respectively.

INVESTMENT INCOME

The following table details the components of Investment Income for the year ended June 30, 2001 and June 30, 2000:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
<i>Enterprise funds:</i>		
Investment income: Accrual basis	\$ 40,306,750	\$ 39,334,099
Securities lending revenue	1,158,017	2,008,673
Increase/(Decrease) in fair value of investments	16,095,289	(2,826,625)
Investment income	<u>\$ 57,560,056</u>	<u>\$ 38,516,147</u>
<i>Expendable trust funds:</i>		
Investment income: Accrual basis	\$ 1,286,964	\$ 1,176,305
Securities lending revenue	67,990	109,475
Increase/(Decrease) in fair value of investments	(145,389)	(71,810)
Investment income	<u>\$ 1,209,565</u>	<u>\$ 1,213,970</u>

Notes to the Financial Statements (continued)
June 30, 2001

(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 at June 30, 2001 is approximately \$683 million. All mortgaged property is located within Oregon. The Department is exposed to a statewide concentration of credit risk in the amount of approximately \$683 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 2001 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 at June 30, 2001 from \$12.4 million to \$11.3 million, or approximately 1.65 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 have been 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, 2001 and June 30, 2000.

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Loans Receivable	\$ 633,221,087	\$ 712,148,434
Contracts Receivable	49,379,178	62,087,045
Total Loans and Contracts Receivable	<u>\$ 682,600,265</u>	<u>\$ 774,235,479</u>
Less: Allowance for Principal Losses	<u>11,263,000</u>	<u>12,369,000</u>
Net Loans and Contracts Receivable	<u>\$ 671,337,265</u>	<u>\$ 761,866,479</u>

Included in mortgage loans receivable are loans that will not amortize at their current monthly payment amounts. These loans became nonamortizing primarily through borrowers'

Notes to the Financial Statements (continued)
June 30, 2001

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, 2001, there were approximately 470 nonamortizing accounts with an aggregate principal balance of approximately \$43,500,000. This represents 6.5 percent of the total net loans and contracts receivable.

(4)
FIXED ASSETS

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 following table details the composition of the Department's net fixed assets (Proprietary fund Type) at June 30, 2001 and June 30, 2000:

	June 30, 2001	June 30, 2000
Veterans' Loan Program		
Building	\$ 7,232,201	\$ 7,232,201
Less: Accumulated Depreciation	2,475,756	2,330,890
Carrying Value, Building	<u>\$ 4,756,445</u>	<u>\$ 4,901,311</u>
Furniture and Equipment	\$ 2,413,881	\$ 1,954,346
Less: Accumulated Depreciation	1,201,628	893,335
Carrying Value, Furniture and Equipment	<u>\$ 1,212,253</u>	<u>\$ 1,061,011</u>
Net Fixed Assets, Loan Program	<u>\$ 5,968,698</u>	<u>\$ 5,962,322</u>
Veterans' Home Program		
Building	\$ 12,369,112	\$ 12,369,112
Less: Accumulated Depreciation	1,128,757	819,389
Carrying Value, Building	<u>\$ 11,240,355</u>	<u>\$ 11,549,723</u>
Furniture and Equipment	\$ 98,507	\$ 98,507
Less: Accumulated Depreciation	66,300	46,598
Carrying Value, Furniture and Equipment	<u>\$ 32,207</u>	<u>\$ 51,909</u>
Land	<u>\$ 89,500</u>	<u>\$ 89,500</u>
Net Fixed Assets, Home Program	<u>\$ 11,362,062</u>	<u>\$ 11,691,133</u>
Total Net Fixed Assets	<u><u>\$ 17,330,760</u></u>	<u><u>\$ 17,653,454</u></u>

(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. Monies in the LCLI account are held and controlled by the insurance carrier during the contract period. The fund stabilizes rate experience developed under the group loan cancellation life insurance policy. 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 at August 31, 2001 and August 31, 2000 was approximately \$29 million and \$44 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, 2000 and June 30, 2001:

Bonds Payable (Par) at June 30, 1999	\$ 1,510,395,000
Bonds Issued	50,000,000
Bonds Retired	(170,275,000)
Bonds Payable (Par) at June 30, 2000	\$ 1,390,120,000
Bonds Issued	58,000,000
Bonds Retired	(169,815,000)
Bonds Payable (Par) at June 30, 2001	\$ 1,278,305,000

Shown below are the components of net bonds payable as disclosed on the balance sheet for June 30, 2001:

Notes to the Financial Statements (continued)
June 30, 2001

	<u>Short Term</u>	<u>Long Term</u>	<u>Total</u>
Bonds Payable (Par)	\$ 136,720,000	\$ 1,141,585,000	\$ 1,278,305,000
Premium on Bonds Sold	256,910	696,923	953,833
Discount on Bonds Sold	(53,960)	(854,365)	(908,325)
Net Bonds Payable	<u>\$ 136,922,950</u>	<u>\$ 1,141,427,558</u>	<u>\$ 1,278,350,508</u>

The following schedule summarizes future debt service requirements to maturity as of June 30, 2001:

Fiscal Year	Principal	Interest*	Total
2002	\$ 136,720,000	\$ 86,479,545	\$ 223,199,545
2003	114,410,000	76,551,876	190,961,876
2004	104,860,000	68,430,528	173,290,528
2005	85,090,000	61,071,516	146,161,516
2006	65,310,000	54,909,951	120,219,951
2007	85,590,000	49,276,996	134,866,996
2008	85,840,000	42,245,739	128,085,739
2009	66,030,000	35,227,623	101,257,623
2010	16,160,000	31,330,001	47,490,001
2011	5,785,000	30,603,071	36,388,071
2012	5,785,000	30,292,457	36,077,457
2013	5,830,000	29,970,496	35,800,496
2014	5,465,000	29,654,250	35,119,250
2015	5,685,000	29,335,413	35,020,413
2016	6,025,000	29,016,620	35,041,620
2017	98,860,000	25,431,614	124,291,614
2018	99,150,000	19,515,196	118,665,196
2019	99,375,000	13,580,889	112,955,889
2020	99,635,000	7,633,254	107,268,254
2021	7,545,000	4,902,838	12,447,838
2022	7,980,000	4,458,840	12,438,840
2023	8,450,000	3,988,118	12,438,118
2024	8,800,000	3,491,300	12,291,300
2025	9,040,000	2,975,341	12,015,341
2026	8,760,000	2,455,330	11,215,330
2027	8,565,000	1,943,156	10,508,156
2028	7,595,000	1,472,234	9,067,234
2029	6,805,000	1,030,524	7,835,524
2030	4,615,000	676,755	5,291,755
2031	3,580,000	444,570	4,024,570
2032	3,780,000	233,288	4,013,288
2033	1,185,000	33,773	1,218,773
	<u>\$ 1,278,305,000</u>	<u>\$ 778,663,102</u>	<u>\$ 2,056,968,102</u>

* \$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.

Notes to the Financial Statements (continued)
June 30, 2001

Shown below are the outstanding bond issues and their final maturities (in fiscal years) as of June 30, 2001:

Series	Dated	Issued	Outstanding	Final Maturity
LIX (59)	August 1, 1979	\$ 200,000,000	\$ 60,000,000	2004
LX (60)	November 1, 1979	200,000,000	80,000,000	2005
LXI (61)	January 1, 1980	300,000,000	160,000,000	2009
LXII (62)	April 1, 1980	300,000,000	150,000,000	2009
LXIII (63)	July 1, 1980	300,000,000	150,000,000	2009
LXIV (64)	October 1, 1980	300,000,000	70,000,000	2010
LXVI (66)	June 1, 1981	240,000,000	30,000,000	2003
73	December 1, 1985	740,000,000	370,000,000	2020
75	October 1, 1995	70,000,000	47,165,000	2027
76A	April 1, 1997	40,000,000	34,095,000	2029
77	April 1, 1998	40,000,000	38,325,000	2030
78A	March 1, 2000	10,000,000	9,300,000	2024
78B	July 6, 2000	10,000,000	9,420,000	2024
79A	March 1, 2000	22,000,000	22,000,000	2032
80A	August 15, 2000	35,000,000	35,000,000	2033
80B	September 28, 2000	13,000,000	13,000,000	2002
Total Bonds Outstanding as of June 30, 2001:			\$ 1,278,305,000	

Debt Refundings

July 6, 2000 Bond Sale and Refunding— Series 78B

On July 6, 2000, the Department issued \$10,000,000 of Series 78B general obligation bonds with an average interest rate of 5.80 percent. These bonds were issued to refund \$10,000,000 of Series 64, with an interest rate of 9.20 percent. The current refunding of these bonds increases the total debt service payment over the next 23 years (assuming no bond calls of Series 78B occur) by approximately \$54 thousand and result in an economic gain of approximately \$1.0 million.

