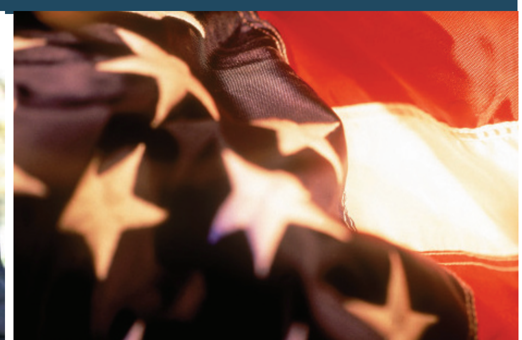
OREGON DEPARTMENT OF VETERANS' AFFAIRS

An Agency of the State of Oregon



COMPREHENSIVE ANNUAL FINANCIAL REPORT

ENTERPRISE FUNDS FOR THE FISCAL YEARS ENDED
June 30, 2010 and June 30, 2009

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, 2010 and June 30, 2009

Jim Willis
Director

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Chief Financial Officer

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With the assistance of the
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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.

1) Honor and Remember Ceremony
2) Oregon University Spring Game and Military Appreciation Ceremony
3) Second Veterans' Home Announcement
4) Trail Blazers Host Military Appreciation Night
5) Veterans Day Ceremony
6) Memorial Day Ceremony
7) Women Veteran Conference
8) ADA Anniversary Event
9) Merchant Marine Joint Memorial
10) ODVA Advisory Committee honors Hillsboro Police Department for saving the life a veteran

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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 13, 2010

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, 2010, and June 30, 2009.

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

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

The Secretary of State, Audits Division, has contracted with Merina and Company for the audit of the Department's Enterprise Funds for the years ended June 30, 2010 and June 30, 2009. Their unqualified opinion on the Enterprise Fund financial statements is included in the Financial Section of this report.

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

OREGON ECONOMY

Recent Trends – According to the Oregon State Office of Economic Analysis *(OEA)*, "the second quarter of 2010 eked out a seasonally adjusted growth of 0.5 percent, the second consecutive job growth quarter. So far, this recovery is living up to its billing as one of the slowest on record. On a year-over-year (Y/Y) basis, jobs decreased in the second quarter by 1.2 percent, an improvement over last quarter's Y/Y decline of 3.0 percent. To provide some perspective in numbers as to this weak recovery, Oregon had seven consecutive quarters of annualized quarterly job losses and nine consecutive quarters (and still counting) of job losses on a Y/Y basis.

The unemployment rate for Oregon sits at 10.6 percent for July, essentially unchanged for the past nine months. The unemployment rate tends to be one of the last measurements to improve as the economy enters recovery.

The second quarter was actually weaker than the numbers portray given the hiring of federal Census workers during the quarter. The job changes are a mix bag throughout the job markets with losses and gains both within manufacturing and the service sectors. Manufacturing jobs were flat with increases in wood product jobs and other durable goods and losses in other sectors. The service sector showed some disappointing job losses in professional and business services, health services, financial activities and retail trade with jobs gains in the other service areas. Depending on the outcome of further spending packages from the US Congress, Oregon may see further large job cuts at the state and local government levels. The expected slowdown in US economic growth due to slowing stimulus spending and winding down of manufacturing inventory cycle is similarly impacting the Oregon economy. Given the rather lackluster employment picture, saying the recession is over gives little solace to those still looking for work.

Not only is there uncertainty in the near-term outlook for the economy, but the debate as to how economic policy should move forward is just as uncertain. The center of the issue concerns the efficacy of government stimulus programs. Hanging in the balance is the election year partisanship over the elimination of the Bush tax cuts and the size of the federal budget deficit. Academic discussion questions the relative multiplier impact of various government spending and marginal tax rates on higher income households. This section cannot do justice as a review of the various points of view but to point out that "uncertainty" is certainly the word of the day.

Just as with the US economy, Oregon is also showing signs of a slowdown or "pause" in economic activity mid-way through this year. Economic activity measures from our office (Office of Economic Analysis), University of Oregon Index of Economic Indicators, and the Federal Reserve Bank of Philadelphia's State Coincident Indexes all point to moderation. Oregon housing sales have slowed and total permits year to date (May) are lower. The June employment report, after adjusting for the loss of temporary federal Census workers, showed a loss of jobs. The state's June unemployment rate remains around 10.5 percent, where it's been for the last eight months.

Major forecasting firms, such as IHS Global Insight and Moody's Economy.com, do not predict a double-dip recession for the US economy. Moody's lists Oregon as still in "recovery" and the chance of recession at 28 percent. Still, the recent slower news on the economy takes note that the risks have heightened for another downturn."

Future Outlook – The OEA forecasts "a decline of 0.8 percent in total employment in the third quarter and a mild increase of 0.2 percent in the fourth quarter of 2010. The second quarter of 2011 will see improving job growth approaching 2.0 percent. The Oregon economy does not enter a stronger job growth period until the fourth quarter of 2011.

The wood products industry had the first job growth quarter in the second quarter of 2010 since the first quarter of 2006. Unfortunately, this sector is not expected to see stronger recovery until the second quarter of 2011 and is not expected to regain its previous employment level before the recession hit. This industry is projected to lose 3.8 percent of workers in 2010, and then add workers at 4.0 percent in 2011 and 7.2 percent in 2012. Although these seem like high growth rates in 2011 and 2012, employment is still ten thousand less than jobs levels in 2006.

