Comprehensive Annual Financial Report

Enterprise Funds of the
Oregon Department of Veterans' Affairs

An Agency of the State of Oregon

For The Fiscal Years Ended
June 30, 2008 and June 30, 2007

Jim Willis
Director

Bruce Shriver, CPA
Chief Financial Officer

Report Prepared By

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

Cover Photo:
USS New York
Built with 24 tons of steel
from the World Trade Center.
Ship's Motto: Never Forget

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EVENTS FROM THIS PAST YEAR:

Annually, the Department and its employees participate in various activities and events that honor and serve Oregon's veteran community. Below are a few of the events held in 2008.

Honoring our nation's fallen, the Grand Ronde Honor Guard participate in the Department's 2008 Memorial Day recognition held at the Afghan-Iraqi Freedom Memorial. The names of five soldiers were added to the Wall of Honor that day when family, friends, and veterans paid tribute to their sacrifice.

A Gold Star flag covers the names of the latest additions to the Wall of Honor. These Oregon service members killed in Afghanistan and Iraq are honored each Memorial Day and Veterans Day.

Diana Simpson welcomes visitors to the Department's booth at the 2008 State Fair in Salem. The Department does many outreaches during the year with the goal of providing important veterans' benefits information to Oregon veterans and their families.

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Oregon
Theodore R. Kulongoski, Governor

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

SERVING
OREGON VETERANS
SINCE 1945

October 31, 2008

To the Honorable Governor Theodore R. Kulongoski and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the Oregon Department of Veterans' Affairs *(the "Department")* Enterprise funds, for the fiscal years ended June 30, 2008, and June 30, 2007. 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's Enterprise funds, and that all disclosures necessary to enable the reader to gain an understanding of the Department's Enterprise funds' financial affairs have been included. The Department's Governmental and Fiduciary funds' financial statements are presented in the **Other Supplemental Section** for the purpose of additional analysis. The Department is responsible for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures.

This report is organized and presented in four sections. The **Introductory Section** includes this transmittal letter and an organizational chart. The **Financial Section** includes Management's Discussion and Analysis, the financial statements and accompanying notes, as well as the independent auditor's report on the financial statements. The **Other Supplemental Section** includes selected financial and programmatic information, much of which is presented on a multi-year basis. The **Other Reports** section includes the Independent Auditor's report on compliance and internal control over financial reporting.

The Department is an agency of the State of Oregon and is identified as the reporting entity of this Comprehensive Annual Financial Report. 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.

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 financial statements.

OREGON ECONOMY

Recent Trends – According to the Oregon State Office of Economic Analysis *(OEA)*, the second quarter of 2008 would have been the 20th consecutive quarter of rising employment in the state. This five-year pace was cut short one quarter with a seasonally adjusted job decline of 1.7 percent. Except for the 1.6 percent job growth in the first quarter of 2008, the quarterly job gains have been below 1.0 percent since the second quarter of 2007. On a year-over-year (Y/Y) basis, jobs increased in the second quarter by 0.4 percent.

The same areas which have been pressuring the U.S. economy over the past year are also taking their toll on the Oregon economy. The combined softening impacts of housing, financial, and energy markets are causing widespread slowing in job markets. Employment sectors that lost jobs in the second quarter include construction, manufacturing, retail trade, information, financial activities, and leisure and hospitality.

Although the job losses are spread across many sectors, private education and health services had strong job gains. Three others sectors also added jobs in this second quarter: Nondurable goods, wholesale trade, and government. Professional and business services had a mild addition of jobs.

The most recent Blue Chip Job Growth rankings place Oregon 27th in the nation for Y/Y job growth. Between June 2007 and June 2008, jobs increased by 1,200, or 0.07 percent.

Future Outlook – The OEA forecasts a decline of 0.7 percent in total employment in the third quarter and further declines of 0.9 percent in the fourth quarter of 2008. The first quarter of 2009 will still be anemic with growth of 0.4 percent. The Oregon economy does not recover until the latter part of 2009. Additional OEA forecasts for specific sectors of Oregon's economy are discussed in the following paragraphs.

The wood products industry continues to feel the pain from the housing downturn. The wood products sector is projected to lose jobs at a rate of 7.7 percent in 2008 and 2.1 percent in 2009. As the housing market improves into 2010, wood products jobs should grow 1.8 percent.

The computer and electronic product sector is feeling the effects of the slowing global economy. The semiconductor equipment book-to-bill ratio moved up to 0.85 in June from 0.79 in May, but is below the ratio of 0.91 in June 2007. Unfortunately, the ratio rose because bookings did not fall as much as shipments. Despite some stabilizing factors, the computer and electronic equipment sector will see job declines of 4.7 percent in 2008 and 1.1 percent in 2009. Some improvement is projected for 2010 with job growth of 2.5 percent.

The transportation equipment sector is being impacted by the high gas and diesel prices along with the slowing economy. Employment in the transportation equipment industry will decline 7.9 percent in 2008 and 4.1 percent in 2009, before mild growth of 1.3 percent in 2010.

Construction jobs are feeling the impact of the housing sector collapse. Single-family residential building permits are down 49.1 percent year to date for June 2008. There also appears to be some slowing of industrial and office building as vacancy rates edge slightly up in the Portland Metro area. Tighter credit is limiting loans along with increased available inventory is impacting the commercial building market. Construction employment is projected to fall by 7.3 percent in 2008 and 2.7 percent in 2009. As the housing market improves in the later part of 2009, employment in this sector should turn positive with growth of 1.5 percent in 2010.

Trade, transportation, and utilities sector is projected to mildly add jobs at a rate of 0.4 percent in 2008, a slight decline of 0.4 percent in 2009, and better growth of 1.8 percent in 2010. Retail and wholesale are softening due to both higher energy and food costs constricting household's budgets. The higher jet fuel costs are forcing airlines to economize on flight routes. Retail employment will modestly increase 0.6 percent in 2008, marginally lose jobs in 2009, and rebound with growth of 2.2 percent in 2010. Wholesale trade jobs will be down slightly in 2008, a loss of 1.5 percent in 2009, and modest growth of 1.0 percent in 2010.

The information sector, which includes traditional publishers such as newspapers and publishers of software, has slowed considerable compared to the plus 3 percent growth of the last two years. With the slowing of consumer spending, traditional publishers are finding less advertised bookings. This sector will reduce jobs by 0.9 percent in 2008, add jobs at a rate of 0.5 percent in 2009, and grow 1.6 percent in 2010.

The financial sector continues to be battered by the downturn in the housing market. Although bank stocks have mildly risen, many Northwest banks are still down over 50 percent from their recent highs. Losses from the housing sector and increased loan loss reserves translate into tighter credit standards and less loan activity. This sector will lose 1.7 percent of jobs in 2008, lose 0.1 percent in 2009, before recovering 2.3 percent employment in 2010.

Professional and business services will increase jobs by 1.1 percent in 2008, continuing a slowing trend that started in 2007. Job growth will continue to weaken with 0.8 percent growth in 2009 and rebound to 4.6 percent growth in 2010.

Education and health services are surviving the downturn better than any other sector. Job growth will be 4.0 percent in 2008, 3.6 percent in 2009, and 2.2 percent in 2010. Health services is especially strong through these years.

Leisure and hospitality has slowed considerably from the 4.4 percent job growth of 2007. Leisure travel is being curtailed by the high gasoline prices. Employment will increase 1.6 percent in 2008 due mainly to better numbers in the first quarter of the year. Jobs will slightly decrease in 2009 with positive growth of 1.3 percent in 2010.

The government sector employment will increase by 1.8 in 2008, 0.4 in 2009, and 0.7 in 2010. Deschutes County Community Development Department is paring staff due to the slowing housing market. Both Douglas and Josephine counties have announced sizeable staff reductions due to the loss of federal timber safety net dollars. More announcements are likely for timber counties on the west side of the Cascades.

Personal income is forecast to grow by 4.7 percent in 2008, followed by growth of 4.3 percent in 2009, and 5.8 percent in 2010. The 2008 growth rate largely reflects a stronger first quarter with federal stimulus payments helping boost the third quarter growth. The fourth quarter of 2008 is quite slow during the aftermath of the federal stimulus payments and continued slowing of the economy. The slowing trend in 2009 in reflected in the lower growth rate. The economic rebound should commence in the later part of 2009 carrying over into 2010.

MAJOR INITIATIVES

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

- The ***Veterans' Loan Program*** provides home loans to Oregon veterans at favorable interest rates. Both federal and State laws govern eligibility requirements on who may receive a veterans' home loan. As of June 30, 2008, this Program had approximately 4,880 mortgage loans and contracts outstanding, with a principal balance of approximately $311 million.

- The ***Veterans' Home Program*** provides professional medical, nursing, rehabilitative, social and other support services primarily to United States veterans residing in the Oregon Veterans' Home *(OVH)*, located in The Dalles, Oregon. The OVH, which opened in November 1997, has the capacity to serve 151 residents and had occupancy of approximately 140 residents at June 30, 2008. The Department owns the OVH and as of October 1, 2003, has contracted with Veterans Care Centers of Oregon *(VCCO)*, a non-profit organization, to provide the services needed by the residents.

The major issue related to the Department's client base is that the composition and essential necessities 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. In addition, with the ongoing conflicts in Iraq and Afghanistan, it is becoming increasingly important to help meet the needs of our younger returning veterans, who may suffer from physical and mental afflictions.

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. The Department of Administrative Services and the Oregon Legislature maintain budgetary controls.

Enterprise Funds - The Veterans' Loan Program and the Veterans' Home Program are enterprise funds and account for the Department's business-type activities. At June 30, 2008, the Veterans' Loan Program had approximately $1.15 billion in assets *(primarily consisting of loan and contract receivables, cash and cash equivalents, securities lending cash collateral, and investment securities)* and about $1.01 billion in liabilities *(primarily consisting of general obligation bonds)*. Revenues from the Department's home loan program are primarily generated through interest on loans originated and investment income. These revenues are used to pay interest expense on outstanding debt and related program and administrative expenses. At June 30, 2008, the Veterans' Home Program had assets of approximately $13.7 million consisting primarily of capital assets, receivables and cash and cash equivalents and approximately $1.8 million in liabilities consisting primarily of short-term payables and obligations arising from securities lending.

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

Moody's Investor Service	Aa2
Fitch Ratings	AA
Standard & Poor's	AA

As of June 30, 2008, the Department had approximately $777.2 million in outstanding bonds. During fiscal year 2008, the Department issued approximately $110.0 million in bonds and retired approximately $71.9 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, 2008, the Department's Enterprise funds cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $611.8 million. The Oregon Investment Council, of which the State Treasurer is a member, establishes investment policy for all State of Oregon funds. To further Oregon's economic growth, the Council's continuing policy has been to invest locally when investments of comparable yield, quality, and maturity can be found in state without damaging portfolio diversity. Fortunately for Oregonians, State-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments that have been a cause of national concern. The State Treasurer pools all available cash into the Oregon Short-Term Fund from which investments are made in a variety of instruments.

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.

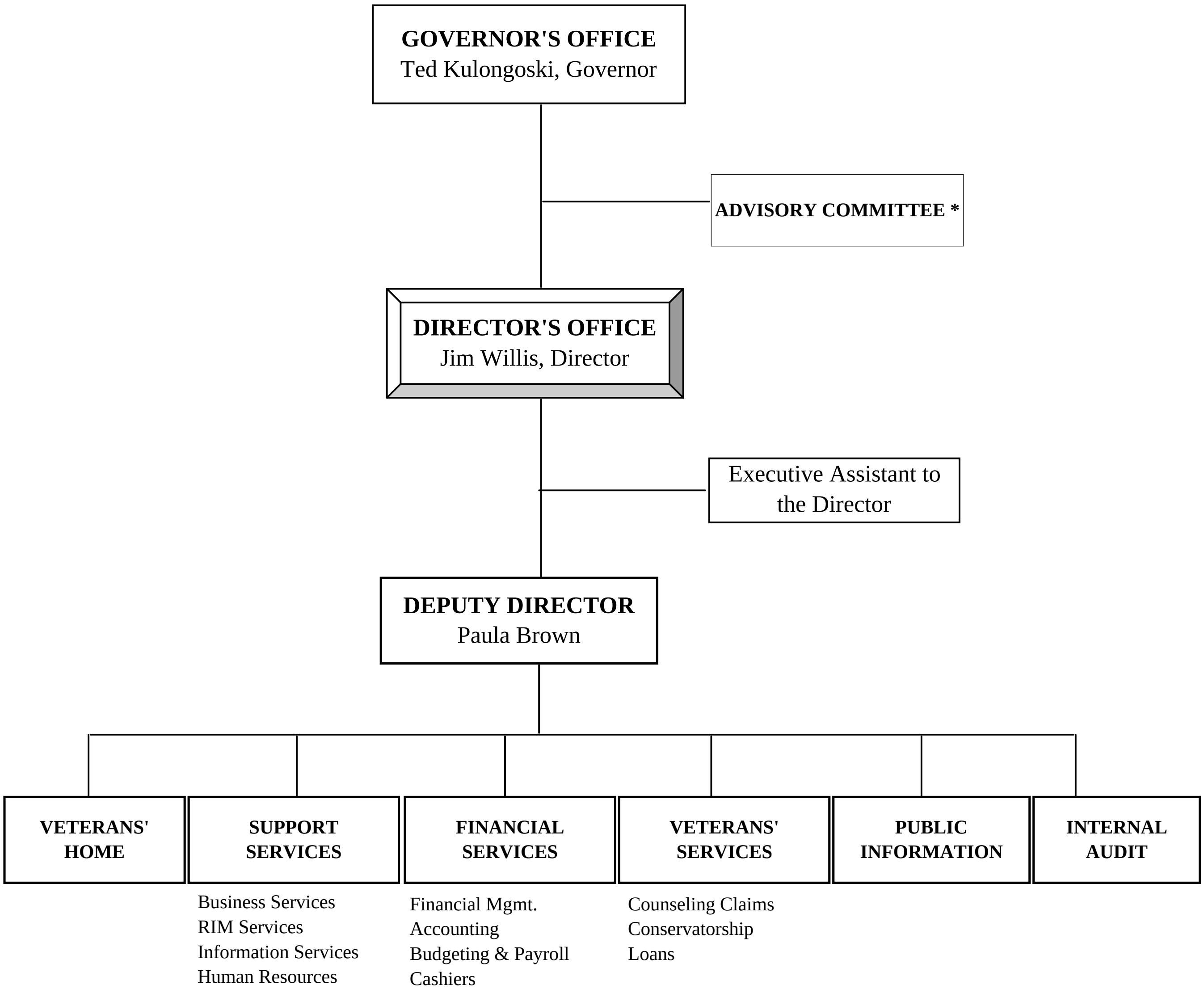
Independent Audit - The Secretary of State, Audits Division, has audited or contracted for the audit of the financial records, books of account, and transactions of the Department for the years ended June 30, 2008 and June 30, 2007. The auditors used generally accepted government auditing standards in 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 are very much appreciated.