(7)
DEMAND BONDS

Included in long-term debt at June 30, 2001 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.

Notes to the Financial Statements (continued)
June 30, 2001

The Department's Remarketing Agents (J.P. Morgan & Co. and Morgan Stanley Dean Witter) 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, 2001. 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 $\frac{1}{2}$ of 1%, whichever is higher). If the tender advance is in default, interest would accrue at the bank's base rate plus 1%. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the 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. As of June 30, 2001, the Department is required to pay a yearly commitment fee which is payable quarterly in arrears, at a rate of .10 percent per annum, applied to the purchase commitment defined above.

The present purchase commitments by the banks will remain in effect to the earlier of (a) June 25, 2002 (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; (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, 2001. The deficit is \$847,185 and resulted in part from operation of the Oregon Veterans' Home at less than full capacity. The deficit for the fiscal year ended June 30, 2000 was \$828,007.

Notes to the Financial Statements (continued)
June 30, 2001

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, 2001 and June 30, 2000:

Balance, June 30, 1999	\$	13,225,867
Federal grant		33,280
Less: Depreciation		<u>(329,069)</u>
Balance, June 30, 2000	\$	12,930,078
Federal grant		119,558
Less: Depreciation		<u>(329,069)</u>
Balance, June 30, 2001	\$	<u><u>12,720,567</u></u>

(9)
INTERFUND TRANSACTIONS

The following schedule summarizes interfund receivables and payables for the years ended June 30, 2001 and June 30, 2000:

Description	Receivables	Payables	June 30, 2001	June 30, 2000
Conservatorship fees	Veterans' Loan Program		\$ 29,165	\$ 29,704
Conservatorship fees	General Fund		2240	288
Conservatorship fees		Conservatorship Trust Fund	\$ 31,405	\$ 29,992

During the year ended June 30, 2001 the Oregon Veterans' Home repaid the remaining advance from the Veterans' Loan Program of \$134,000.

(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, 2001 (Schedule 6).

Notes to the Financial Statements (continued)
June 30, 2001

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 6/30/01	Fiscal Year Ending 6/30/00
Total Budgetary Expenditures	\$ 1,335,472	\$ 1,238,549
Changes (Nonbudgeted Expenditures):		
Change in Compensated Absences	715	(417)
Total Operating Expenditures	\$ 1,336,187	\$ 1,238,132

In December 1999, the Emergency Board of the Legislature approved a General Fund appropriation increase of \$147,633 which was contributed toward the construction of a national World War II memorial. Another Emergency Board action in January 2000 increased the Department's General Fund appropriation by \$24,533 due to state-wide compensation plan adjustments. The Department's other fund limitation also increased in January 2000 by \$595,026 due to the same state-wide compensation adjustments. In addition, there were additional state-wide assessment adjustments that reduced the Department's General Fund by \$32 and its other fund limitation by \$153,517. 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 may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits, 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 10.314 percent of each covered employee's salary. The payroll for Department employees covered by the PERS for the years ended June 30, 2001,

Notes to the Financial Statements (continued)
June 30, 2001

June 30, 2000, and June 30, 1999 was \$5,506,443; \$5,520,277; and \$5,515,864, respectively. The employer contributions to PERS for the years ended June 30, 2001, 2000, and 1999 were approximately \$567 thousand, \$569 thousand, and \$479 thousand, respectively, and were equal to the required contributions for those years.

(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, 2001 is as follows:

<u>SEGMENT INFORMATION</u>	<u>Veterans' Loan Program</u>	<u>Veterans' Home Program</u>
Operating revenues	\$ 115,076,116	\$ 5,256,904
Depreciation	453,159	329,069
Net loss before operating transfers	18,356,954	(364,750)
Operating transfers	--	16,503
Net income or (loss)	18,339,723	(348,247)
Fixed asset additions	459,535	--
Net working capital	558,455,806	522,273
Total assets	1,447,611,727	12,477,600
Bonds payable	1,278,350,508	--
Total fund equity	94,931,080	11,873,382

(13)
EXTRAORDINARY ITEMS

LOSSES FROM EARLY EXTINGUISHMENT OF DEBT

During the period from July 1, 2000 through June 30, 2001, the Department called (redeemed early) a total of \$46,825,000 of its Series 64, 75, 76, 77, 78A, 78B, and 79B. As a result of these early bond redemptions, the Department recognized a net loss of \$17,231 due to accelerated amortization of issue premium and discount.

During the period from July 1, 1999 through June 30, 2000, the Department called (redeemed early) a total of \$28,240,000 of its Series 64, 75 and 76. As a result of these early

Notes to the Financial Statements (continued)
June 30, 2001

bond redemptions, the Department recognized a net loss of \$11,888 due to 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 Central Services Fund. The Central Services Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; worker's compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other key positions.

As a state agency, the Department participates in the Central Services 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 Central Services Fund from the prior biennium.

(15)
SUBSEQUENT EVENTS

September 25, 2001 Bond Sale – Series 81

On September 25, 2001, the Department issued \$60,150,000 of Series 81 general obligation bonds.

October 1, 2001 Bond Call - Series 64, 75 ,76A, 77, 78A, 78B, and 79A

On October 1, 2001, the Department called the following general obligation bonds: \$10,000,000 of Series 64, \$2,210,000 of Series 75, \$1,690,000 of Series 76A, \$1,465,000 of Series 77, \$255,000 of Series 78A, \$255,000 of Series 78B, and \$695,000 of Series 79A general obligation bonds.

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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 approximately 57% 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 but contracts out the day-to-day operations to a private contractor. 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, 2001 AND JUNE 30, 2000

	Enterprise Fund Veterans' Loan Program		Enterprise Fund Veterans' Home Program	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
ASSETS				
Cash and Cash Equivalents	\$ 442,430,164	\$ 162,024,212	\$ 536,062	\$ 507,462
Cash and Cash Equivalents - Securities Lending Collateral	17,203,117	13,928,185	21,523	48,023
Investments (Net)	298,669,923	562,901,225	-	-
Receivables:				
Mortgage Loans and Contracts (Net)	671,337,265	761,866,479	-	-
Accrued Interest	9,868,497	10,312,569	-	-
Loan Cancellation Life Insurance Premiums	401,000	442,000	-	-
Other	10,100	9,500	557,685	411,280
Due From Other Funds	29,165	29,704	-	-
Advances to Other Funds	-	134,000	-	-
Real Estate Owned	143,858	16,372	-	-
Supplies Inventory	10,787	21,550	268	152
Deferred Underwriter's Discount	1,539,153	1,291,911	-	-
Fixed Assets (Net)	5,968,698	5,962,322	11,362,062	11,691,132
TOTAL ASSETS	\$ 1,447,611,727	\$ 1,518,940,029	\$ 12,477,600	\$ 12,658,049
LIABILITIES & FUND EQUITY				
Liabilities:				
Current Liabilities:				
Bonds Payable - Maturing Within One Year (Net)	\$ 136,922,950	\$ 141,015,992	\$ -	\$ -
Matured Bonds Payable	9,226,844	7,492,359	-	-
Accrued Interest on Bonds	23,140,000	26,576,000	-	-
Obligations under Securities Lending	17,203,117	13,928,185	21,523	48,023
Accounts Payable	882,049	634,643	568,091	357,447
Loan Cancellation Life Insurance Premium	698,213	810,146	-	-
Compensated Absences Payable	136,007	132,097	3,651	3,349
Line of Credit Payable	20,000,000	-	-	-
Deposit Liabilities	1,957,767	1,607,665	-	3,112
Long-Term Liabilities:				
Bonds Payable - Maturing After One Year (Net)	1,141,427,558	1,249,408,908	-	-
Arbitrage Rebate Payable	678,122	346,385	-	-
Compensated Absences Payable	408,020	396,292	10,953	10,047
Advances from Other Funds	-	-	-	134,000
TOTAL LIABILITIES	\$ 1,352,680,647	\$ 1,442,348,672	\$ 604,218	\$ 555,978
Fund Equity:				
Contributed Capital	\$ -	\$ -	\$ 12,720,567	\$ 12,930,078
Retained Earnings-Unreserved	94,931,080	76,591,357	(847,185)	(828,007)
TOTAL FUND EQUITY	\$ 94,931,080	\$ 76,591,357	\$ 11,873,382	\$ 12,102,071
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,447,611,727	\$ 1,518,940,029	\$ 12,477,600	\$ 12,658,049