Construction jobs are down almost 40,000 from the first quarter of 2007 to the second quarter of 2010, a drop of 38 percent. With the commercial real estate sector joining the residential home construction collapse, this sector was impacted before the full strength of the recession hit and continues to be negatively impacted as the tepid economic recovery takes hold. Job losses of 12.5 percent are projected for 2010 with continued job loses of 2.2 percent in 2011. Job growth will be relatively weak for a recovery period in 2012 with job gains of 2.6 percent.

The financial sector continues to be impacted by the fallouts from the residential and commercial real estate market. The financial sector is projected to lose jobs at the rate of 2.4 percent in 2010, very slow growth of 0.5 percent in 2011, with improving growth of 2.4 percent in 2012.

Professional and business services will continue to lose jobs in 2010 at 1.9 percent. Job growth turns positive at 3.9 percent in 2011 and continues strong at 4.3 percent in 2012.

Education and health services will have one of its slowest job growth years at 0.6 percent in 2010. Stronger growth commences in 2011 at 2.2 percent and 3.4 percent in 2012. Health services will have matched its slowest job growth year in over twenty years with 1.0 percent in 2010. Stronger growth is forecasted for 2011 with 2.1 percent and in 2012 at 3.6 percent.

The Census worker bump up in government employment is now winding down. Federal worker employment in Oregon is expected to grow 3.3 percent in 2010 but reverse trend with a drop of 4.0 percent in 2011. State government is expects to have mild positive growth of 0.4 percent in 2010, followed by a drop in jobs of 1.1 percent in 2011, and a return to mild growth of 0.6 percent in 2012. Local government is projected to lose jobs at 1.3 percent in 2010 and 1.1 percent in 2011. Job growth returns in 2012 at 1.1 percent.

Population growth has slowed with the economy and is projected to be below the U.S. growth rate in 2010 at 0.9 percent. Population growth picks up at 1.1 percent in 2011 and 1.2 percent in 2012, but still below rates seen in 2005 through 2007."

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, 2010, this Program had approximately 3,404 mortgage loans and contracts outstanding, with a principal balance of approximately $279 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 144 residents at June 30, 2010. 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.

In 2009, the Campus Veteran Service Officer program was established to assist student veterans with obtaining their GI Bill and other USDVA benefits. In addition to helping the student veterans with their individual benefits, the Department's campus veteran service officers periodically make presentations to college administrators and faculty regarding veterans and how to integrate them into the classroom. The partnership between the Department, the University System and Community Colleges has been well received and has helped hundreds of veterans.

In 2010, the Department completed work on three Legislative task forces that reviewed veterans' reintegration issues, veterans' transportation needs and women veterans' health care improvements. Final reports were submitted to the Legislature that contained a series of findings and recommendations. The Department will be working in the 2011 Regular Legislative Session to help pass bills related to the recommendations of these task forces, as well as working with the Congressional Delegation on these important issues.

The Department is also working with the Criminal Justice System to help veterans who engage law enforcement due to their combat-related issues. The 2009 Legislature passed Senate Bill 999, which allows District Attorneys to seek diversion instead of jail for veterans who commit certain crimes. Many jurisdictions have now started a Veterans' Court or Veterans' Docket to focus on veterans and their needs.

In November 2010, the citizens of Oregon will vote on Ballot Measure 70, which would eliminate the current 30-year state restriction on veteran eligibility under the Veterans' Loan Program. If Measure 70 passes, the new loan eligibility criteria will become effective in January 2011 and is expected to increase the number of future loan originations.

FINANCIAL INFORMATION

Enterprise Funds **-** The Veterans' Loan Program and the Veterans' Home Program are enterprise funds and account for the Department's business-type activities. At June 30, 2010, the Veterans' Loan Program had approximately $687 million in assets *(primarily consisting of cash and cash equivalents, securities lending cash collateral, investment securities, and loan and contract receivables)* and approximately $553 million in liabilities *(primarily consisting of general obligation bonds)*. Revenues from the Department's home loan program are primarily generated through interest on loans originated and investment income. These revenues are used to pay interest expense on outstanding debt and related program and administrative expenses. At June 30, 2010, the Veterans' Home Program had approximately $14.3 million in assets *(primarily consisting of cash and cash equivalents, securities lending cash collateral, receivables, and capital assets)* and approximately $2.1 million in liabilities *(primarily consisting of short-term payables and obligations arising from securities lending)*.

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

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

As of June 30, 2010, the Department had approximately $441.4 million *(par value)* in outstanding bonds. During fiscal year 2010, no new bonds were issued and approximately $291.5 million in bonds were retired.