Respectfully submitted,

Jim Willis
Director

Bruce W. Shriver
Chief Financial Officer



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

Advisory Committee Members	Term Expires	Advisory Committee Members	Term Expires
Evelyn F. Anderson	July 31, 2009	Gerard F. Lorang	March 15, 2012
David Fairclo	March 15, 2012	Tino E. Ornelas	September 30, 2011
Irv Fletcher	December 31, 2010	Kevin J. Owens	March 15, 2012
Joseph R. Howell	March 15, 2012	Charles E. Schmidt	September 30, 2008
Eugene J. LaBonte	March 15, 2012		

FINANCIAL SECTION

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

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

We have audited the accompanying financial statements of the Veterans' Loan Program and Veterans' Home Program, enterprise funds of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Veterans' Loan Program and Veterans' Home Program and do not purport to, and do not, present fairly the financial position of the State of Oregon, as of June 30, 2008 and 2007, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Veterans' Loan Program and Veterans' Home Program, enterprise funds of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2008 and 2007, the

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changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.

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

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

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
October 31, 2008

State of Oregon
OREGON DEPARTMENT of VETERANS' AFFAIRS
Management's Discussion and Analysis

This section of the Oregon Department of Veterans' Affairs' *(the "Department")* Comprehensive Annual Financial Report presents our discussion and analysis of financial performance for the Department's Proprietary Funds *(Loan Program and Veterans' Home)* during the fiscal year ended June 30, 2008. The selected financial data presented was derived primarily from the financial statements of the Department, which have been audited.

FINANCIAL HIGHLIGHTS

- Net assets increased from approximately $139.5 million at June 30, 2007, to approximately $148.7 million at June 30, 2008, an increase of $9.2 million, or 6.56%.

- Revenues decreased from approximately $70.4 million at June 30, 2007, to approximately $66.2 million at June 30, 2008, a decrease of $4.2 million, or 5.94%.

- Outstanding general obligation bond debt increased from $739.1 million *(par value)* on June 30, 2007, to $777.2 million *(par value)* on June 30, 2008, an increase of $38.1 million. A total of $110.0 million *(par value)* of general obligation bonds were issued during the year.

- Mortgage loan originations for fiscal year 2008 totaled approximately $59.3 million, an increase of approximately $1.9 million from fiscal year 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The proprietary fund financial statements include major enterprise funds, which operate similarly to business activities and follow an accrual basis of accounting.
- The notes to the financial statements provide additional information essential to a full understanding of the data provided in the proprietary fund financial statements.

OVERVIEW OF THE PROPRIETARY FUNDS FINANCIAL POSITION AND OPERATIONS

Total assets at June 30, 2008 were approximately $1.16 billion, an increase of $66.0 million from June 30, 2007. The change in assets consists primarily of $22.4 million decrease in cash and cash equivalents, a $15.6 million increase in investments, a $49.4 million increase in securities lending cash collateral, and a $22.7 million increase in net loans and contracts receivable.

Total liabilities at June 30, 2008, were $1.01 billion, an increase of $56.9 million from June 30, 2007. The change in liabilities consists primarily of a decrease of $29.8 million in line of credit payable, an increase of $38.1 million in bonds payable, an increase of $49.4 million in obligations under securities lending, and an increase of $1.8 million in excess mortgage interest and arbitrage rebate liability.

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

Proprietary Funds
Statement of Net Assets

	Business Type Activities		
	2008	**2007**	**2006**
Assets:			
Current and Other Assets	$1,148,148,658	$1,081,928,669	$955,396,410
Capital Assets	14,389,085	14,591,852	14,866,333
Total Assets	$1,162,537,743	$1,096,520,521	$ 970,262,743
Liabilities:			
Long Term Liabilities	$ 738,454,687	$ 678,779,706	$702,028,485
Other Liabilities	275,389,350	278,196,417	135,185,576
Total Liabilities	$1,013,844,037	$ 956,976,123	$837,214,061
Net Assets:			
Invested in Capital Assets	$ 14,389,085	$ 14,591,852	$ 14,866,333
Unrestricted	134,304,621	124,952,546	118,182,349
Total Net Assets	$ 148,693,706	$ 139,544,398	$133,048,682

Cash and Cash Equivalents and Investments

Total cash and cash equivalents and investments decreased by approximately $6.8 million, or 1.1%, from June 30, 2007 to June 30, 2008. The decrease reflects the Department's continued use of available receipts for early bond redemptions *($71.9 million in fiscal year 2008)* and receipt of less mortgage interest income.

Loans Receivable

Total mortgages and other loans receivable increased by $22.7 million in fiscal year 2008. This increase was primarily due to lower prepayments on outstanding mortgage loans *(a decrease of $1.7 million from fiscal year 2007)* and $59.3 million in new mortgage originations.

Capital Assets

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

Bonds Payable

Bonds Payable increased by $38.1 million *(par value)* from June 30, 2007 to June 30, 2008. During fiscal year 2008, the Department issued $110.0 million *(par value)* of general obligation bonds. This is an increase of $51.4 million compared to the combined issuance of $58.6 million in the previous fiscal year. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Assets
As in 2007, the Department continued to experience a net growth in the loan portfolio, and this had a positive impact on net assets. The Department maintained a positive spread of income from investments and mortgage loans to cover ongoing bond interest and operating costs.
The results of operations for the Department's proprietary funds are presented below:

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

	Business Type Activities		
	2008	**2007**	**2006**
Operating Revenues:			
Interest Income:			
Mortgage Loans	$ 17,611,704	$ 17,526,662	$ 17,561,219
Contracts	434,945	593,760	806,376
Other	3,219	7,595	10,953
Investment Income:			
Interest and Income	32,819,451	34,133,538	27,928,202
Change in Fair Value of Investments	397,105	3,599,026	343,737
LCLI Premium Revenue	1,356,657	1,626,287	1,962,357
LCLI Processing Fee	102,000	180,000	180,000
Resident Related Revenues	10,985,553	10,223,934	9,809,017
Other Fees and Charges	2,157,422	2,133,913	1,943,025
Conservatorship Fees	313,493	333,974	354,808
Gain on Sale of Foreclosed Property	-	-	7,551
Total Operating Revenue	$ 66,181,549	$ 70,358,689	$ 60,907,245
Operating Expenses:			
Bond Interest	$ 26,856,570	$ 34,581,972	$35,121,631
Interest on Taxable Line of Credit	721,945	279,906	525,600
Salaries and Other Payroll Expenses	6,073,854	5,544,122	5,320,563
Bond Costs	1,242,882	1,581,932	1,129,971
Securities Lending Investment Expense	6,694,172	6,279,386	2,920,501
Real Estate Owned Expense	2,324	2,267	9,485
Services and Supplies	2,052,371	2,717,430	2,332,289
LCLI Claims & Admin. Expense	2,312,867	2,717,581	2,952,064
Mortgage Broker Fees	512,448	467,853	275,144
Veterans Home Operations	10,365,986	9,632,303	9,120,185
Depreciation Expense	475,284	445,508	545,245
Bad Debt Expense	-	(545,135)	(918,401)
Special Payments	98,674	-	-
Other Expenses	175,546	177,305	57,327
Total Operating Expenses	$ 57,584,923	$ 63,882,430	$ 59,391,604
Net Transfers from Vet Home Trust Fund	153,858	25,024	25,483
Net Transfers from Military Dept.	98,824	-	-
Net Transfers from General Fund	300,000	-	-
Net Transfers to Dept. of Admin Services	-	(5,567)	16,794
Total Transfers	552,682	19,457	42,277
Change in Net Assets	9,149,308	6,495,716	1,557,918
Net Assets – Beginning	139,544,398	133,048,682	131,490,764
Net Assets – Ending	$ 148,693,706	$ 139,544,398	$ 133,048,682

The Department's proprietary fund revenue is generated principally from interest earned on mortgage loans, investment income, and resident-related revenues. In fiscal year 2008, revenue generated through proprietary funds totaled approximately $66.2 million, of which approximately $51.3 million, or 77.5% is from income earned on loans and investments. Expenses of the Department's proprietary funds consist primarily of interest expense on debt incurred to fund lending programs and operational expenses. The total expenses for proprietary fund activities totaled approximately $57.6 million, of which approximately $26.9 million, or 46.6% is bond interest expense.

The change in net assets for the year ended June 30, 2008 resulted in an increase of approximately $9.2 million compared to a $6.5 million increase for the year ending June 30, 2007. The primary factor contributing to this change is a $7.7 million decrease in interest expense on bonds.

Debt Administration

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

As of June 30, 2008, the Department had a total of $777,200,000 *(par value)* in outstanding general obligation bonds. During fiscal year 2008, $110,015,000 *(par value)* in general obligation bonds were issued.

In fiscal year 2008, the Department entered into an interest rate swap in connection with its General Obligation Veterans' Welfare Bonds, Series 84. The notional amount of the swap totals $25 million as described in the Notes to the Financial Statements (Note 8).

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

Economic Factors

On September 15, 2008, Lehman Brothers Holdings Inc., the fourth largest investment banking firm in the United States, filed Chapter 11 bankruptcy in the U.S. Bankruptcy Court, Southern District of New York (Manhattan). The name of this bankruptcy filing is: In re Lehman Brothers Holdings Inc. and the case number is 08-13555. As a result of this filing and the recent turmoil in the financial markets, the Department's $13,750,000 (par amount) investments in Lehman Brothers Holdings Inc., having a maturity date of May 25, 2010, have significantly declined in market value. As of October 31, 2008, the estimated market value of these investments was approximately $1,718,750. The accrued interest on the Lehman Brothers Holdings Inc. at June 30, 2008 as reflected in the financial statements was approximately $37,138 and was included in an interest payment received by the Department on August 25, 2008. It is very unlikely the Department will receive any interest earnings from these investments for the time period subsequent to August 25, 2008.

Requests for Information

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

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008 AND JUNE 30, 2007

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 87,234,247	$ 80,795,986	$ 1,653,358	$ 1,105,989
Cash and Cash Equivalents - Restricted	6,685,594	6,308,466	-	-
Securities Lending Cash Collateral	220,256,145	171,313,426	818,718	387,988
Investments	2,511,661	-	-	-
Investments - Restricted	56,189,591	95,073,362	-	-
Receivables:				
Accrued Interest	2,945,247	2,753,190	-	-
Loan Cancellation Life Insurance Premiums	107,214	147,259	-	-
Resident Care Related	-	-	1,136,487	1,158,387
Other	10,817	10,875	-	-
Due from Other Funds	63,499	73,850	-	-
Real Estate Owned	9,842	-	-	-
Prepaid Expenses	16,145	39,796	-	-
Total Current Assets	376,030,002	356,516,210	3,608,563	2,652,364
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	372,930,995	402,707,726	-	-
Investments	-	2,544,843	-	-
Investments - Restricted	84,613,906	30,074,187	-	-
Mortgage Loans and Contracts Receivable (Net)	306,408,188	283,736,757	-	-
Resident Care Receivable (Net)	-	-	6,693	13,754
Notes Receivable	-	123,428	-	-
Other Receivable	2,391,606	1,712,187	-	-
Deferred Underwriter's Discount	2,158,705	1,847,213	-	-
Capital Assets:				
Building, Property and Equipment	9,484,489	9,563,859	12,708,097	12,562,282
Improvements Other than Buildings	-	-	7,250	7,250
Land	-	-	600,073	600,073
Works of Art and Historical Treasures	85,170	85,170	70,000	70,000
Accumulated Depreciation	(5,226,182)	(5,269,006)	(3,339,812)	(3,027,776)
Total Noncurrent Assets	772,846,877	727,126,364	10,052,301	10,225,583
TOTAL ASSETS	$ 1,148,876,879	$ 1,083,642,574	$ 13,660,864	$ 12,877,947
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 358,119	$ 292,260	$ 889,510	$ 855,175
Line of Credit Payable	1,000,000	30,835,000	-	-
Loan Cancellation Life Insurance Premium Payable	99,208	103,602	-	-
Loan Cancellation Life Insurance Claims Payable	108,164	254,704	-	-
Due to Other Funds	-	-	63,499	55,909
Deposit Liabilities	2,187,904	2,005,195	361	361
Accrued Interest on Bonds	3,201,652	6,144,051	-	-
Obligations under Securities Lending	220,256,145	171,313,426	818,718	387,988
Claims and Judgments Payable	-	875	-	-
Compensated Absences Payable	279,685	287,513	5,345	2,277
Arbitrage Rebate Payable	268,193	105,259	-	-
Bonds Payable-Maturing Within One Year (Net)	41,454,365	61,353,153	-	-
Matured Bonds Payable	4,398,482	4,199,669	-	-
Total Current Liabilities	273,611,917	276,894,707	1,777,433	1,301,710
Noncurrent Liabilities				
Bonds Payable-Maturing After One Year (Net)	735,100,855	677,075,220	-	-
Compensated Absences Payable	137,755	141,611	2,632	1,121
Arbitrage Rebate Payable	3,180,198	1,561,754	-	-
Other Postemployment Benefits Obligation (Net)	33,247	-	-	-
Total Noncurrent Liabilities	738,452,055	678,778,585	2,632	1,121
TOTAL LIABILITIES	1,012,063,972	955,673,292	1,780,065	1,302,831
NET ASSETS				
Invested in Capital Assets	4,343,477	4,380,023	10,045,608	10,211,829
Net Assets, Unrestricted	132,469,430	123,589,259	1,835,191	1,363,287
TOTAL NET ASSETS	$ 136,812,907	$ 127,969,282	$ 11,880,799	$ 11,575,116

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

Enterprise Funds	
TOTAL	
June 30, 2008	June 30, 2007
$ 88,887,605	$ 81,901,975
6,685,594	6,308,466
221,074,863	171,701,414
2,511,661	-
56,189,591	95,073,362
2,945,247	2,753,190
107,214	147,259
1,136,487	1,158,387
10,817	10,875
63,499	73,850
9,842	-
16,145	39,796
379,638,565	359,168,574
372,930,995	402,707,726
-	2,544,843
84,613,906	30,074,187
306,408,188	283,736,757
6,693	13,754
-	123,428
2,391,606	1,712,187
2,158,705	1,847,213
22,192,586	22,126,141
7,250	7,250
600,073	600,073
155,170	155,170
(8,565,994)	(8,296,782)
782,899,178	737,351,947
$ 1,162,537,743	$ 1,096,520,521
$ 1,247,629	$ 1,147,435
1,000,000	30,835,000
99,208	103,602
108,164	254,704
63,499	55,909
2,188,265	2,005,556
3,201,652	6,144,051
221,074,863	171,701,414
-	875
285,030	289,790
268,193	105,259
41,454,365	61,353,153
4,398,482	4,199,669
275,389,350	278,196,417
735,100,855	677,075,220
140,387	142,732
3,180,198	1,561,754
33,247	-
738,454,687	678,779,706
1,013,844,037	956,976,123
14,389,085	14,591,852
134,304,621	124,952,546
$ 148,693,706	$ 139,544,398