Schedule 1

<u>Total Enterprise Funds</u>	
<u>June 30, 2001</u>	<u>June 30, 2000</u>
\$ 442,966,226	\$ 162,531,674
17,224,640	13,976,208
298,669,923	562,901,225
671,337,265	761,866,479
9,868,497	10,312,569
401,000	442,000
567,785	420,780
29,165	29,704
-	134,000
143,858	16,372
11,055	21,702
1,539,153	1,291,911
<u>17,330,760</u>	<u>17,653,454</u>
<u>\$ 1,460,089,327</u>	<u>\$ 1,531,598,078</u>
\$ 136,922,950	\$ 141,015,992
9,226,844	7,492,359
23,140,000	26,576,000
17,224,640	13,976,208
1,450,140	992,090
698,213	810,146
139,658	135,446
20,000,000	-
1,957,767	1,610,777
1,141,427,558	1,249,408,908
678,122	346,385
418,973	406,339
-	134,000
<u>\$ 1,353,284,865</u>	<u>\$ 1,442,904,650</u>
\$ 12,720,567	\$ 12,930,078
<u>94,083,895</u>	<u>75,763,350</u>
<u>\$ 106,804,462</u>	<u>\$ 88,693,428</u>
<u>\$ 1,460,089,327</u>	<u>\$ 1,531,598,078</u>

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, 2001 AND JUNE 30, 2000

		<u>Enterprise Fund - Veterans' Loan Program</u>	
		<u>June 30, 2001</u>	<u>June 30, 2000</u>
REVENUES			
Interest Income:			
Mortgage Loans	\$	50,861,579	\$ 57,259,424
Contracts		4,562,401	5,648,408
Investment Income		57,521,901	38,492,961
Gain on Sale of Foreclosed Property		9,052	16,892
Loan Cancellation Life Insurance Processing Fee		425,004	399,937
Other Fees and Charges		1,342,762	1,402,798
Conservatorship Fees		353,417	345,554
TOTAL REVENUES	\$	115,076,116	\$ 103,565,974
EXPENSES			
Bond Interest	\$	85,455,556	\$ 93,957,700
Salaries and Other Payroll Expenses		6,932,307	6,886,703
Bond Expenses		925,722	819,421
Securities Lending Investment Expense		1,156,100	2,006,704
Real Estate Owned Expense		57,863	42,230
Services and Supplies		2,741,678	2,679,295
Veterans Home Operations		-	-
Depreciation Expense		453,159	360,840
Bad Debt Expense		(1,078,111)	(1,227,068)
Other Expenses		74,888	42,749
TOTAL EXPENSES	\$	96,719,162	\$ 105,568,574
NET INCOME BEFORE OPERATING TRANSFERS	\$	18,356,954	\$ (2,002,600)
OPERATING TRANSFERS			
Net Operating Transfers from Veterans Home Trust Fund		-	-
NET INCOME BEFORE EXTRAORDINARY ITEMS	\$	18,356,954	\$ (2,002,600)
Extraordinary Loss from Early Extinguishment of Debt		(17,231)	(11,888)
NET INCOME/(LOSS)	\$	18,339,723	\$ (2,014,488)
FUND EQUITY			
Beginning Retained Earnings, July 1	\$	76,591,357	\$ 78,605,845
Net Income / (Loss)	\$	18,339,723	\$ (2,014,488)
Add: Depreciation Charged to Contributions		-	-
Increase/(Decrease) in Retained Earnings	\$	18,339,723	\$ (2,014,488)
Ending Retained Earnings-Unreserved	\$	94,931,080	\$ 76,591,357
Beginning Contributed Capital	\$	-	\$ -
Changes in Contributed Capital		-	-
Ending Contributed Capital	\$	-	\$ -
Total Fund Equity	\$	94,931,080	\$ 76,591,357

Schedule 2

<u>Enterprise Fund - Veterans' Home Program</u>		<u>Total Enterprise Funds</u>	
<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
\$ -	\$ -	\$ 50,861,579	\$ 57,259,424
-	-	4,562,401	5,648,408
38,155	23,186	57,560,056	38,516,147
-	-	9,052	16,892
-	-	425,004	399,937
5,218,749	4,557,751	6,561,511	5,960,549
-	-	353,417	345,554
<u>\$ 5,256,904</u>	<u>\$ 4,580,937</u>	<u>\$ 120,333,020</u>	<u>\$ 108,146,911</u>
\$ -	\$ -	\$ 85,455,556	\$ 93,957,700
203,790	181,504	7,136,097	7,068,207
-	-	925,722	819,421
1,917	1,969	1,158,017	2,008,673
-	-	57,863	42,230
313,874	180,485	3,055,552	2,859,780
4,773,004	3,945,157	4,773,004	3,945,157
329,069	329,069	782,228	689,909
-	-	(1,078,111)	(1,227,068)
-	-	74,888	42,749
<u>\$ 5,621,654</u>	<u>\$ 4,638,184</u>	<u>\$ 102,340,816</u>	<u>\$ 110,206,758</u>
\$ (364,750)	\$ (57,247)	\$ 17,992,204	\$ (2,059,847)
<u>16,503</u>	<u>14,798</u>	<u>16,503</u>	<u>14,798</u>
\$ (348,247)	\$ (42,449)	\$ 18,008,707	\$ (2,045,049)
-	-	(17,231)	(11,888)
<u>\$ (348,247)</u>	<u>\$ (42,449)</u>	<u>\$ 17,991,476</u>	<u>\$ (2,056,937)</u>
\$ (828,007)	\$ (1,114,627)	\$ 75,763,350	\$ 77,491,218
\$ (348,247)	\$ (42,449)	\$ 17,991,476	\$ (2,056,937)
329,069	329,069	329,069	329,069
<u>(19,178)</u>	<u>286,620</u>	<u>18,320,545</u>	<u>(1,727,868)</u>
\$ (847,185)	\$ (828,007)	\$ 94,083,895	\$ 75,763,350
\$ 12,930,078	\$ 13,225,867	\$ 12,930,078	\$ 13,225,867
(209,511)	(295,789)	(209,511)	(295,789)
<u>\$ 12,720,567</u>	<u>\$ 12,930,078</u>	<u>\$ 12,720,567</u>	<u>\$ 12,930,078</u>
<u>\$ 11,873,382</u>	<u>\$ 12,102,071</u>	<u>\$ 106,804,462</u>	<u>\$ 88,693,428</u>

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

	<u>Enterprise Fund - Veterans' Loan Program</u>	
	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Cash Flows from Operating Activities:		
Operating Income / (Loss)	\$ 18,356,954	\$ (2,002,600)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation	453,159	360,840
Amortization of Bond Premium & Discount	(257,437)	(308,984)
Amortization of Remarketing Fees	-	-
Amortization of Loan Origination Fees	-	380,436
Interest Received on Investments Reported as Operating Income	(57,521,901)	(38,492,961)
Interest Payments on Bonds Reported as Operating Expense	85,712,993	94,266,684
Letter of Credit and Remarketing Fees Reported as Operating Expense	925,721	819,421
Bad Debt Expense	(1,078,111)	(1,227,068)
(Gain)/Loss on Sale of Equipment	(1,369)	(4,065)
Change in Fair Value of Investments and related adjustments	(16,095,289)	2,857,519
(Increase)/Decrease in Receivables	40,939	58,947
(Increase)/Decrease in Loans and Contracts Receivable	91,607,325	102,704,078
(Increase)/Decrease in Accrued Interest Receivable	444,072	1,142,568
(Increase)/Decrease in Real Estate Owned	(127,486)	223,447
(Increase)/Decrease in Supplies Inventory	10,763	14,936
(Increase)/Decrease in Prepaid Remarketing Fees and Bond Issuance Costs	(266,428)	(216,855)
Increase/(Decrease) in Matured Bonds Payable	1,734,485	(6,952,004)
Increase/(Decrease) in Accrued Interest Payable - Bonds	(3,436,000)	(3,000,000)
Increase/(Decrease) in Arbitrage Payable	331,737	195,336
Increase/(Decrease) in Accounts Payable	247,406	(147,302)
Increase/(Decrease) in LCLI Premium Payable	(111,933)	(176,375)
Increase/(Decrease) in Compensated Absences Payable	15,638	24,142
Increase/(Decrease) in Deposit Liabilities	350,102	168,108
	<u>102,978,386</u>	<u>152,690,848</u>
Total Adjustments	\$	\$
	<u>102,978,386</u>	<u>152,690,848</u>
Net Cash and Cash Equivalents Provided/(Used) in Operating Activities	\$	\$
	<u>121,335,340</u>	<u>150,688,248</u>