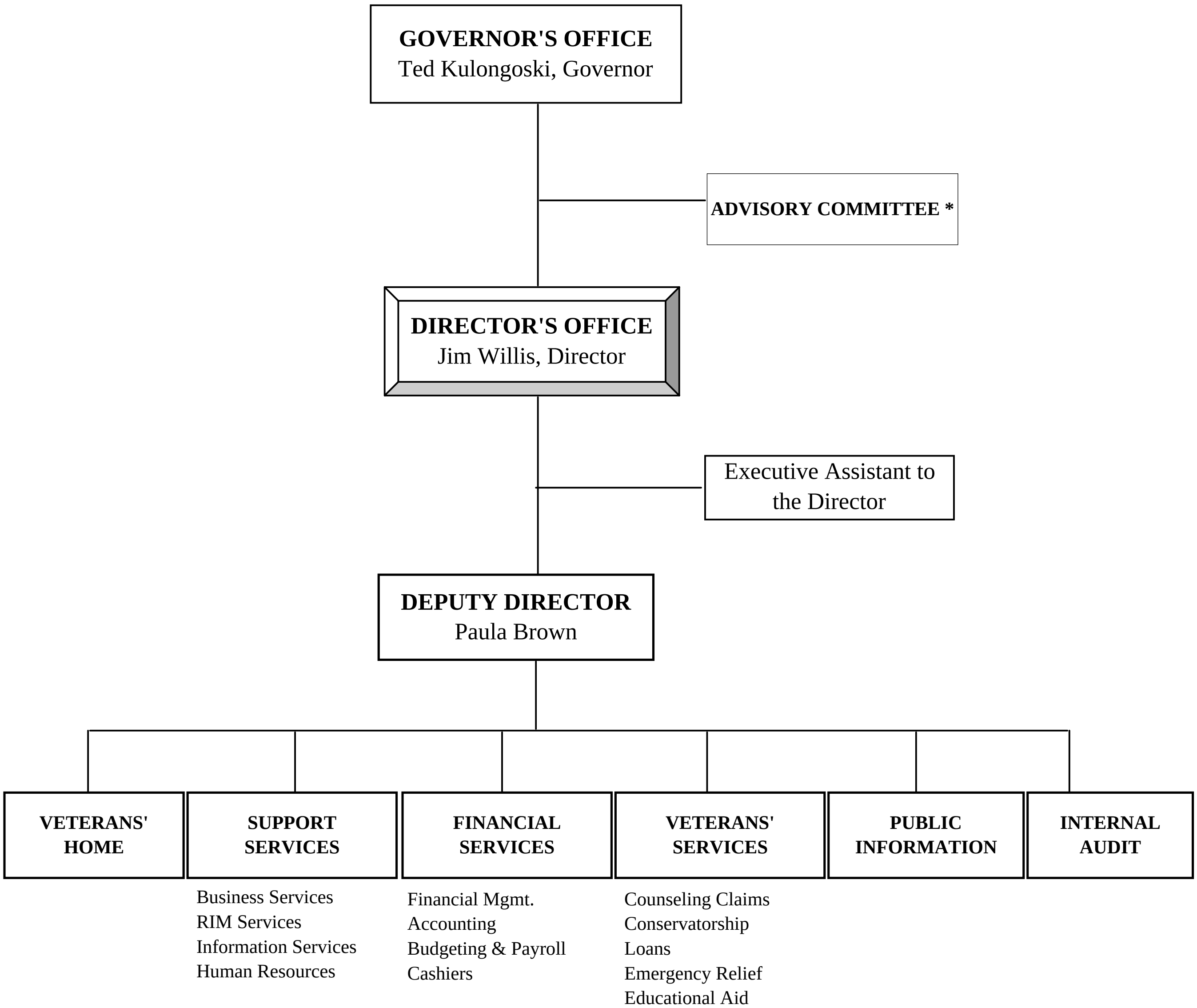
Cash Management **-** All monies collected by the Department are turned over to the State Treasurer, who is responsible for the control of cash and the investment of State funds. On June 30, 2010, the Department's Enterprise funds cash, cash equivalents *(excluding securities lending collateral)*, and investments totaled approximately $310.1 million. The Oregon Investment Council, of which the State Treasurer is a member, establishes investment policy for all State of Oregon funds. To further Oregon's economic growth, the Council's continuing policy has been to invest locally when investments of comparable yield, quality, and maturity can be found in state without damaging portfolio diversity. Fortunately for Oregonians, State-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments that have been a cause of national concern. The State Treasurer pools all available cash into the Oregon Short-Term Fund from which investments are made in a variety of instruments.

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

Respectfully submitted,

Jim Willis
Director

Bruce Shriver
Chief Financial Officer



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

Advisory Committee Members	Term Expires	Advisory Committee Members	Term Expires
David Fairclo	March 15, 2012	Tino Ornelas	September 30, 2011
Irv Fletcher	December 31, 2010	Kevin Owens	March 15, 2012
Joseph Howell	March 15, 2012	Charles Schmidt	September 30, 2012
Eugene LaBonte	March 15, 2012	Nanci Visser	August 19, 2013
Gerard Lorang	March 15, 2012		

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FINANCIAL SECTION

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, 2010 and June 30, 2009, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Veterans' Loan Program and Veterans' Home Program and do not purport to, and do not, present fairly the financial position of the State of Oregon, as of June 30, 2010 and 2009, and the changes in its financial position, or, were applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Veterans' Loan Program and Veterans' Home Program,

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enterprise funds of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
October 13, 2010

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, 2010. 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 $144.7 million at June 30, 2009, to approximately $146.5 million at June 30, 2010, a increase of $1.8 million, or 1.18%.

- Revenues decreased from approximately $36.2 million at June 30, 2009, to approximately $33.6 million at June 30, 2010, a decrease of $2.6 million, or 7.09%.

- Expenses decreased from approximately $39.7 million at June 30, 2009, to approximately $31.7 million at June 30, 2010, a decrease of $8.0 million or 20.19%.

- Outstanding general obligation bond debt decreased from $733.0 million *(par value)* on June 30, 2009, to $441.4 million *(par value)* on June 30, 2010, a decrease of $291.6 million. No general obligation bonds were issued during the fiscal year.