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
OPERATING REVENUES				
Interest Income:				
Mortgage Loans	$ 17,611,704	$ 17,526,662	$ -	$ -
Contracts	434,945	593,760	-	-
Other	3,219	7,595	-	-
Investment Income	33,154,407	37,675,500	62,149	57,064
Loan Cancellation Life Insurance Premiums	1,356,657	1,626,287	-	-
Loan Cancellation Life Insurance Processing Fee	102,000	180,000	-	-
Resident Revenue (Net)	-	-	10,985,553	10,223,934
Other Fees and Charges	2,155,231	2,131,847	2,191	2,066
Conservatorship Fees	313,493	333,974	-	-
TOTAL OPERATING REVENUES	55,131,656	60,075,625	11,049,893	10,283,064
OPERATING EXPENSES				
Bond Interest	26,856,570	34,581,972	-	-
Interest on Line of Credit	721,945	279,906	-	-
Salaries and Other Payroll Expenses	5,953,581	5,445,234	120,273	98,888
Bond Expenses	1,242,882	1,581,932	-	-
Securities Lending Investment Expense	6,678,572	6,266,412	15,600	12,974
Real Estate Owned Expense	2,324	2,267	-	-
Services and Supplies	1,971,272	2,133,903	81,099	583,527
Claims Expense - Loan Cancellation Life Insurance	2,312,867	2,717,581	-	-
Mortgage Broker Fees	512,448	467,853	-	-
Veterans' Home Operations	-	-	10,365,986	9,632,303
Depreciation Expense	160,174	156,656	315,110	288,852
Bad Debt Expense	-	(545,135)	-	-
Special Payments	98,674	-	-	-
Other Expenses	175,546	177,305	-	-
TOTAL OPERATING EXPENSES	46,686,855	53,265,886	10,898,068	10,616,544
OPERATING INCOME (LOSS)	8,444,801	6,809,739	151,825	(333,480)
Transfers:				
Net Transfers from Veterans' Home Trust Fund	-	-	153,858	25,024
Net Transfers to Dept. of Administrative Services	-	(5,567)	-	-
Net Transfers from Military Dept.	98,824	-	-	-
Net Transfers from General Fund	300,000	-	-	-
TOTAL TRANSFERS	398,824	(5,567)	153,858	25,024
CHANGE IN NET ASSETS	8,843,625	6,804,172	305,683	(308,456)
NET ASSETS - Beginning	127,969,282	121,165,110	11,575,116	11,883,572
NET ASSETS - Ending	$ 136,812,907	$ 127,969,282	$ 11,880,799	$ 11,575,116

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

Enterprise Funds	
TOTAL	
June 30, 2008	June 30, 2007
$ 17,611,704	$ 17,526,662
434,945	593,760
3,219	7,595
33,216,556	37,732,564
1,356,657	1,626,287
102,000	180,000
10,985,553	10,223,934
2,157,422	2,133,913
313,493	333,974
66,181,549	70,358,689
26,856,570	34,581,972
721,945	279,906
6,073,854	5,544,122
1,242,882	1,581,932
6,694,172	6,279,386
2,324	2,267
2,052,371	2,717,430
2,312,867	2,717,581
512,448	467,853
10,365,986	9,632,303
475,284	445,508
-	(545,135)
98,674	-
175,546	177,305
57,584,923	63,882,430
8,596,626	6,476,259
153,858	25,024
-	(5,567)
98,824	-
300,000	-
552,682	19,457
9,149,308	6,495,716
139,544,398	133,048,682
$ 148,693,706	$ 139,544,398

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2008	June 30, 2007
Cash Flows from Operating Activities:		
Receipts from Customers	$ 3,238,978	$ 3,672,693
Receipts from Other Funds for Services	640,089	677,057
Loan Principal Repayments	43,404,948	49,350,042
Loan Interest Received	19,407,784	18,392,748
Payments to Employees for Services	(5,930,314)	(5,461,753)
Payments to Suppliers	(4,686,766)	(4,461,543)
Payments to Other Funds for Services	(432,986)	(736,086)
Loans Made	(66,541,897)	(66,194,263)
Other Receipts (Payments)	184,238	335,350
Net Cash Provided (Used) in Operating Activities	(10,715,926)	(4,425,755)
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	110,015,000	58,630,000
Line of Credit Proceeds	30,000,000	41,865,000
Principal Payments on Bonds	(71,915,000)	(83,267,526)
Principal Payments on Line of Credit	(59,835,000)	(12,030,000)
Interest Payments on Bonds	(29,772,123)	(36,677,261)
Interest Payments on Line of Credit	(721,945)	(279,906)
Bond Issuance Costs	(1,091,900)	(1,297,705)
Loss on Bond Call	(52,711)	(220,500)
Transfers from Other Funds	398,824	-
Net Cash Provided (Used) in Noncapital Financing Activities	(22,974,855)	(33,277,898)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(123,628)	(123,249)
Net Cash Provided (Used) in Capital and Related Financing Activities	(123,628)	(123,249)
Cash Flows from Investing Activities:		
Purchases of Investments	(240,290,410)	(531,952,215)
Proceeds from Sales or Maturities of Investments	225,064,749	537,422,638
Interest on Investments and Cash Balances	26,078,728	28,595,847
Investment Income from Securities Lending	6,678,572	6,266,412
Investment Expense from Securities Lending	(6,678,572)	(6,266,412)
Net Cash Provided (Used) in Investing Activities	10,853,067	34,066,270
Net Increase (Decrease) in Cash and Cash Equivalents	(22,961,342)	(3,760,632)
Cash and Cash Equivalents - Beginning	489,812,178	493,572,810
Cash and Cash Equivalents - Ending	$ 466,850,836	$ 489,812,178
Reconciled to Statement of Net Assets:		
Cash and Cash Equivalents - Current	$ 87,234,247	$ 80,795,986
Cash and Cash Equivalents - Current, Restricted	6,685,594	6,308,466
Cash and Cash Equivalents - Noncurrent, Restricted	372,930,995	402,707,726
Cash and Cash Equivalents - Ending (shown above)	$ 466,850,836	$ 489,812,178

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
$ 11,014,514	$ 9,761,205	$ 14,253,492	$ 13,433,898
-	-	640,089	677,057
-	-	43,404,948	49,350,042
-	-	19,407,784	18,392,748
(115,694)	(103,346)	(6,046,008)	(5,565,099)
(9,565,338)	(9,163,963)	(14,252,104)	(13,625,506)
(839,821)	(912,306)	(1,272,807)	(1,648,392)
-	-	(66,541,897)	(66,194,263)
2,190	2,066	186,428	337,416
495,851	(416,344)	(10,220,075)	(4,842,099)
-	-	110,015,000	58,630,000
-	-	30,000,000	41,865,000
-	-	(71,915,000)	(83,267,526)
-	-	(59,835,000)	(12,030,000)
-	-	(29,772,123)	(36,677,261)
-	-	(721,945)	(279,906)
-	-	(1,091,900)	(1,297,705)
-	-	(52,711)	(220,500)
153,858	25,024	552,682	25,024
153,858	25,024	(22,820,997)	(33,252,874)
(148,889)	(21,744)	(272,517)	(144,993)
(148,889)	(21,744)	(272,517)	(144,993)
-	-	(240,290,410)	(531,952,215)
-	-	225,064,749	537,422,638
46,549	44,089	26,125,277	28,639,936
15,600	12,974	6,694,172	6,279,386
(15,600)	(12,974)	(6,694,172)	(6,279,386)
46,549	44,089	10,899,616	34,110,359
547,369	(368,975)	(22,413,973)	(4,129,607)
1,105,989	1,474,964	490,918,167	495,047,774
$ 1,653,358	$ 1,105,989	$ 468,504,194	$ 490,918,167
$ 1,653,358	$ 1,105,989	$ 88,887,605	$ 81,901,975
-	-	6,685,594	6,308,466
-	-	372,930,995	402,707,726
$ 1,653,358	$ 1,105,989	$ 468,504,194	$ 490,918,167

(Continued on next page)

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

(Continued from prior page)

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2008	June 30, 2007
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ 8,444,801	$ 6,809,739
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	160,174	156,656
Bad Debt Expense	-	(545,135)
Interest Received on Investments Reported as Operating Revenue	(33,154,407)	(37,410,771)
Investment Expense	6,678,572	6,266,412
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	27,578,515	34,861,879
Bond Costs	1,242,882	1,581,932
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	(68,451)	46,930
Due from Other Funds	10,351	64,905
Prepaid Items	23,652	(12,525)
Loans and Contracts Receivable	(23,237,264)	(16,885,978)
Accounts Payable	1,400,976	299,564
Due to Other Funds	-	-
Deposit Liabilities	182,709	335,429
Compensated Absences Payable	(11,683)	5,208
Post Employmemt Benefits	33,247	
Total Adjustments	(19,160,727)	(11,235,494)
Net Cash Provided (Used) by Operating Activities	$ (10,715,926)	$ (4,425,755)
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	(397,105)	3,599,026
Contributed Assets	-	31,600
Total Noncash Investing and Capital and Related Financing Activities	$ (397,105)	$ 3,630,626

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
$ 151,825	$ (333,480)	$ 8,596,626	$ 6,476,259
315,110	288,852	475,284	445,508
20,553	59,460	20,553	(485,675)
(62,149)	(57,064)	(33,216,556)	(37,467,835)
15,600	12,974	6,694,172	6,279,386
-	-	27,578,515	34,861,879
-	-	1,242,882	1,581,932
8,409	(470,098)	(60,042)	(423,168)
-	-	10,351	64,905
-	571	23,652	(11,954)
-	-	(23,237,264)	(16,885,978)
34,335	143,112	1,435,311	442,676
7,590	(63,195)	7,590	(63,195)
-	(291)	182,709	335,138
4,578	2,815	(7,105)	8,023
-	-	33,247	-
344,026	(82,864)	(18,816,701)	(11,318,358)
$ 495,851	$ (416,344)	$ (10,220,075)	$ (4,842,099)
-	-	(397,105)	3,599,026
-	-	-	31,600
$ -	$ -	$ (397,105)	$ 3,630,626

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Department is a part of the State of Oregon reporting entity. The Department operates under the provisions of the Oregon Constitution article XI-A and primarily Oregon Revised Statutes *(ORS)* chapters 406, 407, and 408. The Department's Director is appointed by the Governor with input from the Advisory Committee and is subject to confirmation by the Oregon Senate. The director must be a 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.

In 1944 Oregon voters approved a constitutional amendment that authorized the creation of a Veterans' home and farm loan program. A year later the Department was established to administer this program. The Department's scope of services increased in 1949 when the Oregon Legislative Assembly authorized the Department, acting through the Director, to provide social services and rehabilitative relief by assisting veterans, dependents, and survivors in applying for state and federal benefits. In 1964 the Department's responsibilities were increased again as the Legislative Assembly authorized the Director of the Department to act as a conservator to certain veterans and their survivors through the management of their financial affairs. In 1993 the Legislative Assembly authorized the Department to provide skilled nursing care to veterans residing at the Oregon Veterans' Home. The most recent expansion of services came in 2007 when the Legislative Assembly authorized the Department to provide small business repair loans to qualified veterans whose small business incurred a setback during the veteran's mobilization or deployment.

The Department's home loan program *(Veterans' Loan Program)* provides home purchase and home improvement loans at favorable interest rates to eligible veterans, within the limitations set forth in Oregon's Constitution and applicable laws. The Veterans' Loan Program is operated through earnings on program loans, which are financed through the sale of tax-exempt general obligation bonds. These bonds are then retired through principal and interest payments received from borrowers and earnings from invested funds.

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

The Veterans' Loan Program and the Veterans' Home Program are classified as proprietary fund activities. The basic financial statements and notes presented herein include only the proprietary fund activities of the Department. The Department has other programs, namely conservatorship duties and social services to veterans *(claims assistance & counseling)*, which are accounted for in other, non-proprietary funds. The financial activities of these programs have no material impact on proprietary fund activity and are presented in the **Other Supplemental Section**.

Measurement Focus of Accounting and Basis of Presentation

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

The Veterans' Loan Program and the Veterans' Home Program are accounted for as Proprietary funds. The focus of Proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to private-sector business. Proprietary funds are presented using the accrual basis of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liabilities are incurred.

The basic financial statements and notes presented have been prepared in conformity with generally accepted accounting principles *(GAAP)* as prescribed by the Governmental Accounting Standards Board *(GASB)*, the Financial Accounting Standards Board *(FASB)*, and the American Institute of Certified Public Accountants *(AICPA)*. Under the auspices of GASB Statement No. 20, the Department does not apply Financial Accounting Standards Board *(FASB)* pronouncements issued after November 30, 1989 for proprietary activities unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. Therefore, private-sector standards of accounting and financial reporting are followed in accompanying proprietary fund financial statements to the extent that those standards do not contradict guidance of the GASB.

Budgetary Process

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

Cash and Cash Equivalents

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

Investments and Investment Income

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

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

Securities Lending Cash Collateral

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

Receivables

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

Real Estate Owned

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

Prepaid Expenses

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

Capital Assets

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

Compensated Absences Payable

Employees accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 300 hours per classified employee. Employees can be paid up to a maximum of 250 hours of accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for non-vesting, accumulated sick pay benefits.

Excess Interest and Arbitrage Rebate Payable

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

Invested in Capital Assets

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

Operating Revenues and Expenses

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

Bond Expenses

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

Miscellaneous bond expenses are primarily recorded as expenses when incurred. Amortization of Underwriter's discounts is also included as miscellaneous bond expenses. Included in bond expenses are fees related to Series 73 E, F, G & H, 83, 84, 85, 86, 87C, 88B, 89B, and 90B variable rate bonds, expenses of the matured bond and coupon account with the State's Fiscal Agent, and bond attorney fees.

Expenses of Series 73 E, F, G & H, 83, 84, 85, 86, 87C, 88B, 89B, and 90B variable rate bonds include Standby Bond Purchase Agreement commitment fees and remarketing agent fees *(See Note 7)*. These fees are payable quarterly in arrears.