Schedule 3

<u>Enterprise Fund - Veterans' Home Program</u>		<u>Total Enterprise Funds</u>	
<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
\$ <u>(364,750)</u>	\$ <u>(57,247)</u>	\$ <u>17,992,204</u>	\$ <u>(2,059,847)</u>
329,070	329,069	782,229	689,909
-	-	(257,437)	(308,984)
-	-	-	-
-	-	-	380,436
(38,155)	(21,217)	(57,560,056)	(38,514,178)
-	-	85,712,993	94,266,684
-	-	925,721	819,421
-	-	(1,078,111)	(1,227,068)
-	-	(1,369)	(4,065)
-	-	(16,095,289)	2,857,519
(146,405)	(159,880)	(105,466)	(100,933)
-	-	91,607,325	102,704,078
-	22,062	444,072	1,164,630
-	-	(127,486)	223,447
(116)	673	10,647	15,609
-	-	(266,428)	(216,855)
-	-	1,734,485	(6,952,004)
-	-	(3,436,000)	(3,000,000)
-	-	331,737	195,336
210,644	80,107	458,050	(67,195)
-	-	(111,933)	(176,375)
1,208	4,668	16,846	28,810
<u>(3,112)</u>	<u>1,810</u>	<u>346,990</u>	<u>169,918</u>
\$ <u>353,134</u>	\$ <u>257,292</u>	\$ <u>103,331,520</u>	\$ <u>152,948,140</u>
\$ <u>(11,616)</u>	\$ <u>200,045</u>	\$ <u>121,323,724</u>	\$ <u>150,888,293</u>

(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, 2001 AND JUNE 30, 2000

(Continued from prior page)

	<u>Enterprise Fund - Veterans' Loan Program</u>	
	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	\$ 58,000,000	\$ 50,000,000
Proceeds from Line of Credit Draw	20,000,000	-
Principal Payments on Bonds	(169,815,000)	(170,275,000)
Interest Payments on Bonds	(85,712,993)	(94,266,684)
Operating Transfers In	-	-
Investment Expense from Securities Lending	1,156,100	2,006,704
Collections from Advances to Other Funds	134,000	600,000
Payments on Advances From Other Funds	-	-
Payment of Letter of Credit and Remarketing Fees	<u>(925,721)</u>	<u>(819,421)</u>
Net Cash and Cash Equivalents Provided/(Used) in Noncapital Financing Activities	\$ <u>(177,163,614)</u>	\$ <u>(212,754,401)</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	\$ (459,535)	\$ (625,751)
Proceeds from Sale of Fixed Assets	1,369	4,065
Contributions Restricted For Capital Purposes	<u>-</u>	<u>-</u>
Net Cash and Cash Equivalents Provided/(Used) by Capital and Related Financing Activities	\$ <u>(458,166)</u>	\$ <u>(621,686)</u>
Cash Flows from Investing Activities:		
Purchases of Investments	\$ (121,564,406)	\$ (340,584,358)
Proceeds from Sales or Maturities of Investments	401,890,997	114,832,121
Interest on Investments and Cash Balances	57,521,901	38,492,961
Investment Income from Securities Lending	<u>(1,156,100)</u>	<u>(2,006,704)</u>
Net Cash and Cash Equivalents Provided by Investing Activities	\$ <u>336,692,392</u>	\$ <u>(189,265,980)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ 280,405,952	\$ (251,953,819)
Net Cash and Cash Equivalents at Beginning of Year	\$ <u>162,024,212</u>	\$ <u>413,978,031</u>
Cash and Cash Equivalents at End of Year	\$ <u>442,430,164</u>	\$ <u>162,024,212</u>

Schedule 3

<u>Enterprise Fund - Veterans' Home Program</u>		<u>Total Enterprise Funds</u>	
<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
\$ -	\$ -	\$ 58,000,000	\$ 50,000,000
-	-	20,000,000	-
-	-	(169,815,000)	(170,275,000)
-	-	(85,712,993)	(94,266,684)
16,503	14,798	16,503	14,798
(1,917)	(1,969)	1,154,183	2,004,735
-	-	134,000	600,000
(134,000)	(600,000)	(134,000)	(600,000)
-	-	(925,721)	(819,421)
<u>\$ (119,414)</u>	<u>\$ (587,171)</u>	<u>\$ (177,283,028)</u>	<u>\$ (213,341,572)</u>
\$ -	\$ -	\$ (459,535)	\$ (625,751)
-	-	1,369	4,065
<u>119,558</u>	<u>33,280</u>	<u>119,558</u>	<u>33,280</u>
<u>\$ 119,558</u>	<u>\$ 33,280</u>	<u>\$ (338,608)</u>	<u>\$ (588,406)</u>
\$ -	\$ -	\$ (121,564,406)	\$ (340,584,358)
-	-	401,890,997	114,832,121
38,155	21,217	57,560,056	38,514,178
<u>1,917</u>	<u>1,969</u>	<u>(1,154,183)</u>	<u>(2,004,735)</u>
<u>\$ 40,072</u>	<u>\$ 23,186</u>	<u>\$ 336,732,464</u>	<u>\$ (189,242,794)</u>
\$ 28,600	\$ (330,660)	\$ 280,434,552	\$ (252,284,479)
<u>\$ 507,462</u>	<u>\$ 838,122</u>	<u>\$ 162,531,674</u>	<u>\$ 414,816,153</u>
<u>\$ 536,062</u>	<u>\$ 507,462</u>	<u>\$ 442,966,226</u>	<u>\$ 162,531,674</u>

Faces of the Oregon Department of Veterans' Affairs



Robin Steckley, Public Information



Samuel Ngai, Administrative Services



Mary Kluver, Loan Processing



Arlene Baker, Account Services



Rosemary Green, Human Resources



Cathy Landgren, Cashiers

We, the employees of the Oregon Department of Veterans' Affairs, are advocates for veterans, their dependents and survivors. We are dedicated to providing quality programs and services to meet their current and future needs.

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 275 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' Trust Accounts

The department maintains various veteran-related trust accounts.

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, 2001 AND JUNE 30, 2000

	Expendable Trust Fund Conservatorship Trust		Expendable Trust Fund Veterans' Trust Accounts	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
ASSETS				
Cash and Cash Equivalents	\$ 21,849,700	\$ 20,294,514	\$ 117,323	\$ -
Cash and Cash Equivalents - Securities Lending Collateral	881,626	1,851,195	4,664	-
Investments (Net)	2,729,008	2,199,049	-	-
Receivables				
Mortgage Loans and Contracts (Net)	147,283	151,350	-	-
Accrued Interest	78,549	108,918	-	-
Other	-	-	-	-
Conservatorship Real Property	3,226,691	2,564,211	-	-
Conservatorship Personal Property	598,150	723,857	-	-
	<u>\$ 29,511,007</u>	<u>\$ 27,893,094</u>	<u>\$ 121,987</u>	<u>\$ -</u>
LIABILITIES & FUND BALANCE				
Liabilities:				
Current Liabilities:				
Due to Other Funds	\$ 31,405	\$ 29,992	\$ -	\$ -
Obligations under Securities Lending	881,626	1,851,195	4,664	-
Long-Term Liabilities:				
Mortgages on Conservatorship Real Property	959,953	742,179	-	-
	<u>\$ 1,872,984</u>	<u>\$ 2,623,366</u>	<u>\$ 4,664</u>	<u>\$ -</u>
Fund Balance:				
Reserved for Trust Fund	\$ 27,638,023	\$ 25,269,728	\$ 117,323	\$ -
	<u>\$ 27,638,023</u>	<u>\$ 25,269,728</u>	<u>\$ 117,323</u>	<u>\$ -</u>
	<u>\$ 29,511,007</u>	<u>\$ 27,893,094</u>	<u>\$ 121,987</u>	<u>\$ -</u>