- Mortgage loan originations for fiscal year 2010 totaled approximately $8.7 million, a decrease of approximately $21.9 million from fiscal year 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

OVERVIEW OF THE PROPRIETARY FUNDS FINANCIAL POSITION & OPERATIONS

Total assets and deferred outflows at June 30, 2010 were approximately $701.2 million, a decrease of $401.6 million from June 30, 2009. The change in assets consists primarily of $220.9 million decrease in cash and cash equivalents, a $42.1 million decrease in investments, a $117.9 million decrease in securities lending cash collateral, and an $23.2 million decrease in net loans and contracts receivable.

Total liabilities at June 30, 2010, were $554.8 million, a decrease of $403.3 million from June 30, 2009. The change in liabilities consists primarily of a decrease of $291.5 million in bonds payable, a decrease of $117.9 million in obligations under securities lending, and an increase of $4.8 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		
	2010	**2009**	**2008**
Assets & Deferred Outflows:			
Current and Other Assets	$ 687,679,127	$ 1,088,844,530	$ 1,148,148,658
Capital Assets	13,530,938	13,961,323	14,389,085
Total Assets & Deferred Outflows	$ 701,210,065	$ 1,102,805,853	$ 1,162,537,743
Liabilities:			
Long Term Liabilities	$ 451,852,188	$ 736,299,328	$ 738,454,687
Other Liabilities	102,905,947	221,758,560	275,389,350
Total Liabilities	$ 554,758,135	$ 958,057,888	$ 1,013,844,037
Net Assets:			
Invested in Capital Assets	$ 13,530,938	$ 13,961,323	$ 14,389,085
Unrestricted	132,920,992	130,786,642	134,304,621
Total Net Assets	$ 146,451,930	$ 144,747,965	$ 148,693,706

Cash and Cash Equivalents and Investments
Total cash and cash equivalents and investments decreased by approximately $263.1 million, or 45.9%, from June 30, 2009 to June 30, 2010. The decrease reflects the Department's continued use of available receipts for early bond redemptions *($289.5 million in fiscal year 2010)* and receipt of less mortgage and investment interest income.

Loans Receivable
Total mortgages and other loans receivable decreased by $23.1 million in fiscal year 2010. This decrease was primarily due to prepayments on outstanding mortgage loans and a decrease of $21.9 million in new mortgage originations from fiscal year 2009.

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

Bonds Payable
Bonds Payable decreased by $291.5 million *(par value)* from June 30, 2009 to June 30, 2010. During fiscal years 2010 and 2009, the Department did not issue any general obligation bonds. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Assets
The Department experienced a net reduction in the loan portfolio which contributed to a decrease in interest income from mortgage loans. The early redemption of bonds resulted in a decrease in bond expense and a positive impact on net assets. The results of operations for the Department's proprietary funds are presented below:

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

	Business Type Activities		
	2010	**2009**	**2008**
Operating Revenues:			
Interest Income:			
Mortgage Loans	$ 11,445,675	$ 16,014,046	$ 17,611,704
Contracts	209,608	302,145	434,945
Other	-	-	3,219
Investment Income:			
Interest and Income	6,034,960	14,344,500	32,819,451
Change in Fair Value of Investments	942,525	(9,636,859)	397,105
LCLI Premium Revenue	962,230	1,142,192	1,356,657
LCLI Processing Fee	102,000	102,000	102,000
Resident Related Revenues	11,833,514	11,709,871	10,985,553
Other Fees and Charges	1,735,816	1,843,045	2,157,422
Conservatorship Fees	284,381	294,951	313,493
Gain on Sale of Foreclosed Property	34,542	35,160	-
Total Operating Revenue	$ 33,585,251	$ 36,151,051	$ 66,181,549
Operating Expenses:			
Bond Interest	$ 8,495,161	$ 15,702,350	$ 26,856,570
Interest on Line of Credit	-	49,948	721,945
Salaries and Other Payroll Expenses	5,844,356	5,919,076	6,073,854
Bond Costs	1,117,848	1,247,214	1,242,882
Securities Lending Investment Expense	322,171	1,273,378	6,694,172
Real Estate Owned Expense	130,125	29,547	2,324
Services and Supplies	1,986,553	1,730,622	2,052,371
LCLI Claims & Admin. Expense	1,266,568	1,938,157	2,312,867
Mortgage Broker Fees	31,413	249,630	512,448
Veterans’ Home Operations	11,050,913	11,044,368	10,365,986
Depreciation Expense	430,386	426,971	475,284
Bad Debt Expense	936,600	-	-
Other Expenses	63,103	74,934	274,220
Total Operating Expenses	$ 31,675,197	$ 39,686,195	$ 57,584,923
Transfers	(212,911)	(402,746)	552,682
Gain/(Loss) on Disposition of Assets	-	(7,851)	-
Total Transfers & Extraordinary Items	(212,911)	(410,597)	552,682
Change in Net Assets	1,697,143	(3,945,741)	9,149,308
Net Assets – Beginning	144,747,965	148,693,706	139,544,398
Prior Period Adjustment	6,822	-	-
Net Assets – Beginning Restated	144,754,787	148,693,706	139,544,398
Net Assets – Ending	$ 146,451,930	$ 144,747,965	$ 148,693,706

The Department's proprietary fund revenue is generated principally from interest earned on mortgage loans, investment income, and resident-related revenues. In fiscal year 2010, revenue generated through proprietary funds totaled approximately $33.6 million, of which approximately $18.6 million, or 55.5% is from income earned on loans and investments and $11.8 million, or 35.2% is from resident-related revenue. Expenses of the Department's proprietary funds consist primarily of interest expense on debt incurred to fund lending programs and operational expenses. The total expenses for proprietary fund activities totaled approximately $31.7 million, of which approximately $8.5 million, or 26.8% is bond interest expense and $11 million, or 34.9%, is from veterans' home operations.