Comparative Data and Reclassifications

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

2. DEPOSITS AND INVESTMENTS

Deposits

The Veterans' Loan Program book balance of cash and cash equivalents as of June 30, 2008 was $87,234,247 for current, unrestricted cash and cash equivalents; $6,685,594 for current, restricted cash and cash equivalents; and $372,930,995 in restricted, noncurrent cash and cash equivalents *(combined total was $466,850,836)*. The bank balance of these Veterans' Loan Program cash balances was $467,710,355 as of the same date. The Veterans' Home Program book balance of cash and cash equivalents as of June 30, 2008 was $1,653,358 for current, unrestricted cash and cash equivalents. The bank balance of these Veterans' Home Program cash balances was $1,645,627 as of the same date. The combined book balance of cash and cash equivalents of all types for both programs was $468,504,194 at June 30, 2008.

A combined total of $469,355,982 *(Veterans' Loan Program with $467,710,355 and the Veterans Home Program with $1,645,627)* at June 30, 2008 was held in demand accounts with the State Treasurer and invested in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool that is available for use by all state funds and eligible local governments. State Treasurer demand deposit accounts and time certificates of deposit investments of the Oregon Short-Term Fund held in state banks are insured or collateralized in excess of Federal Deposit Insurance Corporation *(FDIC)* coverage for a minimum of 25 percent in accordance with State statute. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Statement of Net Assets as Cash and Cash Equivalents.

Earnings on the OSTF are allocated based on daily account balances and a variable interest rate determined periodically by the State Treasurer. Securities in the OSTF are primarily held by the State Treasurer's agent in the name of the State of Oregon. As of June 30, 2008, the OSTF consisted of 53 percent U.S. government securities; 16 percent short-term commercial paper; 29.5 percent corporate notes; and the remainder were time certificates of deposit. A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held $20,596,050 with an insurance carrier as a reserve for loan cancellation life insurance. These monies are uncollateralized and are not insured under FDIC protection. The Department is required to keep on deposit an amount not less than the annual premium with additional insurance charges becoming effective if the balance drops below 200% of annual premiums. At June 30, 2008, the Department estimated that required balance to be $2,712,000. That amount is included as Cash and Cash Equivalents – Noncurrent, Restricted. The remainder of the balance at the insurance carrier is unrestricted and is included in Cash and Cash Equivalents – Current. For additional information on these monies *(also called the Loan Cancellation Life Insurance Contingency Fund)* see Note 5.

At June 30, 2008, the Department held $4,398,482 at the State's Fiscal Agent for redemption of the Department's bonds and coupons that have matured, but have not yet been redeemed. These funds are deposited at the Bank of New York 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. This money is included in Cash and Cash Equivalents – Restricted, a current asset. On June 30, 2007, the matured bonds payable balance was $4,199,669.

At June 30, 2007 the Department had a book balance of Cash and Cash Equivalents of $489,812,178, which was composed of $80,795,986 in current, unrestricted cash; $6,308,466 in current, restricted cash; and $402,707,726 in noncurrent, restricted cash. The bank balance for cash at June 30, 2007 was $490,998,074.

Investments

The State Treasurer is the investment officer for funds on deposit in the State Treasury. The State's investment policies are governed by statute and are overseen by the Oregon Investment Council. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Under an agreement with the State Treasury, the Department's investments do not include common stock. As of June 30, 2008, the State Treasurer invested the Department's funds primarily in U.S. agency securities, corporate bonds, and investment agreements.

A portion of the proceeds of Bond Series 77, 79A, and 80A are invested in specified accounts called Guaranteed Investment Contracts. These monies are held by institutions outside of the State Treasury. The Guaranteed Investment Contracts feature fixed rates of return over the length of the contracts. The Guaranteed Investment Contract accounts are currently uncollateralized but are subject to collateralization by the providers in the event that the debt rating of a provider falls below a specified level or transfer the agreement to a subsidiary or affiliate of the provider with a higher debt rating. In addition, Guaranteed Investment Contracts evidenced by contracts, rather than by securities, are uncategorized with regard to credit risk.

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

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

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

The schedule below presents the credit risk and carrying amount *(fair value)* as of June 30, 2008. 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. The Guaranteed Investment Contracts and the Repurchase Agreements are presented on an amortized cost basis and their reported value is not materially different from fair value. As of June 30, 2008 the carrying value of the other investments below are equal to the fair value.

	Category 1	Category 2	Category 3	Carrying Amount
Investments				
Investments Held By State Treasurer				
U.S. Government And Agency Securities	$ 25,111,069	$ -	$ -	$ 25,111,069
Commercial Paper	-	-	-	-
Corporate Bonds	106,523,166	-	-	106,523,166
Total Investments Held By State Treasurer	$ 131,634,235	$ -	$ -	$ 131,634,235
Repurchase Agreements	6,366,298	-	-	6,366,298
Total By Risk category	$ 138,000,533	$ -	$ -	$ 138,000,533
Investments - Not Categorized				
Guaranteed Investment Contracts				$ 5,314,625
Investments Held By Broker-Dealers Under Securities Loans With Cash Collateral:				
U.S. Government And Agency Securities				216,735,918
Securities Lending Short-Term Collateral Investment Pool (Oregon Short-Term Fund Only):				219,762,325
Less:				
Securities Lending Amounts				(436,498,243)
Total Investments				$ 143,315,158

The schedule below presents the schedule of interest rate risk and credit quality disclosure as of June 30, 2008.

		Investment Maturities (in years)				
Investment type	**S&P Credit rating**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Total Fair Value**
U.S. Treasury Obligations	-	$	$	$	$	$
U.S. Agency Securities	AAA	5,041,491	20,069,578	-	-	25,111,069
Commercial Paper		-	-	-	-	-
Corporate Bonds	AA	54,604,517	-	-	-	54,604,517
Corporate Bonds	A	44,370,677	-	-	-	44,370,677
Corporate Bonds	BBB	7,547,972	-	-	-	7,547,972
Corporate Bonds			-	-	-	-
Guaranteed Investment Contracts and Repurchase Agreements	N/A		-	-	11,680,923	11,680,923
Total Investments		$ 111,564,657	$ 20,069,578	-	$11,680,923	$ 143,315,158

Concentration of Credit Risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2008, 8.957% of the Department's total investments were in Lehman Brothers Hldgs Inc, 8.652% in Citigroup FDG Inc, 7.009% in Federal Home Loan Mortgage Corp, 6.994% in Federal Natl Mtge Assn, 6.943% in Morgan Stanley Group Inc, 6.848% in Bear Stearns Cos Inc.

Restricted Assets

Included in Cash and Cash Equivalents and Investments are amounts designated as restricted. Restrictions on the Department's cash and investments can arise from Oregon's constitutional provision or enabling legislation, federal tax law relating to bond proceeds, bond covenants, deposit liabilities and from certain other contractual arrangements. The primary purpose of the restricted assets will be to meet upcoming debt service requirements and other restricted purposes. As of June 30, 2008, the Department had restricted assets of $520,420,086. As of June 30, 2007, the Department had restricted assets of $534,163,741.

Securities Lending

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

During the year, State Street lent the Department's fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the 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. Both Oregon State Treasury and the broker-dealer borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral during the year generally do not match the maturities of their securities loans. On June 30, 2008, the Department had no securities on loan.

The Department's cash balances are invested in the OSTF, a cash and investment pool managed by the Oregon State Treasury which is available for use by all state funds and local governments. State Street is authorized to lend OSTF securities in return for U.S. dollar-denominated cash. State Street is also authorized by the Securities Lending Agreement to invest this cash collateral in a short-term investment pool maintained by State Street. As of June 30, 2008, the fair value of all securities on loan from the OSTF was $4,746,661,246. The total cash collateral received for the securites on loan from OSTF was $4,841,867,061. The fair value of all investments made with the cash collateral received for those securities on loan was $4,812,941,586.

Total cash collateral received for securities on loan for the Department's proprietary funds was $221,074,864. Total fair value of all investments made with cash collateral was $219,762,325. Total securities on loan (Department's share of OSTF securities on loan) was $216,735,918.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2008 and June 30, 2007:

	June 30, 2008	June 30, 2007
Veterans' Loan Program:		
Investment Income: Accrual Basis	$ 26,078,730	$ 27,810,063
Securities Lending Revenue	6,678,572	6,266,412
Increase/(Decrease) in Fair Value of Investments	397,105	3,599,025
Investment Income	$ 33,154,407	$ 37,675,500
Veterans' Home Program:		
Investment Income: Accrual Basis	$ 46,549	$ 44,090
Securities Lending Revenue	15,600	12,974
Investment Income	$ 62,149	$ 57,064

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, 2008 is approximately $311 million. All mortgaged property is located within Oregon. The Department uses the allowance method to estimate uncollectible mortgage loans and contracts receivable. The allowance is periodically adjusted by management to accommodate changes in economic conditions, nonperforming assets, historical loss experience, and other conditions that may affect the ultimate collectibility of the mortgage loans and contracts. In 2008 the Department determined the balance of the allowance account to be in line with projected losses for the remaining loan and contract portfolio. Accordingly, the account balance remained at $4.32 million at June 30, 2008. The balance of the allowance account represents approximately 1.39 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the balance sheet for June 30, 2008 and June 30, 2007.

	June 30, 2008	June 30, 2007
Loans Receivable	$ 306,343,695	$ 281,915,318
Contracts Receivable	4,385,493	6,142,438
Total Loans and Contracts Receivable	$ 310,729,188	$ 288,057,756
Less: Allowance for Principal Losses	(4,321,000)	(4,321,000)
Net Loans and Contracts Receivable	$ 306,408,188	$ 283,736,756

Included in mortgage loans receivable are loans that will not amortize at their current monthly payment amounts. These loans became non-amortizing primarily through borrowers' choosing to extend the repayment term of their loans in lieu of accepting increased monthly principal and interest installments resulting from loan interest rate increases. The option to allow a borrower to extend the repayment life of the loan rather than accept an increase in the monthly principal and interest installment amount was the result of legal action brought against the Department by the Associated Oregon Veterans in 1985. As of June 30, 2008, there were 137 non-amortizing accounts with an aggregate principal balance of approximately $13,736,197. This represents 4.50 percent of the total net loans and contracts receivable.

Related Party Transactions: Home Loans to Employees

Department employees are entitled to apply for an ODVA home loan if they meet the eligibility criteria, namely military service and citizenship in the state, and also underwriting standards such as those related to credit history and income level. The interest rate on the home loan and other terms and conditions of these loans are identical to those home loans made to non-employees. During the fiscal year ended June 30, 2008, the department made no new home loans to an eligible veteran employee. At June 30, 2008, the balance of existing home loans was $458,569 based on loans made to three employees. This amount represents less than 0.2% of the total loans and contracts receivable. At June 30, 2007 the balance of existing home loans was $470,494 based on loans made to three employees.

Troubled Debt Restructurings

The Department makes every reasonable attempt to keep a borrower in the home purchased under the Veterans' Loan Program. In order to avoid foreclosure, one method of working with borrowers is to temporarily reduce loan payments for borrowers. This is allowed under ORS 407.095. During the year ended June 30, 2008, the Department provided this relief to some borrowers and deferred loan interest income of approximately $7,000. This interest amount was subsequently capitalized on these loans. In total, $371,600 in loans were restructured in this fashion. From these restructured loans the Department received approximately $5,400 in mortgage interest income during the fiscal year. For the year ended June 30, 2007, it was not necessary for the Department to provided this relief to any borrowers.

4. CAPITAL ASSETS

The following table details the net capital assets of the Veterans' Loan and Veterans' Home Programs for the years ended June 30, 2008 and June 30, 2007:

	June 30, 2008	June 30, 2007
Veterans' Loan Program		
Building, Property, and Equipment	$ 9,484,489	$ 9,563,859
Less: Accumulated Depreciation	(5,226,182)	(5,269,006)
Building, Property and Equipment, Carrying Value	$ 4,258,307	$ 4,294,853
Works of Art and Historical Treasures, Non-Depreciating	$ 85,170	$ 85,170
Total Capital Assets, Net	$ 4,343,477	$ 4,380,023
Veterans' Home Program		
Building, Property and Equipment	$ 12,708,097	$ 12,562,282
Improvements Other than Buildings	7,250	7,250
Works of Art and Historical Treasures, Depreciating	30,000	30,000
Less: Accumulated Depreciation	(3,339,812)	(3,027,776)
Depreciable Capital Assets, Carrying Value	$ 9,405,535	$ 9,571,756
Works of Art and Historical Treasures, Non-Depreciating	40,000	40,000
Land	600,073	600,073
Total Capital Assets, Net	$ 10,045,608	$ 10,211,829
Total Capital Assets, Net	$ 14,389,085	$ 14,591,852

The following table provides detail on the balances and activities of the Department's Proprietary fund capital assets for the year ended June 30, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 600,073	$ -	$ -	$ 600,073
Works of Art and Historical Treasures	125,170	-	-	125,170
Total Capital Assets Not Being Depreciated	725,243	-	-	725,243
Capital Assets Being Depreciated:				
Buildings	19,689,115	78,917	-	19,768,032
Improvements Other than Buildings	7,250			7,250
Property and Equipment	2,437,026	199,748	(212,220)	2,424,554
Works of Art and Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	22,163,391	278,665	(212,220)	22,229,836
Less Accumulated Depreciation:				
Buildings	(5,971,753)	(368,755)	-	(6,340,508)
Improvements Other Than Buildings	(1,450)	(725)	-	(2,175)
Property and Equipment	(2,296,829)	(102,804)	206,072	(2,193,561)
Works of Art and Historical Treasures	(26,750)	(3,000)	-	(29,750)
Total Accumulated Depreciation	(8,296,782)	(475,284)	206,072	(8,565,994)
Total Capital Assets, Net	$ 14,591,852	$ (196,619)	$ (6,148)	$ 14,389,085

5. LOAN CANCELLATION LIFE INSURANCE

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

The Loan Cancellation Life Insurance Contingency Fund is a special fund consisting of amounts generated by the group policy and interest earned on the fund balance. Monies in the LCLI account are held and controlled by the insurance carrier during the contract period. The fund stabilizes rate experience developed under the group loan cancellation life insurance policy. An annual accounting of premiums, claims, administrative costs, and interest earnings is provided by the insurance carrier for the fund at June 30. The balance of the LCLI Contingency Fund is disclosed in Note 2.