Schedule 4

Expendable Trust Fund Veterans' Home Trust		Total Expendable Trust Funds	
June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
\$ 253,563	\$ 177,273	\$ 22,220,586	\$ 20,471,787
10,107	-	896,397	1,851,195
-	-	2,729,008	2,199,049
-	-	147,283	151,350
-	-	78,549	108,918
-	-	-	-
-	-	3,226,691	2,564,211
-	-	598,150	723,857
<u>\$ 263,670</u>	<u>\$ 177,273</u>	<u>\$ 29,896,664</u>	<u>\$ 28,070,367</u>
\$ -	\$ -	\$ 31,405	\$ 29,992
10,107	-	896,397	1,851,195
-	-	-	-
-	-	959,953	742,179
<u>\$ 10,107</u>	<u>\$ -</u>	<u>\$ 1,887,755</u>	<u>\$ 2,623,366</u>
<u>\$ 253,563</u>	<u>\$ 177,273</u>	<u>\$ 28,008,909</u>	<u>\$ 25,447,001</u>
<u>\$ 253,563</u>	<u>\$ 177,273</u>	<u>\$ 28,008,909</u>	<u>\$ 25,447,001</u>
<u>\$ 263,670</u>	<u>\$ 177,273</u>	<u>\$ 29,896,664</u>	<u>\$ 28,070,367</u>

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, 2001 AND JUNE 30, 2000

	Expendable Trust Fund Conservatorship Trust		Expendable Trust Fund Veterans Trust	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
REVENUES				
Veterans' Benefits	\$ 8,383,889	\$ 7,494,025	\$ -	\$ -
Interest Income	1,189,566	1,205,094	7,141	-
Donations	-	-	1,400	-
TOTAL REVENUES	\$ 9,573,455	\$ 8,699,119	\$ 8,541	\$ -
EXPENDITURES				
Securities Lending Investment Expenditures	\$ 66,985	\$ 109,475	\$ 359	\$ -
Beneficiary Care	7,022,901	7,782,230	-	-
Other Expenditures	-	-	6,133	-
TOTAL EXPENDITURES	\$ 7,089,886	\$ 7,891,705	\$ 6,492	\$ -
Excess of Revenues Over/(Under) Expenditures	\$ 2,483,569	\$ 807,414	\$ 2,049	\$ -
OTHER FINANCING SOURCES/(USES)				
Operating Interagency transfers in	\$ -	\$ -	\$ -	\$ -
Operating Transfer In/(Out) to Other Trust funds	(115,274)	-	115,274	-
Operating transfers out	-	-	-	-
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	\$ 2,368,295	\$ 807,414	\$ 117,323	\$ -
Beginning Fund Balance	\$ 25,269,728	\$ 24,462,314	\$ -	\$ -
Ending Fund Balance	\$ 27,638,023	\$ 25,269,728	\$ 117,323	\$ -

Schedule 5

Expendable Trust Fund Veterans' Home Trust		Total Expendable Trust Funds	
June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
\$ -	\$ -	\$ 8,383,889	\$ 7,494,025
12,858	8,876	1,209,565	1,213,970
<u>70,828</u>	<u>38,790</u>	<u>72,228</u>	<u>38,790</u>
\$ <u>83,686</u>	\$ <u>47,666</u>	\$ <u>9,665,682</u>	\$ <u>8,746,785</u>
\$ 646	\$ -	\$ 67,990	\$ 109,475
-	-	7,022,901	7,782,230
<u>-</u>	<u>-</u>	<u>6,133</u>	<u>-</u>
\$ <u>646</u>	\$ <u>-</u>	\$ <u>7,097,024</u>	\$ <u>7,891,705</u>
\$ 83,040	\$ 47,666	\$ 2,568,658	\$ 855,080
\$ 9,753	\$ 5,492	\$ 9,753	\$ 5,492
-	-	-	-
<u>(16,503)</u>	<u>(14,798)</u>	<u>(16,503)</u>	<u>(14,798)</u>
\$ <u>76,290</u>	\$ <u>38,360</u>	\$ <u>2,561,908</u>	\$ <u>845,774</u>
\$ 177,273	\$ 138,913	\$ 25,447,001	\$ 24,601,227
\$ <u>253,563</u>	\$ <u>177,273</u>	\$ <u>28,008,909</u>	\$ <u>25,447,001</u>

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, 2001

Schedule 6

	General Fund			
	1999-2001 Budget	First Year Actual June 30, 2000	Second Year Actual June 30, 2001	Variance Favorable/ (Unfavorable)
General Fund:				
Veterans' Services Division - Appropriation	\$ 2,587,270	\$ 1,238,549	\$ 1,335,472	\$ 13,249
Total General Fund	\$ 2,587,270	\$ 1,238,549	\$ 1,335,472	\$ 13,249

Faces of the Oregon Department of Veterans' Affairs



Melody Ditter, Administrative Services



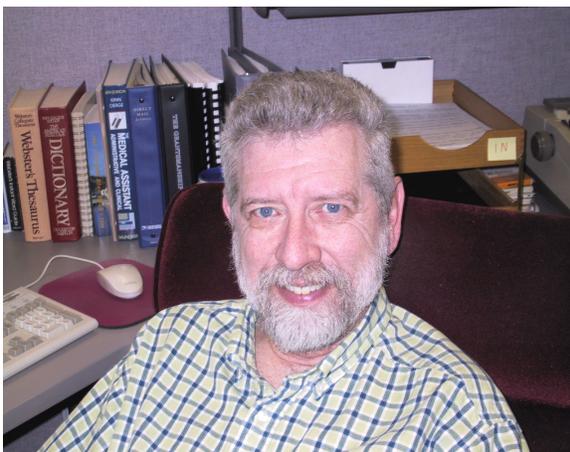
Bob Ferder, Administrative Services



Gene Hancock, Field Representative-Salem



Cindy Johnson, Insurance



David Crosley, Administrative Services



Dave Chambers, Conservatorship

We, the employees of the Oregon Department of Veterans' Affairs, are advocates for veterans, their dependents and survivors. We are dedicated to providing quality programs and services to meet their current and future needs.

Oregon Veterans' Home



Resident Leon Jordan and Jennifer McAfee, CNA, on a fishing trip.



Resident James Pelikan enjoying the Columbia River near Cascade Locks.



Residents Russell Hahn, Vernon Van Osdol, Cody Ellington, and Leon Jordan prepare for a fishing trip.



Resident Jimmy Hands with Abbey.

The Oregon Veterans' Home provides a home for Oregon veterans who have honorably served our country, and are now in need of nursing home and Alzheimer's Disease care.

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STATISTICAL SECTION



We, the employees of the Oregon Department of Veterans' Affairs, are advocates for veterans, their dependents and survivors. We are dedicated to providing quality programs and services to meet their current and future needs.

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND EQUITY**
PROPRIETARY FUND TYPE - VETERANS' LOAN PROGRAM
FOR THE FISCAL YEARS 1992 - 2001