The change in net assets for the year ended June 30, 2010 resulted in an increase of approximately $1.7 million compared to a $3.9 million decrease for the year ending June 30, 2009. The primary factors contributing to this change include a $4.6 million decrease in loan and contract income, a $2.2 million increase in investment income, and a $7.2 million decrease in interest expense on bonds.

Debt Administration

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

As of June 30, 2010, the Department had a total of $441,425,000 *(par value)* in outstanding general obligation bonds. During fiscal year 2010, no general obligation bonds were issued.

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

Requests for Information

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

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010 AND JUNE 30, 2009

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
ASSETS & DEFERRED OUTFLOWS				
Current Assets				
Cash and Cash Equivalents	$ 89,880,157	$ 63,666,685	$ 2,422,398	$ 1,982,432
Cash and Cash Equivalents - Restricted	4,601,059	5,454,658	-	-
Securities Lending Cash Collateral	91,912,913	209,834,541	939,799	907,514
Investments	10,903,602	22,126,185	-	-
Investments - Restricted	15,004,650	25,537,018	-	-
Receivables:				
Accrued Interest	1,957,271	2,157,552	-	-
Loan Cancellation Life Insurance Premiums	87,229	92,070	-	-
Resident Care Related	-	-	1,484,378	1,398,921
Other	24,407	13,256	-	-
Due from Other Funds	67,428	72,172	-	-
Real Estate Owned	1,429,235	591,530	-	-
Prepaid Expenses	7,970	5,379	-	-
Total Current Assets	215,875,921	329,551,046	4,846,575	4,288,867
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	166,349,089	413,146,725	-	-
Investments	7,845,319	15,815,890	-	-
Investments - Restricted	13,127,161	25,520,715	-	-
Mortgage Loans and Contracts Receivable (Net)	274,950,313	298,087,844	-	-
Resident Care Receivable (Net)	-	-	70,750	138,125
Other Receivable	449,742	270,279	-	-
Deferred Underwriter's Discount	1,914,482	2,025,039	-	-
Capital Assets:				
Building, Property and Equipment	8,911,904	8,911,904	12,643,416	12,715,158
Improvements Other than Buildings	-	-	7,250	7,250
Land	-	-	600,073	600,073
Works of Art and Historical Treasures	85,170	85,170	70,000	70,000
Accumulated Depreciation	(4,891,793)	(4,774,826)	(3,895,082)	(3,653,406)
Total Noncurrent Assets	468,741,387	759,088,740	9,496,407	9,877,200
Deferred Outflow of Resources	2,249,775	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 686,867,083	$ 1,088,639,786	$ 14,342,982	$ 14,166,067
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 228,675	$ 240,559	$ 1,017,734	$ 963,037
Loan Cancellation Life Insurance Premium Payable	67,779	86,853	-	-
Loan Cancellation Life Insurance Claims Payable	243,351	108,999	-	-
Due to Other Funds	-	-	66,674	71,991
Deposit Liabilities	2,107,611	2,200,352	6,076	7,990
Deferred Revenue	-	-	55,186	131,604
Accrued Interest on Bonds	1,046,013	1,249,984	-	-
Obligations under Securities Lending	91,912,913	209,834,541	939,799	907,514
Compensated Absences Payable	289,901	283,340	4,565	9,945
Excess Interest and Arbitrage Rebate Payable	487,548	452,944	-	-
Bonds Payable-Maturing Within One Year (Net)	2,006,453	2,041,454	-	-
Matured Bonds Payable	2,425,669	3,167,453	-	-
Total Current Liabilities	100,815,913	219,666,479	2,090,034	2,092,081
Noncurrent Liabilities				
Bonds Payable-Maturing After One Year (Net)	438,887,949	730,324,401	-	-
Compensated Absences Payable	149,343	139,556	2,352	4,898
Excess Interest and Arbitrage Rebate Payable	10,486,694	5,766,794	-	-
Other Postemployment Benefits Obligation (Net)	76,075	63,679	-	-
Derivative Instrument - Interest Rate Swap	2,249,775	-	-	-
Total Noncurrent Liabilities	451,849,836	736,294,430	2,352	4,898
TOTAL LIABILITIES	552,665,749	955,960,909	2,092,386	2,096,979
NET ASSETS				
Invested in Capital Assets	4,105,281	4,222,248	9,425,657	9,739,075
Net Assets, Unrestricted	130,096,053	128,456,629	2,824,939	2,330,013
TOTAL NET ASSETS	$ 134,201,334	$ 132,678,877	$ 12,250,596	$ 12,069,088