6. BONDS PAYABLE AND DEBT SERVICE

The table below provides a summary of general obligation bond transactions of the Department for the fiscal years ended June 30, 2007 and June 30, 2008:

Bonds Payable (Par) at June 30, 2006	$	763,935,000
Bonds Issued		58,630,000
Bonds Retired		(83,465,000)
Bonds Payable *(Par)* at June 30, 2007	$	739,100,000
Bonds Issued		110,015,000
Bonds Retired		(71,915,000)
Bonds Payable *(Par)* at June 30, 2008	$	777,200,000

Shown below are the components of net bonds payable as disclosed on the balance sheet for June 30, 2008:

		Current		Noncurrent		Total
Bonds Payable (Par)	$	41,510,000	$	735,690,000	$	777,200,000
Premium on Bonds Sold		2,912		-		2,912
Discount on Bonds Sold		(58,547)		(589,145)		(647,692)
Net Bonds Payable	$	41,454,365	$	735,100,855	$	776,555,220

The following schedule summarizes future debt service requirements to maturity as of June 30, 2008:

Fiscal Year	***Principal***	***Interest [(1)]***	***Total***
2009	$ 41,510,000	$ 17,292,577	$ 58,802,577
2010	2,165,000	15,297,492	17,462,492
2011	2,240,000	15,216,278	17,456,278
2012	2,355,000	15,151,014	17,506,014
2013	2,465,000	15,030,320	17,495,320
2014-2018	205,540,000	70,425,830	275,965,830
2019-2023	225,880,000	43,923,574	269,803,574
2024-2028	57,330,000	32,933,664	90,263,664
2029-2033	71,160,000	24,112,242	95,272,242
2034-2038	87,015,000	15,526,394	102,541,394
2039-2043	72,635,000	4,820,642	77,455,642
2044-2046	6,905,000	145,823	7,050,823
TOTAL	$ 777,200,000	$ 269,875,850	$ 1,047,075,850

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2008:

Series	Dated	Original Coupon Rates From	To	Issued	Outstanding	Final Maturity
LXI (61)	January 1, 1980	7.000	15.000%	300,000,000	20,000,000	2009
LXII (62)	April 1, 1980	8.500	11.250%	300,000,000	10,000,000	2009
LXIII (63)	July 1, 1980	7.300	20.000%	300,000,000	10,000,000	2009
73 (1)	December 1, 1985	6.875	7.000%	740,000,000	370,000,000	2020
77	April 1, 1998	3.850	5.300%	40,000,000	14,675,000	2030
79A	March 1, 2000	4.550	6.000%	22,000,000	4,755,000	2032
80A	August 15, 2000	4.300	5.700%	35,000,000	12,550,000	2033
81	September 1, 2001	5.125	5.250%	60,150,000	33,665,000	2043
82	June 1, 2002	5.375	5.500%	60,000,000	23,910,000	2043
83(1)	December 15, 2004	Variable		30,000,000	30,000,000	2040
84(1)	June 29, 2005	Variable		30,000,000	30,000,000	2040
85(1)	June 21, 2006	Variable		49,000,000	49,000,000	2041
86(1)	December 1, 2006	Variable		31,320,000	31,320,000	2040
87A	December 19, 2006	3.850	4.500%	13,265,000	13,265,000	2042
87B	December 19, 2006	4.700	4.700%	5,000,000	5,000,000	2042
87C(1)	December 19, 2006	Variable		9,045,000	9,045,000	2028
88A	September 20, 2007	4.550	4.900%	9,645,000	9,650,000	2027
88B(1)	September 20, 2007	Variable		30,000,000	30,000,000	2042
89A	September 20, 2007	3.550	4.550%	10,365,000	10,365,000	2020
89B(1)	September 20, 2007	Variable		10,000,000	10,000,000	2039
90A	June 24, 2008	1.750	4.400%	11,115,000	11,115,000	2024
90B(1)	June 24, 2008	Variable		38,885,000	38,885,000	2046
Total Bonds Outstanding as of June 30, 2008:					$ 777,200,000	

(1) $370,000,000 of Series 73E,F,G and H; $30,000,000 of Series 83; $30,000,000 of Series 84; $49,000,000 of Series 85; $31,320,000 of Series 86; $9,045,000 of Series 87C; $30,000,000 of Series 88B; $10,000,000 of Series 89B; $38,885,000 of Series 90B; are Variable Demand Rate bonds and are included at an assumed interest rate at June 30, 2008, of 1.45%, 1.43%, 1.43%, 1.70%, 1.70%, 1.70%, 1.70%, 1.80%, and 1.45% respectively. See Note 7 for further information on these bonds.

7. DEMAND BONDS

Included in long-term debt at June 30, 2008 are the following State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, along with selected terms of their Standby Bond Purchase Agreements (SBPAs):

Series	Outstanding Bond Principal Amount	Liquidity Provider	Scheduled Termination Date	Maximum Interest Commitment	Commitment Fee
Series 73 E & G	$ 185,000,000	JPMorgan Chase Bank	6/30/2010	40 days/14%	0.0850%
Series 73 F & H	$ 185,000,000	Bayerische Landesbank	11/30/2015 (1)	40 days/14%	0.0850%
Series 83	$ 30,000,000	Dexia Credit Local	12/31/2013	34 days/12%	0.0925%
Series 84	$ 30,000,000	Dexia Credit Local	12/31/2013	34 days/12%	0.0925%
Series 85	$ 49,000,000	Dexia Credit Local	12/31/2013	34 days/12%	0.0925%
Series 86	$ 31,320,000	Dexia Credit Local	12/31/2013	34 days/12%	0.0925%
Series 87C	$ 9,045,000	Dexia Credit Local	12/31/2013	34 days/12%	0.0925%
Series 88B	$ 30,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 89B	$ 10,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 90B	$ 38,885,000	Dexia Credit Local	12/31/2013	34 days/12%	0.2500%

① Bayerishe Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2010.

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

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

Series	Outstanding Bond Principal Amount	Designated Remarketing Agent	Remarketing Mode	Remarketing Fee
Series 73 E & G	$ 185,000,000	Morgan Stanley	Weekly	0.048%
Series 73 F & H	$ 185,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 83	$ 30,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 84	$ 30,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 85	$ 49,000,000	JPMorgan Securities Inc	Daily	0.070%
Series 86	$ 31,320,000	JPMorgan Securities Inc	Daily	0.070%
Series 87C	$ 9,045,000	JPMorgan Securities Inc	Daily	0.070%
Series 88B	$ 30,000,000	JPMorgan Securities Inc	Daily	0.070%
Series 89B	$ 10,000,000	JPMorgan Securities Inc	Daily	0.070%
Series 90B	$ 38,885,000	JPMorgan Securities Inc	Weekly	0.070%

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPAs for Series 73, JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company, will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale (BLG) will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPAs. Under the SBPAs for Series 83, 84, 85, 86, 87C, 88B, 89B, and 90B, ("Series 83–90B") Dexia Credit Local, will commit to purchase any unremarketed bonds, subject to certain conditions set forth in the SBPAs.

As of June 30, 2008, no tender advances or draws have been necessary to purchase any unremarketed bonds under any of the SBPAs. Therefore, no tender advances or draws are outstanding as of June 30, 2008.

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

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

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal and accrued interest, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPAs. As of June 30, 2008, the Department is required to pay a yearly commitment fee, which is payable quarterly in arrears.

8. INTEREST RATE SWAPS

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

Series	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty	Counterparty Rating
84	$25,000,000	03/01/2008	3.665%	62.6% of LIBOR* + .265%	$ (231,993)	06/01/2040	Morgan Stanley Capital Services	Aa3/A+ **

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

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

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2008 is negative. The valuations provided are from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and are provided by an independent third party source. This valuation methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

As interest rates fluctuate, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department. Using interest rates as of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments are as follows:

Fiscal Year	***Principal***	***Interest***	***Interest Rate Swaps (Net)***	***Total***
2009	$ 0	$ 449,910	$ 471,895	$ 921,805
2010	0	449,910	465,107	915,017
2011	0	449,910	465,107	915,017
2012	0	451,143	465,107	916,250
2013	0	449,910	465,107	915,017
2014-2018	1,335,000	2,220,202	2,277,164	5,832,366
2019-2023	2,895,000	2,016,124	2,046,750	6,957,874
2024-2028	3,980,000	1,713,327	1,719,408	7,412,735
2029-2033	5,490,000	1,294,365	1,268,719	8,053,084
2034-2038	7,535,000	718,566	648,545	8,902,111
2039-2043	3,765,000	80,638	36,185	3,881,823
TOTAL	$ 25,000,000	$ 10,294,005	$ 10,329,094	$ 45,623,099

9. SHORT TERM DEBT

The Department entered into a revolving line of credit agreement on December 29, 2006 to help preserve certain refunding opportunities that may be used to finance veterans' housing loans. The revolving line of credit is with KeyBank National Association and interest rates on draws are based on a LIBOR index *(London InterBank Offered Rate)* or the bank's prime rate. Draws on the revolving line of credit are used to refund certain bonds. A subsequent long term bond issue then refunds the draws. The borrowing limit on the revolving line of credit cannot exceed $45 million. As of June 30, 2008, the Department had an outstanding balance of $1,000,000 from its revolving line of credit.

Beginning Balance	Issued	Repaid	Ending Balance
$ 30,835,000	$ 30,000,000	$ 59,835,000	$ 1,000,000

10. INTERFUND TRANSACTIONS

At June 30, 2008, the Veterans' Loan Program had outstanding interfund receivables of $63,499, due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home. The balances are shown as a "Due from Other Funds" on the Statement of Net Assets.

At June 30, 2007, the Veterans' Loan Program had outstanding interfund receivables of $73,850, which consisted of $55,909 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $17,941 due from the Department's Conservatorship Trust Fund.

11. EMPLOYEE RETIREMENT PLAN

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003 became part of OPSRP, unless membership was previously established in the Oregon Public Employee's Retirement System (PERS). OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Beginning January 1, 2004, PERS member contributions were deposited into the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions will be deposited in the member's IAP account, not into the member's PERS account. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, PO Box 23700, Tigard, Oregon 97281-3700.

Oregon Public Employee's Retirement System (PERS)
The Department's employees who were plan members before August 29, 2003 participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from several retirement benefit options. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2008 was 5.45 percent, July through December 2007 and 6.54 percent, January through June 2008. Employer contributions for the years ending June 30, 2008, 2007, and 2006 were $236,904, $310,340 and $295,696, respectively, equal to the required contributions for each year.

Oregon Public Service Retirement Plan (OPSRP)
The Pension Program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of Oregon Public Service retirement Plan (OPSRP). The Pension Program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. The Pension Program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at

either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than $200, or the monthly death benefit payable to the beneficiary of a deceased member is less than $200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2008 was 8.03 percent. Employer contributions for the year ending June 30, 2008, 2007, and 2006 were $317,321, $158,206, and $150,740 respectively, equal to the required contributions for each year.

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. State agencies currently pay the 6.0 percent member contribution for their employees. Employer contributions for the years ending June 30, 2008, 2007, and 2006 were $237,102, $214,274, and $204,163 respectively, equal to the required contributions for each year.

12. LEASE COMMITMENT AND RECEIVABLES

The Department leases office space to four state agency tenants at its headquarters in Salem. For the fiscal year ended June 30, 2008, the total rental income received from tenants was $640,089. On July 1, 2008, renewed lease agreements became effective with each of the four tenants, with no change in the lease payment. One lease term expired June 30, 2008. They will continue leasing on a month-to-month basis until they vacate in October 2008. A lease with a second tenant will expire February 28, 2009. They will also continue leasing on a month-to-month basis until they vacate in March 2009. Two additional leases will expire June 30, 2010. The total future rental income for all four leases is $548,545. Future rental income may increase to a higher rental rate due to inflation. The approximate historical cost of this office space is $2,238,410 with a carrying value of $1,262,709 (historical cost less accumulated depreciation of $975,701).

13. RISK FINANCING

The State of Oregon administers property and casualty insurance programs covering State government through its Central Services Fund *(Insurance Fund)*. The Insurance Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; worker's compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other key positions.

As a state agency, the Department participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide assessment for the cost of servicing is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.

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

During the fiscal years ended June 30, 2008 and June 30, 2007 there has been no significant reductions in insurance coverage in any risk category. Also, for the past eight fiscal years *(July 1, 2000 through June 30, 2008)* there have been no claims that exceeded the Department's property or liability coverage.

14. ALLOWANCES IN PROPRIETARY FUND VETERANS' HOME PROGRAM

Revenues in the Veterans' Home Program are reported net of discounts and allowances in the accompanying financial statements. The amounts netted against Resident Related Revenues are $20,553 for fiscal year 2008 and $59,460 for fiscal year 2007.

15. SUBSEQUENT EVENTS

The following subsequent events occurred after June 30, 2008.

Impairment of Lehman Brothers Holdings Inc. Investments
On September 15, 2008, Lehman Brothers Holdings Inc., the fourth largest investment banking firm in the United States, filed Chapter 11 bankruptcy in the U.S. Bankruptcy Court, Southern District of New York (Manhattan). The name of this bankruptcy filing is: In re Lehman Brothers Holdings Inc. and the case number is 08-13555. As a result of this filing and the recent turmoil in the financial markets, the Department's $13,750,000 (par amount) investments in Lehman Brothers Holdings Inc., having a maturity date of May 25, 2010, have significantly declined in market value. As of October 31, 2008, the estimated market value of these investments was approximately $1,718,750. The accrued interest on the Lehman Brothers Holdings Inc. at June 30, 2008 as reflected in the financial statements was approximately $37,138 and was included in an interest payment received by the Department on August 25, 2008. It is very unlikely the Department will receive any interest earnings from these investments for the time period subsequent to August 25, 2008.

Guaranteed Investment Contract with AIG Matched Funding Corp.
On September 18, 2008, State Street Bank at the direction of the Department requested AIG Matched Funding Corp. to either collaterialize its two guaranteed investment contracts with the Department or to repay the full amount of the funds deposited with them plus accrued interest.

The total amount of funds on deposit with AIG Matched Funding Corp. as of June 30, 2008, was approximately $1.8 million with approximately $25,355 of accrued interest outstanding. AIG Matched Funding subsequently paid off both investment agreements with payments covering both principal and accrued interest.

Draw from the Revolving Line of Credit

The Department elected to draw $10 million from its Revolving Line of Credit with KeyBank National Association on September 24, 2008. These proceeds will be used to refund maturing bond principal on October 1, 2008, to help obtain lendable funds to make veteran home loans.