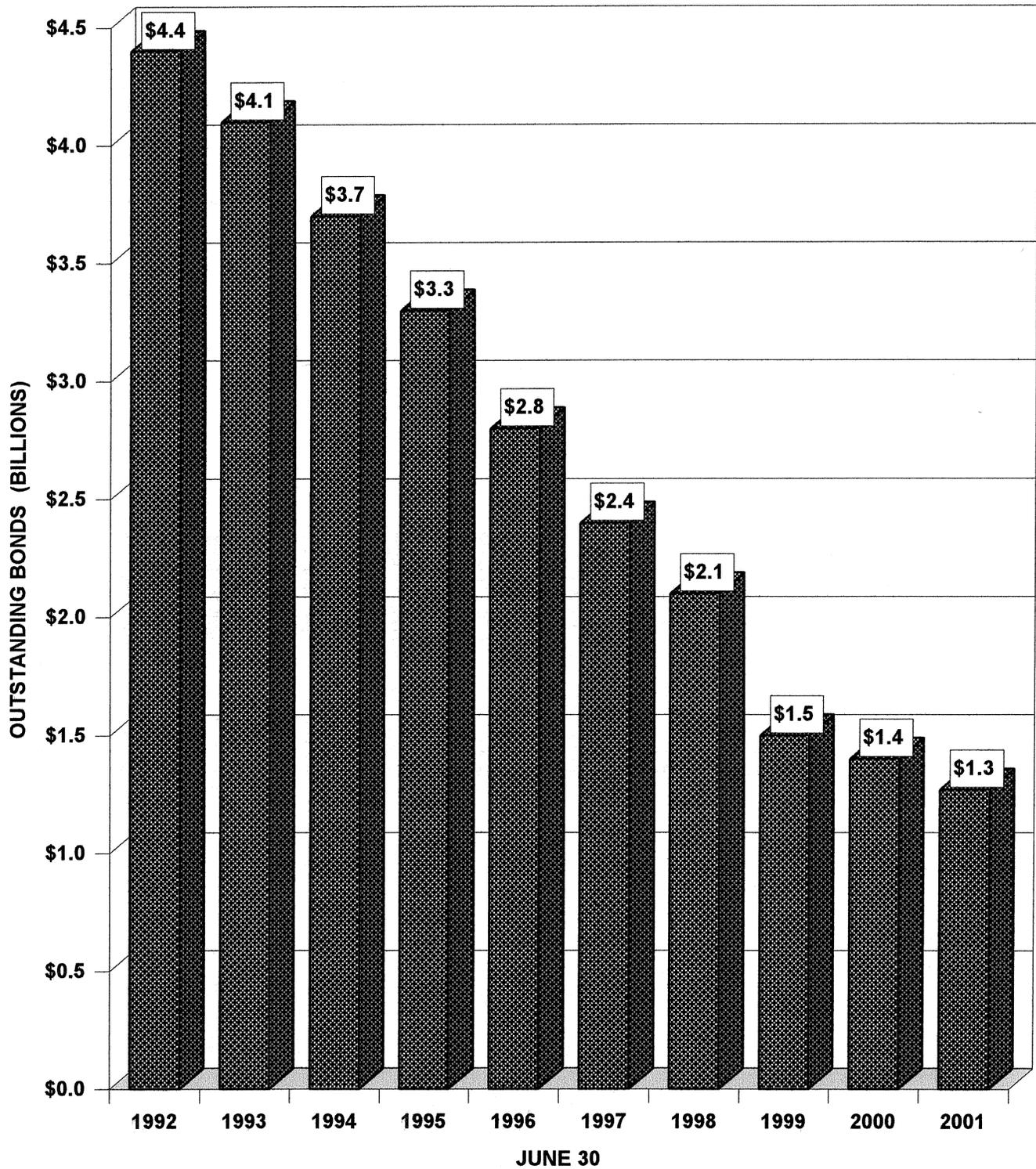
<u>REVENUES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Mortgage Loan interest income	\$ 50,861,579	\$ 57,259,424	\$ 68,967,805	\$ 84,739,050
Contract interest income	4,562,401	5,648,408	7,603,132	10,413,658
Investment income	57,521,901 *	38,492,961 *	48,834,865 *	80,184,016 *
Gain on Sale of Foreclosed Property	9,052	16,892	32,324	106,330
Gain (Loss) on Sale of Investments	-	-	-	-
Loan Cancellation Life Insurance Processing Fees	425,004	399,937	327,540	433,763
Other Fees and Charges	1,342,762	1,402,798	1,055,894	932,092
Conservatorship Fees	353,417	345,554	322,973	334,784
Service Charges	-	-	-	-
General Fund Repayment	-	-	-	-
TOTAL REVENUES	\$ 115,076,116	\$ 103,565,974	\$ 127,144,533	\$ 177,143,693
 <u>EXPENSES</u>				
Bond Interest Expense	\$ 85,455,556	\$ 93,957,700	\$ 117,276,619	\$ 153,677,775
Salaries and Other Payroll Expenses	6,932,307	6,886,703	6,829,801	6,952,431
Bond Expenses	925,722	819,421	952,673	1,478,508
Securities Lending Investment Expense	1,156,100	2,006,704	1,607,492	1,588,540
Real Estate Owned Expense	57,863	42,230	49,096	50,806
Services and Supplies	2,741,678	2,679,295	3,055,525	3,473,771
Depreciation Expense	453,159	360,840	317,751	338,820
Aid to Veterans' Service Programs	-	-	-	-
Bad Debt Expense	(1,078,111)	(1,227,068)	(3,346,273)	(2,934,825)
Other Expenses	74,888	42,749	42,477	53,475
TOTAL EXPENSES	\$ 96,719,162	\$ 105,568,574	\$ 126,785,161	\$ 164,679,301
Income/ (Loss) before Extraordinary items	\$ 18,356,954	\$ (2,002,600)	\$ 359,372	\$ 12,464,392
Extraordinary items:				
Loss on Sale of Interest Rate Caps	-	-	-	-
Loss on Extinguishment of Debt	(17,231)	(11,888)	(12,271,433)	(3,870,466)
Due from State General Fund	-	-	-	-
Gain from Litigation	-	-	654,385	-
NET INCOME / (LOSS)	\$ 18,339,723	\$ (2,014,488)	\$ (11,257,676)	\$ 8,593,926
 <u>FUND EQUITY</u>				
Beginning Retained Earnings-Unreserved	\$ 76,591,357	\$ 78,605,845	\$ 89,863,521	\$ 78,681,347
Cumulative Effect of Change in Accounting Principle	-	-	-	2,588,248
Beginning Retained Earnings - Unreserved, as Restated	\$ 76,591,357	\$ 78,605,845	\$ 89,863,521	\$ 81,269,595
Ending Retained Earnings-Unreserved	\$ 94,931,080	\$ 76,591,357	\$ 78,605,845	\$ 89,863,521

* Investment income includes change in fair value, as required by GASB Statement 31.
Gain or loss on sale of investments is not reported under GASB Statement 31.

Prepared without audit.