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

Enterprise Funds	
TOTAL	
June 30, 2010	June 30, 2009
$ 92,302,555	$ 65,649,117
4,601,059	5,454,658
92,852,712	210,742,055
10,903,602	22,126,185
15,004,650	25,537,018
1,957,271	2,157,552
87,229	92,070
1,484,378	1,398,921
24,407	13,256
67,428	72,172
1,429,235	591,530
7,970	5,379
220,722,496	333,839,913
166,349,089	413,146,725
7,845,319	15,815,890
13,127,161	25,520,715
274,950,313	298,087,844
70,750	138,125
449,742	270,279
1,914,482	2,025,039
21,555,320	21,627,062
7,250	7,250
600,073	600,073
155,170	155,170
(8,786,875)	(8,428,232)
478,237,794	768,965,940
2,249,775	-
$ 701,210,065	$ 1,102,805,853
$ 1,246,409	$ 1,203,596
67,779	86,853
243,351	108,999
66,674	71,991
2,113,687	2,208,342
55,186	131,604
1,046,013	1,249,984
92,852,712	210,742,055
294,466	293,285
487,548	452,944
2,006,453	2,041,454
2,425,669	3,167,453
102,905,947	221,758,560
438,887,949	730,324,401
151,695	144,454
10,486,694	5,766,794
76,075	63,679
2,249,775	-
451,852,188	736,299,328
554,758,135	958,057,888
13,530,938	13,961,323
132,920,992	130,786,642
$ 146,451,930	$ 144,747,965

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, 2010 AND JUNE 30, 2009

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
OPERATING REVENUES				
Interest Income:				
Mortgage Loans	$ 11,445,675	$ 16,014,046	$ -	$ -
Contracts	209,608	302,145	-	-
Investment Income	6,964,830	4,673,050	12,655	34,591
Loan Cancellation Life Insurance Premiums	962,230	1,142,192	-	-
Loan Cancellation Life Insurance Processing Fee	102,000	102,000	-	-
Resident Revenue (Net)	-	-	11,833,514	11,709,871
Other Fees and Charges	1,733,649	1,841,337	2,167	1,708
Conservatorship Fees	284,381	294,951	-	-
Gain on Sale of Foreclosed Property	34,542	35,160	-	-
TOTAL OPERATING REVENUES	21,736,915	24,404,881	11,848,336	11,746,170
OPERATING EXPENSES				
Bond Interest	8,495,161	15,702,350	-	-
Interest on Line of Credit	-	49,948	-	-
Salaries and Other Payroll Expenses	5,642,344	5,773,576	202,012	145,500
Bond Expenses	1,117,848	1,247,214	-	-
Securities Lending Investment Expense	320,983	1,270,291	1,188	3,087
Real Estate Owned Expense	130,125	29,547	-	-
Services and Supplies	1,867,440	1,665,656	119,113	64,966
Claims Expense - Loan Cancellation Life Insurance	1,266,568	1,938,157	-	-
Mortgage Broker Fees	31,413	249,630	-	-
Veterans' Home Operations	-	-	11,050,913	11,044,368
Depreciation Expense	116,967	113,378	313,419	313,593
Bad Debt Expense	936,600	-	-	-
Other Expenses	63,103	74,934	-	-
TOTAL OPERATING EXPENSES	19,988,552	28,114,681	11,686,645	11,571,514
OPERATING INCOME (LOSS)	1,748,363	(3,709,800)	161,691	174,656
Nonoperating Revenues (Expenses):				
Net Transfers from Veterans' Home Trust Fund	-	-	20,514	18,060
Net Transfers from/(to) General Fund	-	(185,941)	-	-
Net Transfers to Dept. of Administrative Services	(225,906)	(230,438)	(7,519)	(4,427)
Gain/(Loss) on Disposition of Assets	-	(7,851)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(225,906)	(424,230)	12,995	13,633
CHANGE IN NET ASSETS	1,522,457	(4,134,030)	174,686	188,289
NET ASSETS				
NET ASSETS - Beginning	132,678,877	136,812,907	12,069,088	11,880,799
Prior Period Adjustment	-	-	6,822	-
NET ASSETS - Beginning Restated	132,678,877	136,812,907	12,075,910	11,880,799
NET ASSETS - Ending	$ 134,201,334	$ 132,678,877	$ 12,250,596	$ 12,069,088

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

Enterprise Funds	
TOTAL	
June 30, 2010	June 30, 2009
$ 11,445,675	$ 16,014,046
209,608	302,145
6,977,485	4,707,641
962,230	1,142,192
102,000	102,000
11,833,514	11,709,871
1,735,816	1,843,045
284,381	294,951
34,542	35,160
33,585,251	36,151,051
8,495,161	15,702,350
-	49,948
5,844,356	5,919,076
1,117,848	1,247,214
322,171	1,273,378
130,125	29,547
1,986,553	1,730,622
1,266,568	1,938,157
31,413	249,630
11,050,913	11,044,368
430,386	426,971
936,600	-
63,103	74,934
31,675,197	39,686,195
1,910,054	(3,535,144)
20,514	18,060
-	(185,941)
(233,425)	(234,865)
-	(7,851)
(212,911)	(410,597)
1,697,143	(3,945,741)
144,747,965	148,693,706
6,822	-
144,754,787	148,693,706
$ 146,451,930	$ 144,747,965