Early Bond Redemptions

The Department exercised the following early bond redemptions on October 1, 2008:

Bond Series	Amount Redeemed
77	$905,000
79A	435,000
80A	450,000

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OTHER SUPPLEMENTAL SECTION

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Governmental Funds

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

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

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

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008 and JUNE 30, 2007

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ -	$ -	$ 910,349	$ 880,527
Securities Lending Cash Collateral	-	-	451,151	323,456
Receivables:				
Due from State General Fund	707,522	602,397	-	-
Due from Other Funds	-	-	2,907	1,453
Prepaid Items	2,000	329	-	-
Total Current Assets	709,522	602,726	1,364,407	1,205,436
TOTAL ASSETS	$ 709,522	$ 602,726	$ 1,364,407	$ 1,205,436
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 707,522	$ 602,397	$ -	$ -
Obligations under Securities Lending	-	-	451,151	323,456
Total Current Liabilities	707,522	602,397	451,151	323,456
TOTAL LIABILITIES	$ 707,522	$ 602,397	$ 451,151	$ 323,456
FUND BALANCES				
Reserved for Prepaid Items	$ 2,000	$ 329	$ -	$ -
Unreserved, Undesignated Fund Balance	-	-	913,256	881,980
TOTAL FUND BALANCES	$ 2,000	$ 329	$ 913,256	$ 881,980
TOTAL LIABILITIES AND FUND BALANCES	$ 709,522	$ 602,726	$ 1,364,407	$ 1,205,436

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
$ 91,212	$ 87,273	$ 1,001,561	$ 967,800
45,379	32,076	496,530	355,532
-	-	707,522	602,397
-	-	2,907	1,453
-	-	2,000	329
136,591	119,349	2,210,520	1,927,511
$ 136,591	$ 119,349	$ 2,210,520	$ 1,927,511
$ -	$ -	$ 707,522	$ 602,397
45,379	32,076	496,530	355,532
45,379	32,076	1,204,052	957,929
$ 45,379	$ 32,076	$ 1,204,052	$ 957,929
$ -	$ -	$ 2,000	$ 329
91,212	87,273	1,004,468	969,253
$ 91,212	$ 87,273	$ 1,006,468	$ 969,582
$ 136,591	$ 119,349	$ 2,210,520	$ 1,927,511

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMBINED STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2008 and JUNE 30, 2007

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues				
Donations	$ -	$ -	$ 117,970	$ 254,338
Interest Income	-	-	50,316	47,828
Total Revenues	-	-	168,286	302,166
Expenditures				
Veterans' Services				
Personal Services	699,405	657,960	-	-
Services and Supplies	189,188	236,331	-	-
Securities Lending Investment Expense	-	-	12,779	10,881
State Treasury Charges	-	-	-	-
Trust Fund Grants	-	-	-	-
Special Payments	2,419,541	2,060,308	-	-
Total Expenditures	3,308,134	2,954,599	12,779	10,881
Other Financing Sources (Uses)				
State Appropriations	3,308,134	2,954,599	-	-
Operating Transfer In from DMV	-	-	29,627	20,551
Operating Transfer Out to Veterans Home	-	-	(153,858)	(25,024)
Total Other Financing Sources (Uses)	3,308,134	2,954,599	(124,231)	(4,473)
Net Change in Fund Balance	-	-	31,276	286,812
Beginning Fund Balance	329	103	881,980	595,168
Change in Reserve for Prepaid Items	1,671	226	-	-
Ending Fund Balance	$ 2,000	$ 329	$ 913,256	$ 881,980

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
$ 200	$ 200	$ 118,170	$ 254,538
5,289	5,925	55,605	53,753
5,489	6,125	173,775	308,291
-	-	699,405	657,960
-	-	189,188	236,331
1,343	1,348	14,122	12,229
121	121	121	121
86	11,432	86	11,432
-	-	2,419,541	2,060,308
1,550	12,901	3,322,463	2,978,381
-	-	3,308,134	2,954,599
-	-	29,627	20,551
-	-	(153,858)	(25,024)
-	-	3,183,903	2,950,126
3,939	(6,776)	35,215	280,036
87,273	94,049	969,582	689,320
-	-	1,671	226
$ 91,212	$ 87,273	$ 1,006,468	$ 969,582

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

SCHEDULE OF LEGISLATIVE AUTHORIZATION (NON-GAAP BUDGETARY BASIS)

COMPARED TO ACTUAL EXPENDITURES SUBJECT TO BUDGET

GOVERNMENTAL FUND

FOR THE BIENNIUM ENDING JUNE 30, 2009

AS OF JUNE 30, 2008

	General Fund		
	2007-2009 Budget	First Year Actual June 30, 2008	Variance Over/(Under)
General Fund:			
Veterans' Services Division - Appropriation	**$** 6,334,088	$ 3,246,993	$ (3,087,095)
Total General Fund	**$** 6,334,088	$ 3,246,993	$ (3,087,095)

Fiduciary Fund

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

Conservatorship Private Purpose Trust Fund - The Department acts as conservator of estates of approximately 186 veterans, survivors, and minor or helpless children of veterans who the court has determined are unable to manage their own financial affairs. Revenue sources include Social Security monies, U.S. Department of Veterans' Affairs benefits, investment income, and other sources of income.

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND

JUNE 30, 2008 and JUNE 30, 2007

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2008	June 30, 2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 22,933,018	$ 22,613,347
Investments	1,270,851	1,471,676
Security Lending Cash Collateral	11,757,284	8,470,052
Receivables:		
Accrued Interest	62,013	97,170
Other	5,100	6,375
Total Current Assets	36,028,266	32,658,620
Noncurrent Assets		
Contract Receivables	-	45,163
Conservatorship Real Property	3,415,626	3,317,776
Conservatorship Personal Property	335,409	346,873
Total Noncurrent Assets	3,751,035	3,709,812
TOTAL ASSETS	$ 39,779,301	$ 36,368,432
LIABILITIES		
Current Liabilities		
Due to Other Funds	$ -	$ 17,941
Mortgages on Conservatorship Real Property	64,176	-
Obligations under Securities Lending	11,757,284	8,470,052
Total Current Liabilities	11,821,460	8,487,993
Noncurrent Liabilities		
Mortgages on Conservatorship Real Property	1,864,038	1,899,250
Total Noncurrent Liabilities	1,864,038	1,899,250
TOTAL LIABILITIES	13,685,498	10,387,243
NET ASSETS		
Net Assets Held in Trust for Individuals	26,093,803	25,981,189
TOTAL NET ASSETS	$ 26,093,803	$ 25,981,189

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF CHANGES IN

FIDUCIARY NET ASSETS

FIDUCIARY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2008 and JUNE 30, 2007

	Private Purpose Trust Fund Conservatorship Program June 30, 2008	Private Purpose Trust Fund Conservatorship Program June 30, 2007
ADDITIONS		
Contributions:		
Veterans' Benefits	$ 6,694,114	$ 7,283,067
Investment Income:		
Interest Income	1,395,241	1,503,271
Valuation Changes and Redemptions of Investments	(114,250)	(191,683)
TOTAL ADDITIONS	$ 7,975,105	$ 8,594,655
DEDUCTIONS		
Veterans' Services: Beneficiary Care	$ 7,508,137	$ 7,822,040
Securities Lending Investment Expense	354,354	342,005
TOTAL DEDUCTIONS	7,862,491	8,164,045
Net Increase/ (Decrease)	112,614	430,610
CHANGE IN NET ASSETS	112,614	430,610
BEGINNING NET ASSETS	25,981,189	25,550,579
ENDING NET ASSETS	$ 26,093,803	$ 25,981,189

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STATISTICAL SECTION

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND - VETERANS' LOAN PROGRAM only
FOR THE FISCAL YEARS ENDED 1999 - 2008

	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 17,611,704	$ 17,526,662	$ 17,561,219	$ 21,225,116
Contract Interest Income	434,945	593,760	806,376	1,169,324
Other Interest Income	3,219	7,595	10,953	19,050
Investment Income *(2)*	33,154,407	37,675,500	28,198,335	18,013,534
Gain on Sale of Foreclosed Property	-	-	7,551	139,199
Loan Cancellation Life Insurance Premiums *(3)*	1,356,657	1,626,287	1,962,357	2,523,140
Loan Cancellation Life Insurance Processing Fees	102,000	180,000	180,000	220,834
Other Fees and Charges	2,155,231	2,131,847	1,941,079	947,834
Conservatorship Fees	313,493	333,974	354,808	334,340
TOTAL OPERATING REVENUES	$ 55,131,656	$ 60,075,625	$ 51,022,678	$ 44,592,371
OPERATING EXPENSES				
Bond Interest Expense	$ 26,856,570	$ 34,581,972	$ 35,121,631	$ 37,103,554
Interest on Line of Credit	721,945	279,906	525,600	159,267
Salaries and Other Payroll Expenses	5,953,581	5,445,234	5,239,879	4,793,870
Bond Expenses	1,242,882	1,581,932	1,129,971	1,324,123
Securities Lending Investment Expense	6,678,572	6,266,412	2,910,155	2,199,165
Real Estate Owned Expense	2,324	2,267	9,485	47,490
Services and Supplies	1,971,272	2,133,903	2,174,420	1,776,839
Claims Expense - Loan Cancellation Life Insurance *(3)*	2,312,867	2,717,581	2,952,064	4,637,009
Depreciation Expense	160,174	156,656	255,626	359,441
Bad Debt Expense	-	(545,135)	(918,401)	(1,104,080)
Special Payments	98,674	-	-	-
Other Expenses	687,994	645,158	332,471	170,187
TOTAL OPERATING EXPENSES	$ 46,686,855	$ 53,265,886	$ 49,732,901	$ 51,466,865
OPERATING INCOME (LOSS)	$ 8,444,801	$ 6,809,739	$ 1,289,777	$ (6,874,494)
Extraordinary Items and Transfers:				
Net Transfers to Dept. of Administrative Services	$ -	$ (5,567)	$ -	$ -
Net Transfers from Military Dept.	98,824	-	-	-
Net Transfers from General Fund	300,000	-	-	-
Gain/(Loss) on Early Extinguishment of Debt	-	-	-	-
Gain from Litigation	-	-	-	-
CHANGE IN NET ASSETS	$ 8,843,625	$ 6,804,172	$ 1,289,777	$ (6,874,494)
NET ASSETS				
Beginning Net Assets *(1)*	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827
Ending Net Assets	$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333

(1) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."
(2) Investment income includes change in fair value, as required by GASB Statement 31, beginning in the fiscal year ending June 30, 1998. Gain or loss on sale of investments is not reported under GASB Statement 31.
(3) Starting in fiscal year 2003, the Department included the activity of the Loan Cancellation Life Insurance program in the Statement of Revenues, Expenses, And Changes In Fund Net Assets.

June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999
$ 26,789,783	$ 36,742,510	$ 43,749,526	$ 50,861,579	$ 57,259,424	$ 68,967,805
1,687,323	2,535,147	3,522,372	4,562,401	5,648,408	7,603,132
11,208	-	-	-	-	-
13,338,726	24,675,139	35,956,850	57,521,901	38,492,961	48,834,865
493,409	39,121	172,472	9,052	16,892	32,324
2,704,444	3,642,487	-	-	-	-
425,004	425,004	425,004	425,004	399,937	327,540
939,950	1,189,691	1,447,451	1,342,762	1,402,798	1,055,894
345,750	364,510	338,136	353,417	345,554	322,973
$ 46,735,597	$ 69,613,609	$ 85,611,811	$ 115,076,116	$ 103,565,974	$ 127,144,533
$ 44,537,191	$ 58,066,877	$ 68,560,732	$ 85,455,556	$ 93,957,700	$ 117,276,619
-	7,500	580,883	-	-	-
5,875,969	6,838,554	6,974,557	6,932,307	6,886,703	6,829,801
1,155,355	909,379	868,243	925,722	819,421	952,673
1,899,175	630,893	522,316	1,156,100	2,006,704	1,607,492
52,526	80,757	73,308	57,863	42,230	49,096
2,140,262	2,958,497	2,480,268	2,741,678	2,679,295	3,055,525
4,927,874	5,121,239	-	-	-	-
408,883	431,391	538,555	453,159	360,840	317,751
(1,656,784)	(1,744,700)	(906,906)	(1,078,111)	(1,227,068)	(3,346,273)
-	51,000	-	-	-	-
-	210,232	180,045	74,888	42,749	42,477
$ 59,340,451	$ 73,561,619	$ 79,872,001	$ 96,719,162	$ 105,568,574	$ 126,785,161
$ (12,604,854)	$ (3,948,010)	$ 5,739,810	$ 18,356,954	$ (2,002,600)	$ 359,372
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(17,231)	(11,888)	(12,271,433)
-	-	-	-	-	654,385
$ (12,604,854)	$ (3,948,010)	$ 5,739,810	$ 18,339,723	$ (2,014,488)	$ (11,257,676)
$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357	$ 78,605,845	$ 89,863,521
-	-	42,556,801	-	-	-
-	-	75,000	-	-	-
$ 139,354,681	$ 143,302,691	$ 137,562,881	$ 76,591,357	$ 78,605,845	$ 89,863,521
$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357	$ 78,605,845

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND - VETERANS' HOME PROGRAM only