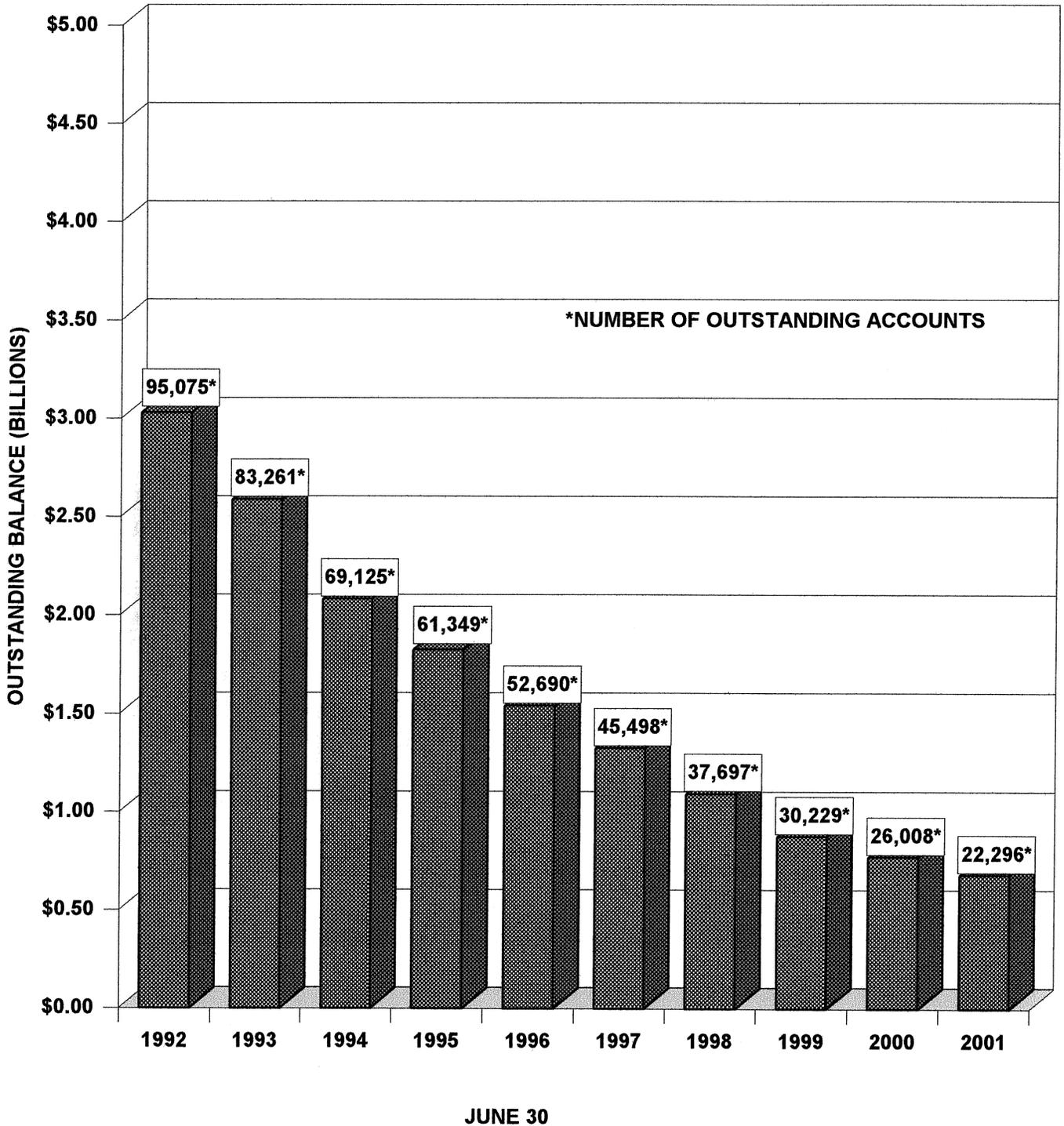
	<u>June 30, 1997</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>June 30, 1994</u>	<u>June 30, 1993</u>	<u>June 30, 1992</u>
\$	101,149,885	\$ 119,299,277	\$ 137,627,560	\$ 164,565,886	\$ 201,176,801	\$ 234,707,627
	13,302,547	16,741,582	19,925,191	24,434,197	29,464,196	32,187,427
	88,584,123	91,392,885	106,181,662	101,205,742	101,338,575	105,513,291
	292,921	438,213	354,743	329,949	465,495	1,416,568
	(771,619)	(1,265,290)	(2,295,346)	29,299,910	3,398,096	7,379,819
	497,874	561,115	601,875	560,297	631,995	693,813
	884,689	742,319	459,468	463,561	477,882	537,653
	334,328	335,634	325,256	322,367	269,248	253,251
	-	-	-	-	-	-
	-	-	-	-	-	-
\$	<u>204,274,748</u>	<u>228,245,735</u>	<u>263,180,409</u>	<u>321,181,909</u>	<u>337,222,288</u>	<u>382,689,449</u>
\$	186,918,415	\$ 215,402,978	\$ 259,118,354	\$ 284,932,969	\$ 310,980,757	\$ 335,471,211
	6,958,822	7,374,399	7,963,439	7,919,633	8,559,277	8,691,170
	1,774,314	2,310,443	2,677,130	2,665,458	2,911,507	2,928,013
	4,656,093	-	-	-	-	-
	79,340	170,172	232,218	240,393	358,231	856,560
	3,197,130	3,317,255	3,091,085	3,390,725	2,911,833	4,050,639
	235,128	417,097	522,733	1,233,864	796,225	786,982
	-	-	-	-	-	-
	(3,217,416)	(3,858,097)	(7,126,322)	-	-	181,724
	32,406	23,258	20,052	12,800	17,209	12,749
\$	<u>200,634,232</u>	<u>225,157,505</u>	<u>266,498,689</u>	<u>300,395,842</u>	<u>326,535,039</u>	<u>352,979,048</u>
\$	3,640,516	\$ 3,088,230	\$ (3,318,280)	\$ 20,786,067	\$ 10,687,249	\$ 29,710,401
	-	-	-	-	-	-
	(5,676,618)	(10,519,290)	(4,112,981)	-	-	-
	-	-	-	-	-	-
	-	-	3,283,024	-	-	-
\$	<u>(2,036,102)</u>	<u>(7,431,060)</u>	<u>(4,148,237)</u>	<u>20,786,067</u>	<u>10,687,249</u>	<u>29,710,401</u>
\$	80,717,449	\$ 88,148,509	\$ 92,296,746	\$ 71,510,679	\$ 60,823,430	\$ 31,113,029
\$	80,717,449	\$ 88,148,509	\$ 92,296,746	\$ 71,510,679	\$ 60,823,430	\$ 31,113,029
\$	<u>78,681,347</u>	<u>80,717,449</u>	<u>88,148,509</u>	<u>92,296,746</u>	<u>71,510,679</u>	<u>60,823,430</u>

**OREGON DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE SUMMARY OF BONDS OUTSTANDING**



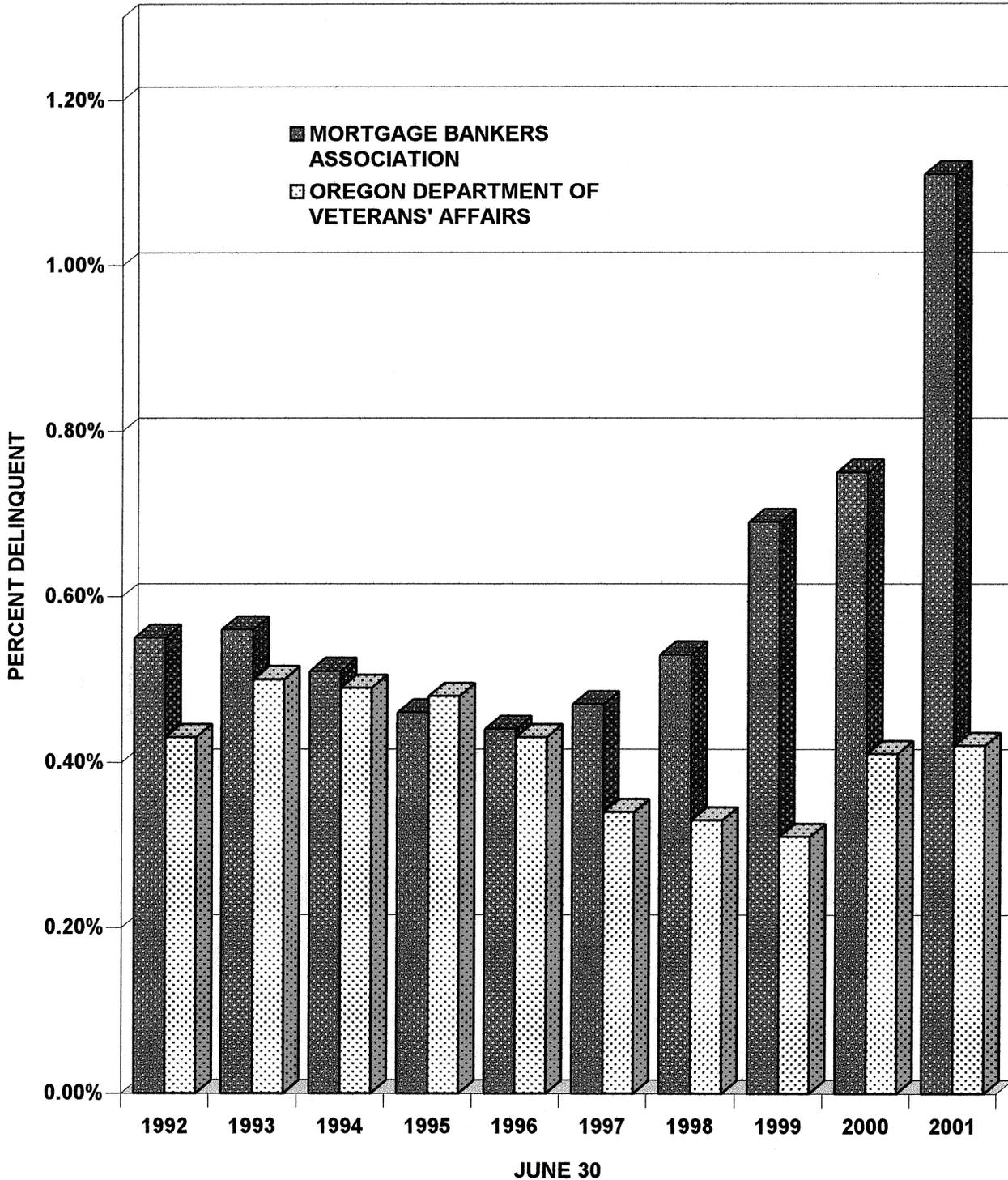
Source: Financial Statements of the Oregon Department of Veterans' Affairs
Prepared without audit