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2010	June 30, 2009
Cash Flows from Operating Activities:		
Receipts from Customers	$ 1,409,682	$ 1,969,896
Receipts from Other Funds for Services	1,613,926	1,466,414
Loan Principal Repayments	33,960,124	45,178,411
Loan Interest Received	17,206,448	19,220,412
Payments to Employees for Services	(5,612,954)	(5,739,139)
Payments to Suppliers	(2,208,759)	(3,038,966)
Payments to Other Funds for Services	(1,018,620)	(964,952)
Loans Made	(13,498,487)	(35,293,597)
Other Receipts (Payments)	721,989	93,972
Net Cash Provided (Used) in Operating Activities	32,573,349	22,892,451
Cash Flows from Noncapital Financing Activities:		
Line of Credit Proceeds	-	10,000,000
Principal Payments on Bonds	(292,271,784)	(45,476,029)
Principal Payments on Line of Credit	-	(11,000,000)
Interest Payments on Bonds	(8,640,585)	(17,598,383)
Interest Payments on Line of Credit	-	(49,948)
Bond Issuance Costs	(1,025,484)	(1,172,720)
Transfers from Other Funds		
Transfers to Other Funds	(225,906)	(416,379)
Net Cash Provided (Used) in Noncapital Financing Activities	(302,163,759)	(65,713,459)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	-	-
Cash Flows from Investing Activities:		
Purchases of Investments	(10,287,350)	(35,200,120)
Proceeds from Sales or Maturities of Investments	53,348,951	79,878,611
Interest on Investments and Cash Balances	5,091,046	13,559,749
Investment Income from Securities Lending	320,983	1,270,291
Investment Expense from Securities Lending	(320,983)	(1,270,291)
Net Cash Provided (Used) in Investing Activities	48,152,647	58,238,240
Net Increase (Decrease) in Cash and Cash Equivalents	(221,437,763)	15,417,232
Cash and Cash Equivalents - Beginning	482,268,068	466,850,836
Cash and Cash Equivalents - Ending	$ 260,830,305	$ 482,268,068
Reconciled to Statement of Net Assets:		
Cash and Cash Equivalents - Current	$ 89,880,157	$ 63,666,685
Cash and Cash Equivalents - Current, Restricted	4,601,059	5,454,658
Cash and Cash Equivalents - Noncurrent, Restricted	166,349,089	413,146,725
Cash and Cash Equivalents - Ending (shown above)	$ 260,830,305	$ 482,268,068

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
$ 12,371,454	$ 11,447,609	$ 13,781,136	$ 13,417,505
-	-	1,613,926	1,466,414
-	-	33,960,124	45,178,411
-	-	17,206,448	19,220,412
(209,938)	(138,634)	(5,822,892)	(5,877,773)
(10,756,188)	(10,147,707)	(12,964,947)	(13,186,673)
(990,078)	(879,608)	(2,008,698)	(1,844,560)
-	-	(13,498,487)	(35,293,597)
254	9,335	722,243	103,307
415,504	290,995	32,988,853	23,183,446
-	-	-	10,000,000
-	-	(292,271,784)	(45,476,029)
-	-	-	(11,000,000)
-	-	(8,640,585)	(17,598,383)
-	-	-	(49,948)
-	-	(1,025,484)	(1,172,720)
20,514	18,060	20,514	18,060
(7,519)	(4,427)	(233,425)	(420,806)
12,995	13,633	(302,150,764)	(65,699,826)
-	(7,060)	-	(7,060)
-	(7,060)	-	(7,060)
-	-	(10,287,350)	(35,200,120)
-	-	53,348,951	79,878,611
11,467	31,506	5,102,513	13,591,255
1,188	3,087	322,171	1,273,378
(1,188)	(3,087)	(322,171)	(1,273,378)
11,467	31,506	48,164,114	58,269,746
439,966	329,074	(220,997,797)	15,746,306
1,982,432	1,653,358	484,250,500	468,504,194
$ 2,422,398	$ 1,982,432	$ 263,252,703	$ 484,250,500
$ 2,422,398	$ 1,982,432	$ 92,302,555	$ 65,649,117
-	-	4,601,059	5,454,658
-	-	166,349,089	413,146,725
$ 2,422,398	$ 1,982,432	$ 263,252,703	$ 484,250,500

(Continued on next page)

State of Oregon
Department of Veterans' Affairs
Statement of Cash Flows
Proprietary Funds
For the Fiscal Years Ended June 30, 2010 and June 30, 2009

(Continued from prior page)

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2010	June 30, 2009
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ 1,748,363	$ (3,709,800)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	116,967	113,378
Amortization of Bond Premium, Discount and Underwriter's Discount on Called Bonds	169,104	189,301
Interest Received on Investments Reported as Operating Revenue	(6,354,554)	(4,673,050)
Investment Expense	320,983	1,270,291
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	8,640,585	17,648,330
Bond Costs	1,025,484	1,172,720
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	193,972	205,655
Due from Other Funds	4,743	(8,673)
Prepaid Items	(2,591)	10,766
Loans and Contracts Receivable	22,958,068	10,441,671
Foreclosed and Deeded Property	(837,705)	(581,688)
Accounts Payable	(81,503)	777,569
Due to Other Funds	-	-
Deposit Liabilities	(111,815)	93
Deferred Revenue	4,754,504	-
Compensated Absences Payable	16,348	5,456
Post Employmemt Benefits	12,396	30,432
Total Adjustments	30,824,986	26,602,251
Net Cash Provided (Used) by Operating Activities	$ 32,573,349	$ 22,892,451
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	942,525	(9,636,859)
Foreclosed Property	1,429,235	591,530
Total Noncash Investing and Capital and Related Financing Activities	$ 2,371,760	$ (9,045,329)