FOR THE FISCAL YEARS ENDED 1999 - 2008

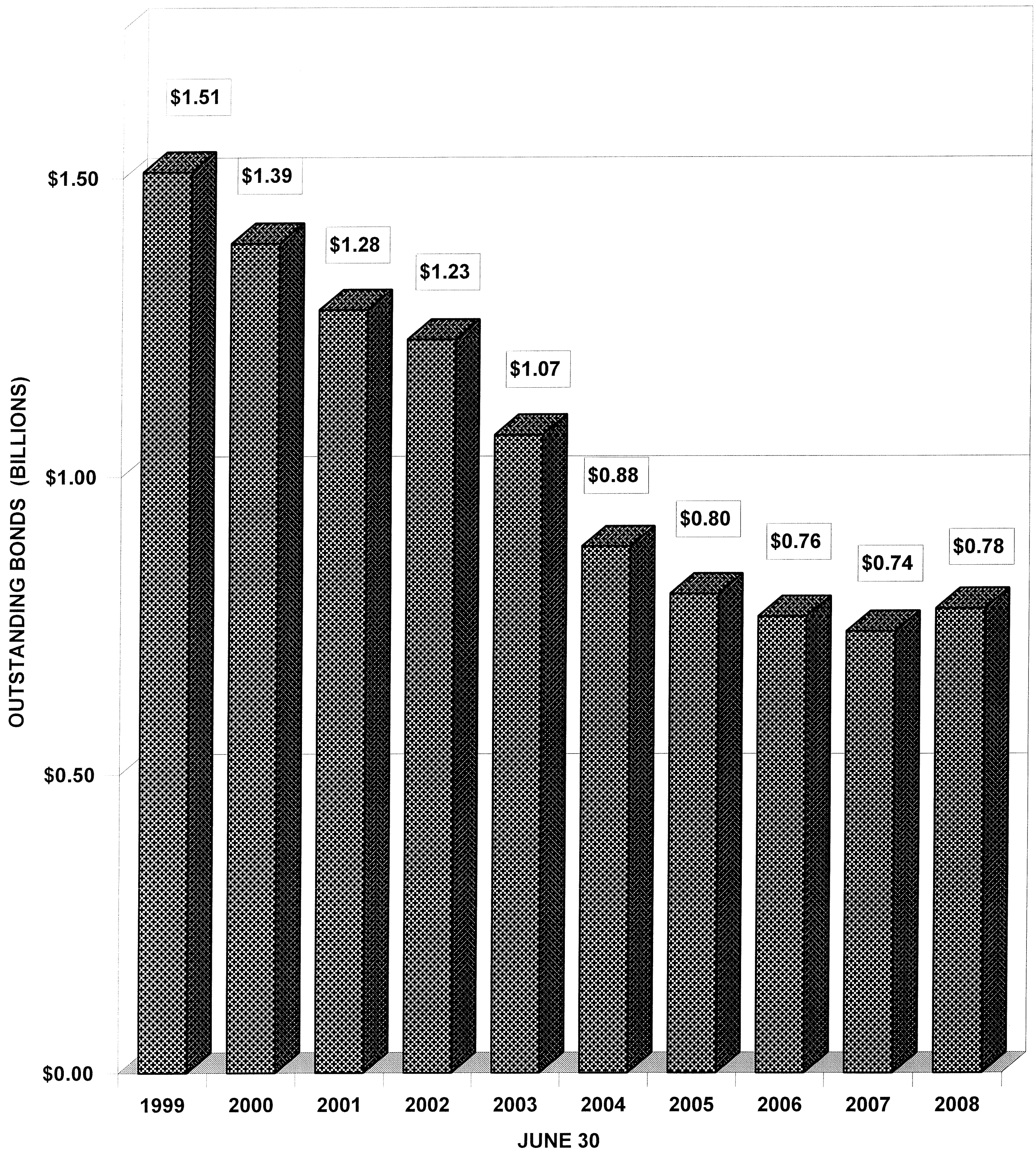
	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005
OPERATING REVENUES				
Investment Income	$ 62,149	$ 57,064	$ 73,604	$ 24,217
Resident Revenue (Net)	10,985,553	10,223,934	9,809,017	8,674,907
Other Fees and Charges	2,191	2,066	1,946	2,825
TOTAL OPERATING REVENUES	$ 11,049,893	$ 10,283,064	$ 9,884,567	$ 8,701,949
OPERATING EXPENSES				
Salaries and Other Payroll Expenses	$ 120,273	$ 98,888	$ 80,684	$ 512,025
Securities Lending Investment Expense	15,600	12,974	10,346	4,349
Services and Supplies	81,099	583,527	157,869	208,319
Veterans' Home Operations	10,365,986	9,632,303	9,120,185	7,596,750
Depreciation Expense	315,110	288,852	289,619	287,472
TOTAL OPERATING EXPENSES	$ 10,898,068	$ 10,616,544	$ 9,658,703	$ 8,608,915
OPERATING INCOME (LOSS)	$ 151,825	$ (333,480)	$ 225,864	$ 93,034
Contributions and Transfers:				
Net Transfers from Veterans' Home Trust Fund	$ 153,858	$ 25,024	$ 25,483	$ 71,091
Capital Contributions	-	-	16,794	7,250
CHANGE IN NET ASSETS	$ 305,683	$ (308,456)	$ 268,141	$ 171,375
NET ASSETS				
Beginning Net Assets	$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056
Net Contributed Construction Capital	-	-	-	-
Ending Net Assets	$ 11,880,799	$ 11,575,116	$ 11,883,572	$ 11,615,431

Note: Resident Revenue is shown net of any related bad debt expense.

	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999
	$ 8,390	$ 8,487	$ 13,983	$ 38,155	$ 23,186	$ 5,071
	6,157,225	5,043,010	5,465,696	5,194,921	4,557,751	3,515,679
	2,134	-	-	23,828	-	45
	$ 6,167,749	$ 5,051,497	$ 5,479,679	$ 5,256,904	$ 4,580,937	$ 3,520,795
	$ 213,063	$ 205,262	$ 218,460	$ 203,790	$ 181,504	$ 144,965
	1,846	654	590	1,917	1,969	344
	107,766	134,843	54,645	313,874	180,485	162,834
	6,181,784	4,732,459	5,238,567	4,773,004	3,945,157	3,088,796
	288,918	353,480	331,368	329,069	329,069	329,069
	$ 6,793,377	$ 5,426,698	$ 5,843,630	$ 5,621,654	$ 4,638,184	$ 3,726,008
	$ (625,628)	$ (375,201)	$ (363,951)	$ (364,750)	$ (57,247)	$ (205,213)
	$ 298,257	$ 17,709	$ 1,380	$ 16,503	$ 14,798	$ 9,960
	9,000	-	-	-	-	-
	$ (318,371)	$ (357,492)	$ (362,571)	$ (348,247)	$ (42,449)	$ (195,253)
	$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071	$ 12,111,240	$ 12,195,253
	-	5,450	563,658	-	-	-
	-	-	40,000	-	-	-
	$ 11,762,427	$ 12,119,919	$ 12,477,040	$ 12,102,071	$ 12,111,240	$ 12,195,253
	-	-	-	119,558	33,280	111,240
	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071	$ 12,111,240

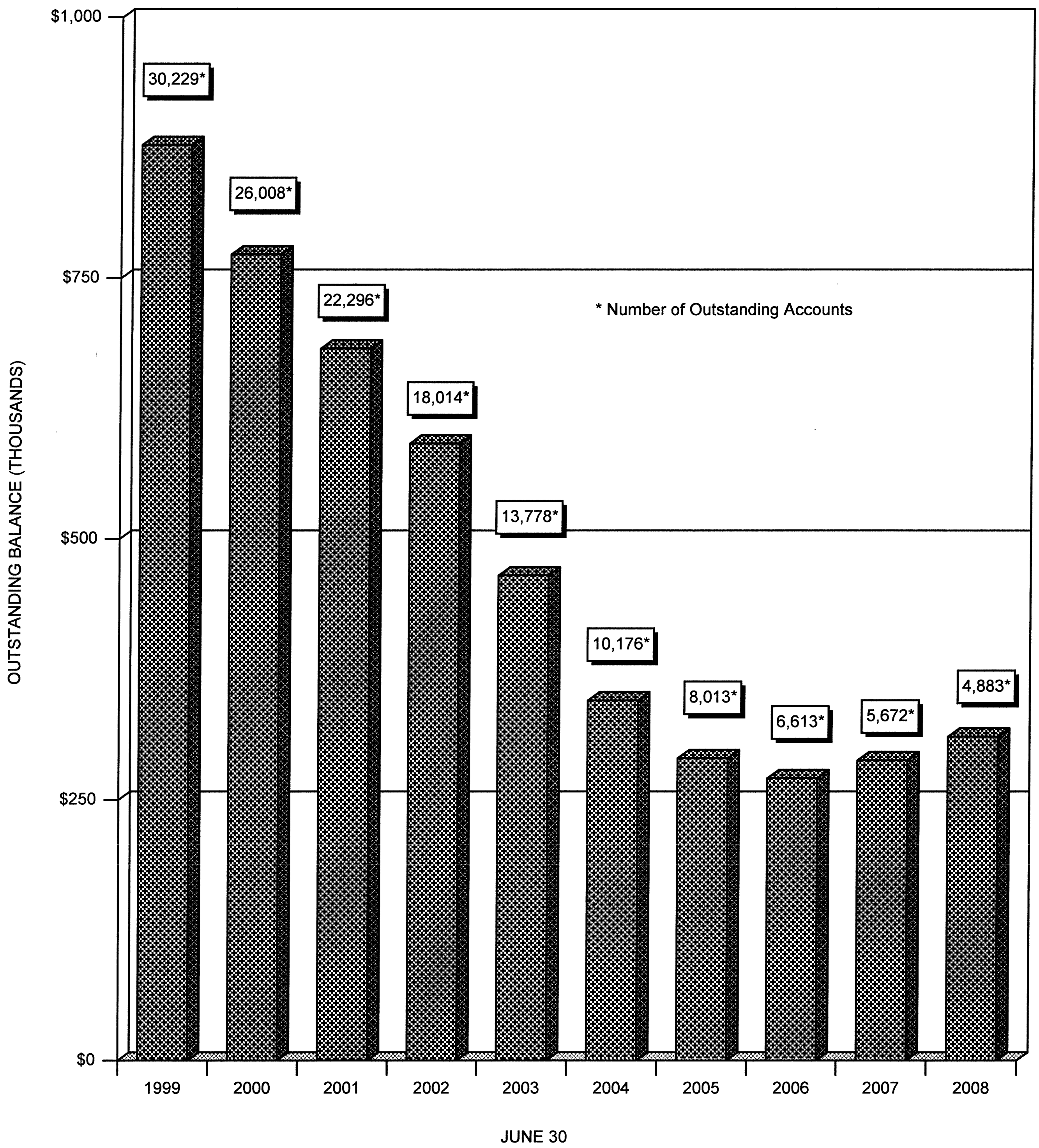
UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

COMPARATIVE SUMMARY OF BONDS OUTSTANDING



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

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

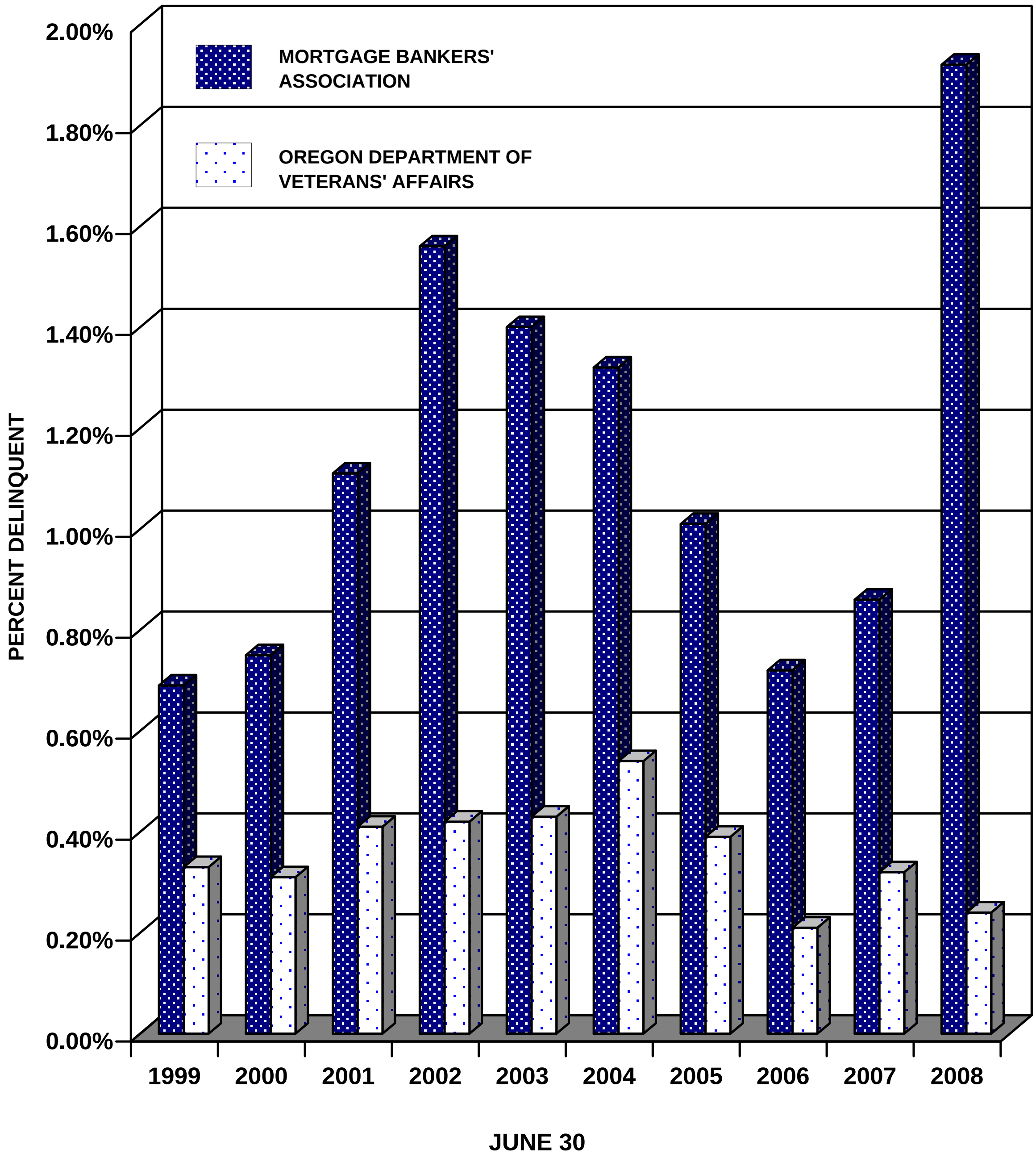


Sources: Statistical Reports and Financial Statements of the Oregon Department of Veterans' Affairs.