**OREGON DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE SUMMARY OF LOANS AND CONTRACTS
OUTSTANDING**



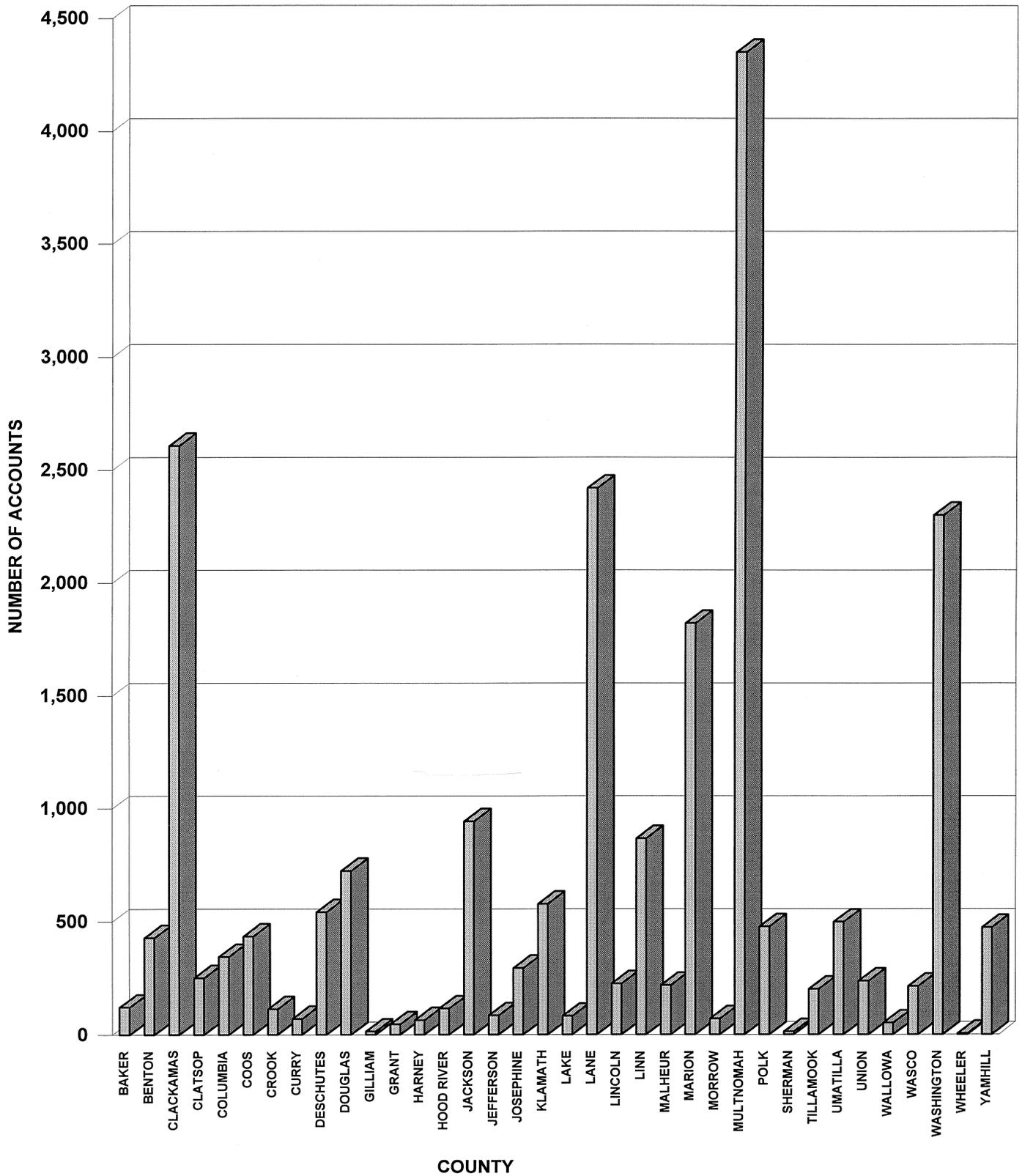
Source: Statistical Reports and Financial Statements of the Oregon Department of Veterans' Affairs
Prepared without audit

**OREGON DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE SUMMARY OF 90+ DAY DELINQUENCIES**



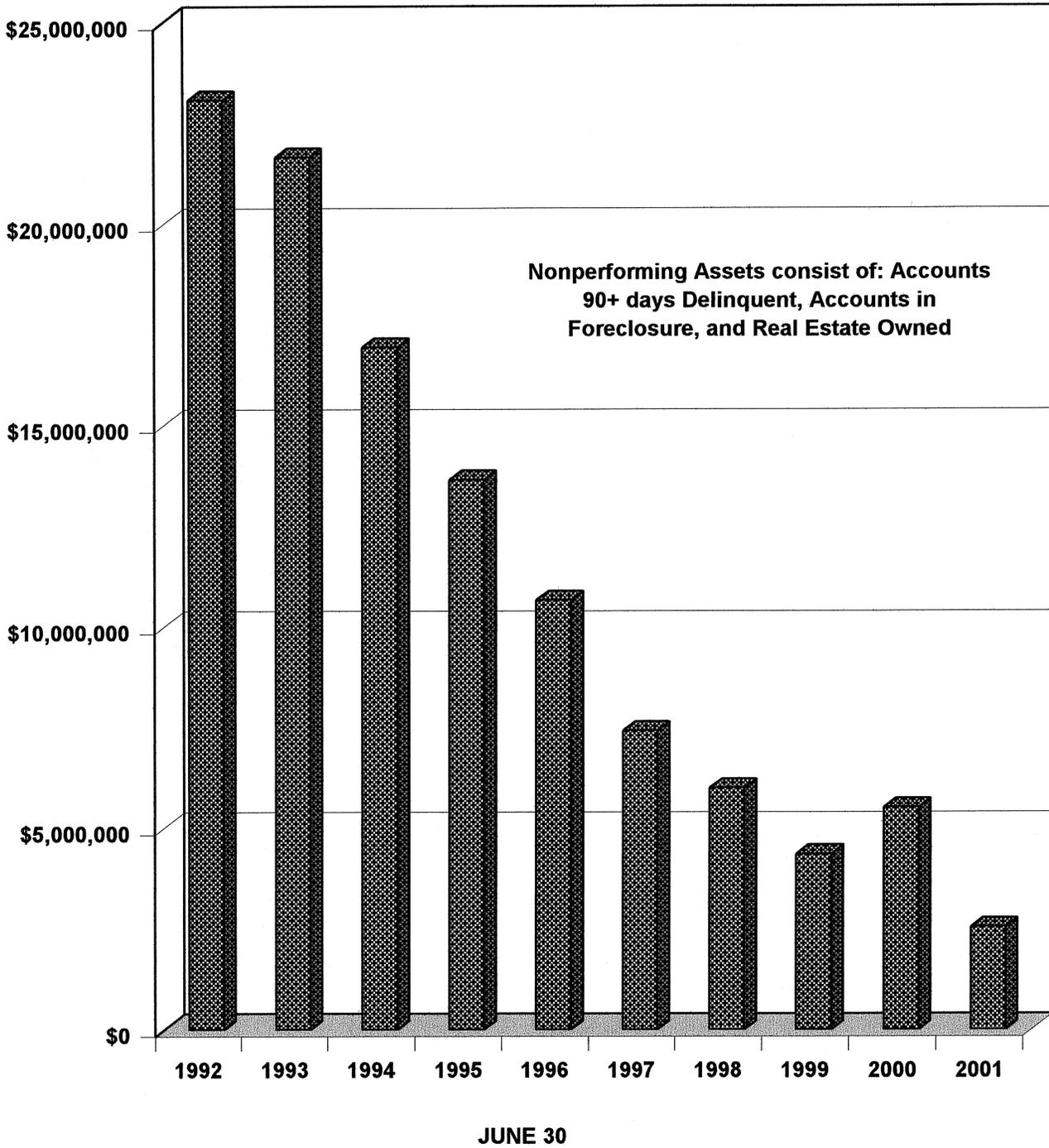
Sources: National Delinquency Survey (Oregon, All Loans) - Mortgage Bankers Association and the Oregon Department of Veterans' Affairs
Prepared without audit

OREGON DEPARTMENT OF VETERANS' AFFAIRS
OUTSTANDING LOAN AND CONTRACT ACCOUNTS BY COUNTY
AS OF JUNE 30, 2001



Prepared without audit

**OREGON DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE SUMMARY OF NONPERFORMING ASSETS**



Source: Statistical Reports and Financial Statements of the Oregon Department of Veterans' Affairs
Prepared without audit

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

ADA Coordinator

503-373-2380



Oregon Department of Veterans' Affairs
700 Summer ST NE, Salem, OR 97301-1285
503-373-2373, FAX 503-373-2362, TDD 503-373-2217

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