UNAUDITED

OREGON DEPARTMENT OF VETERANS' AFFAIRS

COMPARATIVE SUMMARY OF 90+ DAY DELINQUENCIES

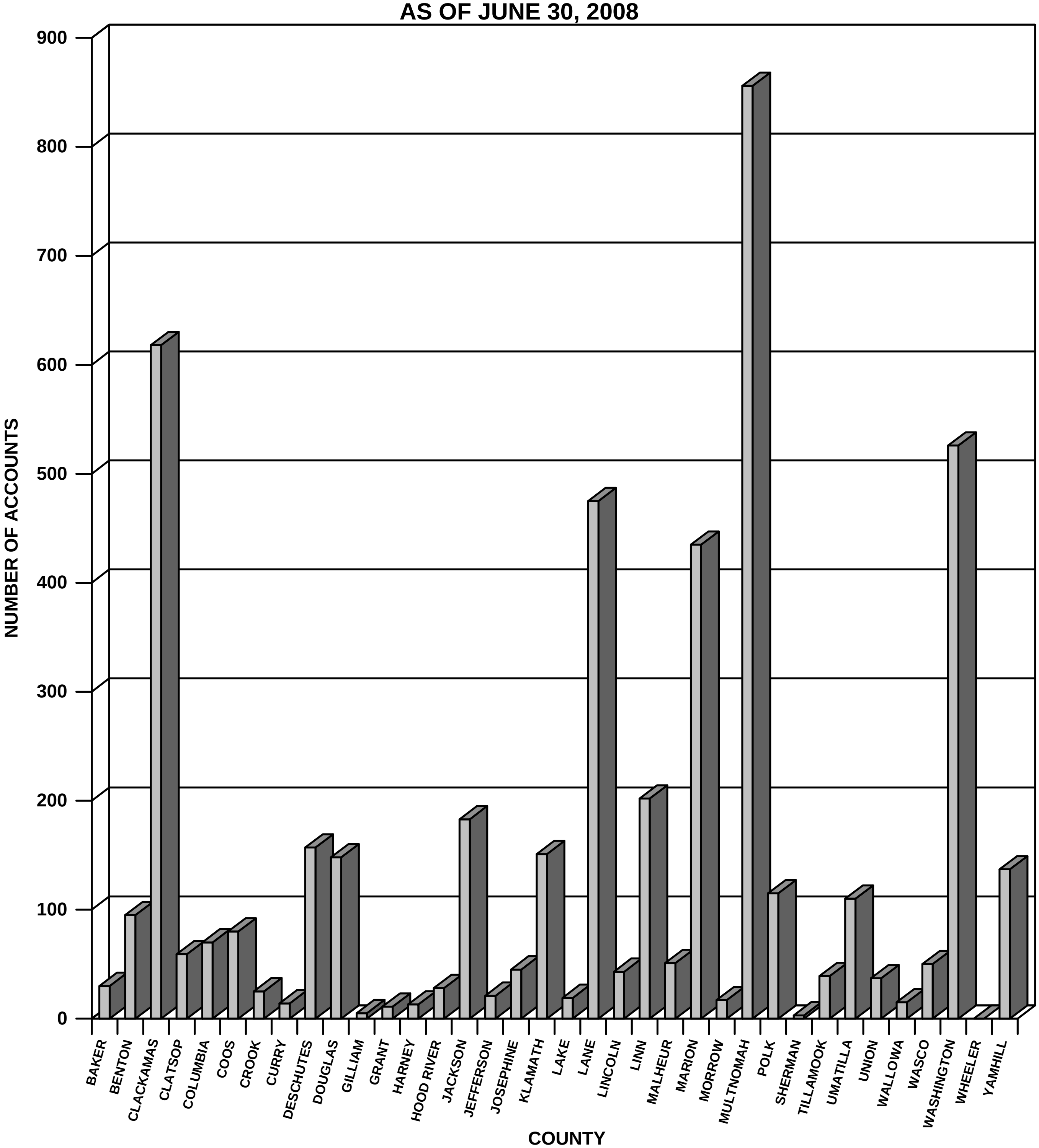


Sources: National Delinquency Survey (Oregon, All Loans) - Mortgage Bankers Association and the Oregon Department of Veterans' Affairs. 90+ Day Delinquencies includes past due loans and loans in foreclosure.

UNAUDITED

OREGON DEPARTMENT OF VETERANS' AFFAIRS

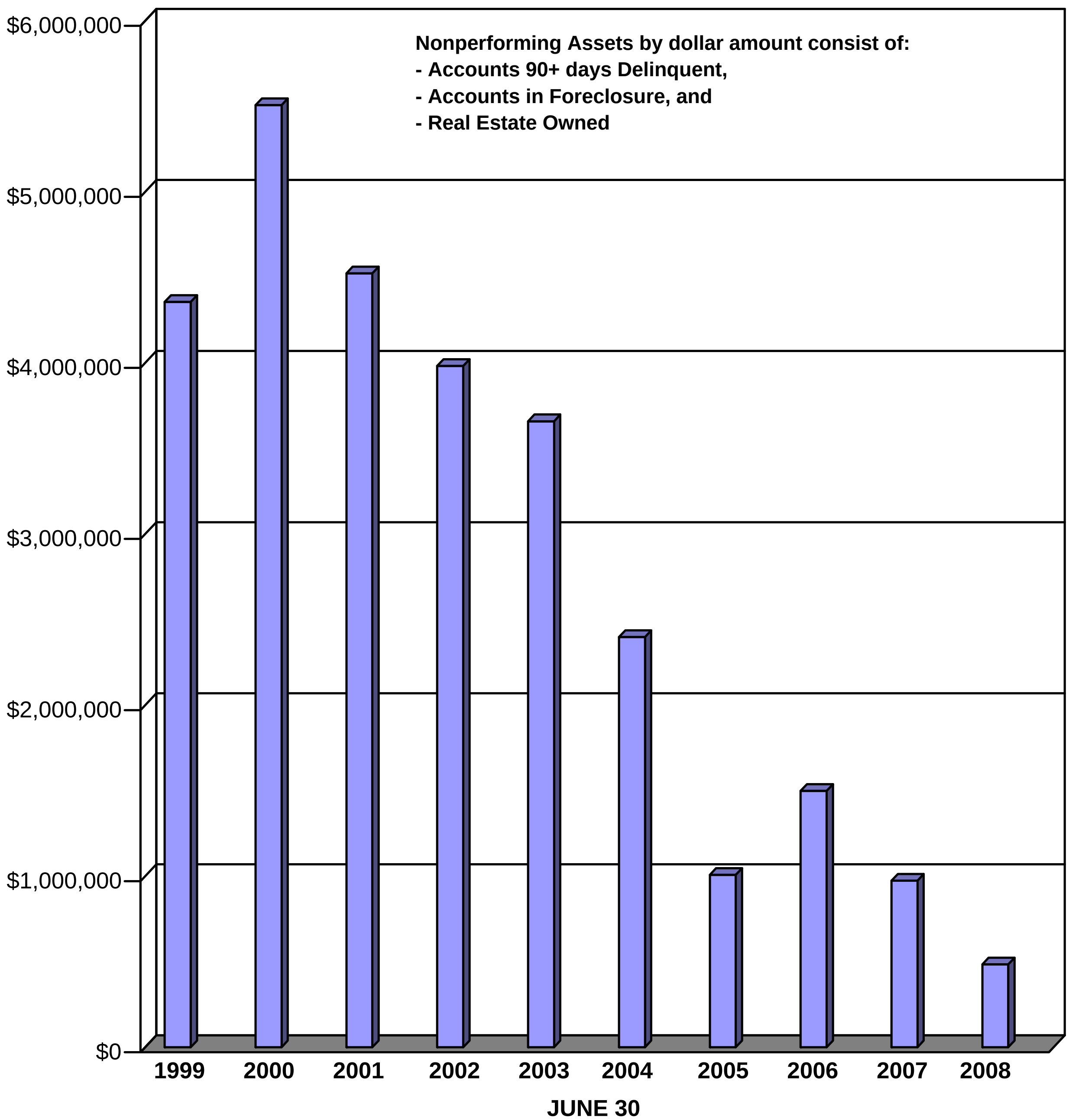
OUTSTANDING LOAN AND CONTRACT ACCOUNTS BY COUNTY
AS OF JUNE 30, 2008



Source: Oregon Department of Veterans' Affairs.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

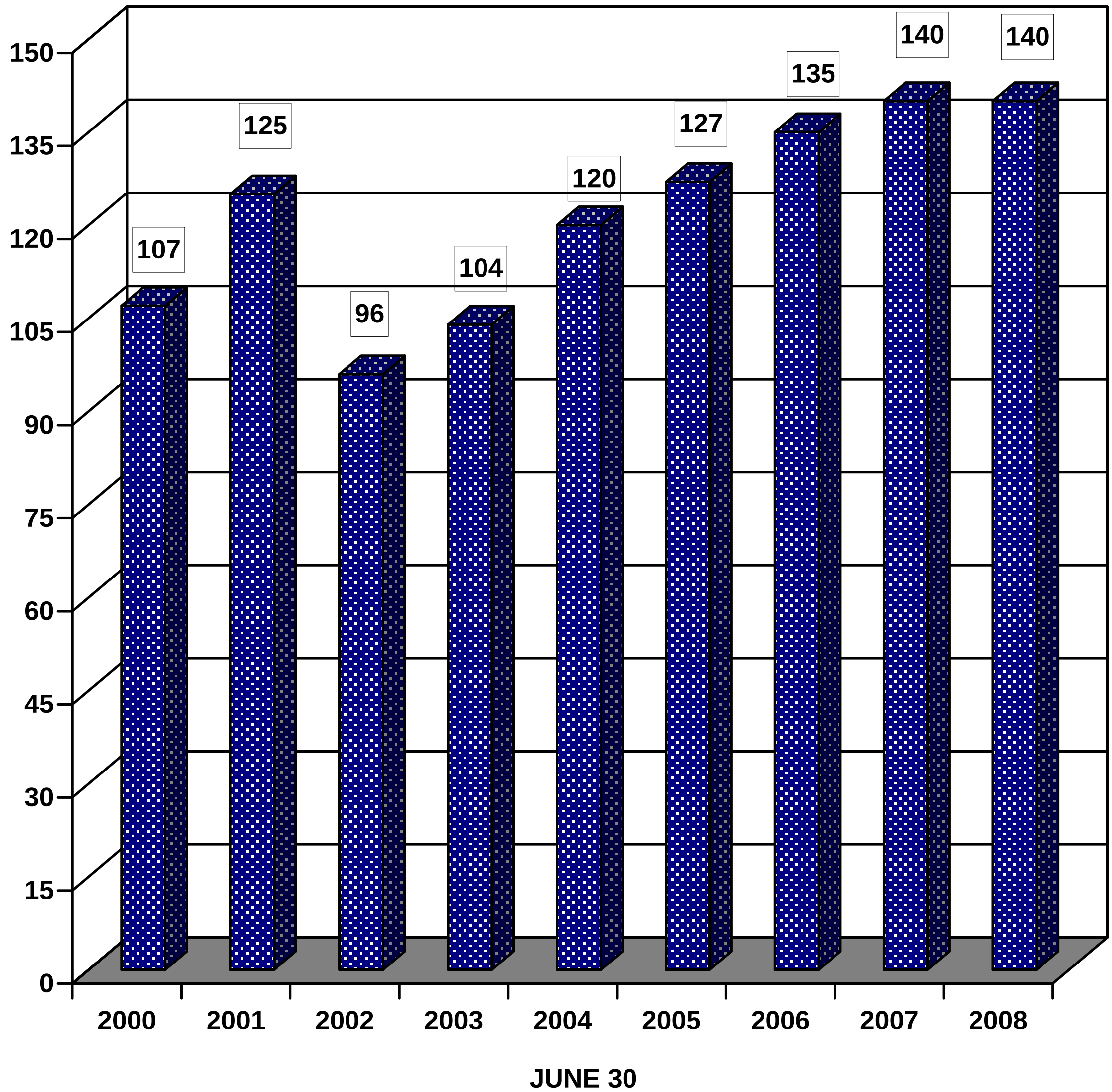
COMPARATIVE SUMMARY OF NONPERFORMING ASSETS



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

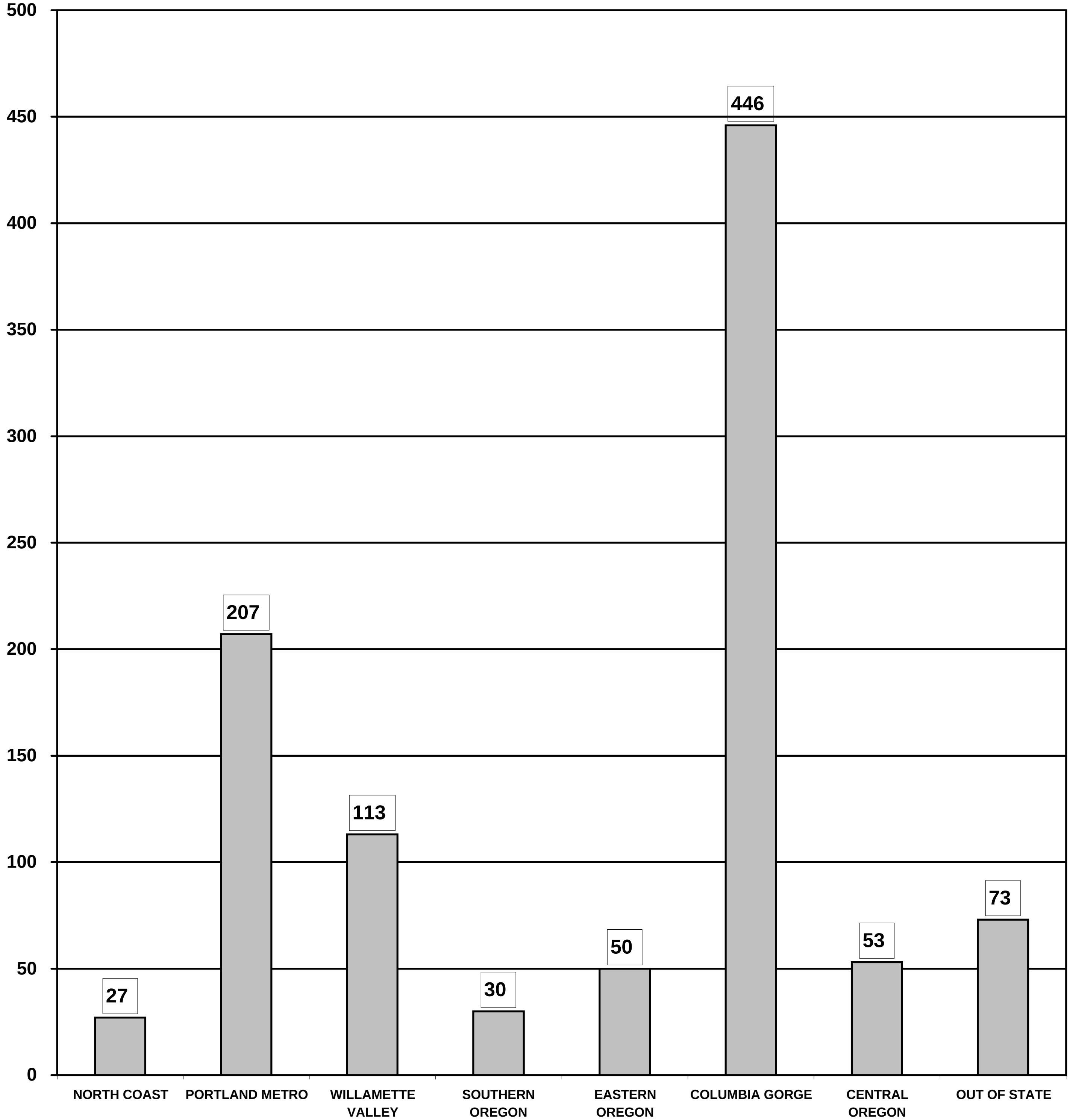
UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

RESIDENT CENSUS AT THE OREGON VETERANS' HOME



Source: Oregon Department of Veterans' Affairs.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
CUMULATIVE RESIDENT ADMISSIONS BY GEOGRAPHIC AREA
NOVEMBER 1, 1997 THROUGH JUNE 30, 2008



Source: Oregon Department of Veterans' Affairs.

OTHER REPORTS

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

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

We have audited the accompanying financial statements of the Veterans' Loan Program and Veterans' Home Program, enterprise funds of the State of Oregon, Department of Veterans' Affairs (Department) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
October 31, 2008