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
$ 161,691	$ 174,656	$ 1,910,054	$ (3,535,144)
313,419	313,593	430,386	426,971
-	-	169,104	189,301
(12,655)	(34,591)	(6,367,209)	(4,707,641)
1,188	3,087	322,171	1,273,378
-	-	8,640,585	17,648,330
-	-	1,025,484	1,172,720
614,359	(393,866)	808,331	(188,211)
-	-	4,743	(8,673)
-	-	(2,591)	10,766
-	-	22,958,068	10,441,671
-	-	(837,705)	(581,688)
(570,923)	73,525	(652,426)	851,094
(5,317)	8,492	(5,317)	8,492
(1,914)	7,629	(113,729)	7,722
(76,418)	131,604	4,678,086	131,604
(7,926)	6,866	8,422	12,322
-	-	12,396	30,432
253,813	116,339	31,078,799	26,718,590
$ 415,504	$ 290,995	$ 32,988,853	$ 23,183,446
-	-	942,525	(9,636,859)
-	-	1,429,235	591,530
$ -	$ -	$ 2,371,760	$ (9,045,329)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

In 1944 Oregon voters approved a constitutional amendment that authorized the creation of a Veterans' home and farm loan program. A year later the Department was established to administer this program. In 1993 the Legislative Assembly authorized the Department to provide skilled nursing care to veterans residing at the Oregon Veterans' Home.

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. Located in The Dalles, Oregon, 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.

Measurement Focus of Accounting and Basis of Presentation

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

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

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

Budgetary Process

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

Cash and Cash Equivalents

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

Investments and Investment Income

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

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

Securities Lending Cash Collateral

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

Receivables

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

Real Estate Owned

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

Prepaid Expenses

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

Capital Assets

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

Compensated Absences Payable

State policy allows employees to accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 300 hours per classified employee. Due to state cost reduction measures, effective March 1, 2009, management employees vacation accrual limit increased to 425 hours through December 31, 2009. Effective January 1, 2010, the vacation accrual limit for management employees returns to 350 hours and employees will no longer accrue hours over 350. Employees with more than 350 hours of accrued vacation leave on January 1, 2010, have until June 30, 2013, to reduce their vacation accrual to no more than 350 hours. Employees can be paid up to a maximum of 250 hours of accrued vacation leave at termination.

Accumulated vacation leave and compensatory time *(comp time)* leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for non-vesting, accumulated sick pay benefits.

Excess Interest and Arbitrage Rebate Payable

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

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

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

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

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

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

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

2. DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents for the Veterans' Loan Program and the Veterans' Home Program as of June 30, 2010 and June 30, 2009 are included in the table below:

	Veterans' Loan Program	Veterans' Home Program	Total June 30, 2010	Total June 30, 2009
Book Balance - Cash and Cash Equivalents				
Current unrestricted	$ 89,880,157	$ 2,422,398	$ 92,302,555	$ 65,649,117
Current restricted	4,601,059	-	4,601,059	5,454,658
Noncurrent restricted	166,349,089	-	166,349,089	413,146,725
Combined Book Balance	$ 260,830,305	$ 2,422,398	$ 263,252,703	$484,250,500
Bank Balance - Cash and Cash Equivalents	$ 260,734,190	$ 2,439,422	$ 263,173,612	$484,267,679

As of June 30, 2010, a combined total of $239,255,983 *(Veterans' Loan Program with $236,816,561 and the Veterans' Home Program with $2,439,422)* was held in demand accounts with the State Treasurer and invested in the Oregon Short-Term Fund *(OSTF)*. The OSTF is a cash and investment pool that is available for use by all state funds and eligible local governments. State Treasurer demand deposit accounts and time certificates of deposit investments of the OSTF held in state banks are insured up to the Federal Deposit Insurance *(FDIC)* amount of $250,000. Where balances exceed the FDIC amount, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Oregon State Treasury in the Public Funds Collateralization Program *(PFCP)*. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Statement of Net Assets as Cash and Cash Equivalents.

Earnings on the OSTF are allocated based on daily account balances and a variable interest rate determined periodically by the State Treasurer. Securities in the OSTF are primarily held by the State Treasurer's agent in the name of the State of Oregon. As of June 30, 2010, the OSTF consisted of approximately 42 percent U.S. government & agency securities; 21 percent short-term commercial paper; 27 percent corporate notes; 9 percent government guaranteed corporate securities; and the remainder were time certificates of deposit. A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held $21,491,960 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, 2010 the Department estimated that required balance to be $1,896,000. 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, 2010, the Department held $2,425,669 at the State's Fiscal Agent for redemption of the Department's bonds and coupons that have matured, but have not yet been redeemed. These funds are deposited at the Bank of New York Mellon and are backed by the full faith and credit of the Bank of New York Mellon. Further, these funds, while not collateralized, are insured up to $250,000 per bondholder through December 31, 2014, as specified by FDIC regulations. This money is included in Cash and Cash Equivalents – Restricted, a current asset. On June 30, 2009, the matured bonds payable balance was $3,167,453.

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, 2010, the State Treasurer invested the Department's funds primarily in U.S. agency securities, corporate bonds, and investment agreements.

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

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

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

The schedule below presents investments, credit ratings and the weighted average duration as of June 30, 2010:

Investment Maturities (in years)

Investment Type	Rating	Weighted Average Duration	Market Value
Debt Investments:			
U.S. Agency Securities	AAA	1.06	$ 10,405,194
Corporate Bonds	AA	0.15	2,447,925
Corporate Bonds	A	0.15	23,159,727
Impaired Securities: Lehman Brothers	Rating Withdrawn	-	2,715,625
Guaranteed Investment Contracts	Unrated	**	8,152,261
Total Debt Investments			$ 46,880,732

** Duration not available; investment contracts mature in 2029 and beyond.

During fiscal year 2009, Lehman Brothers Holdings Inc. filed Chapter 11 bankruptcy in the U.S. Bankruptcy Court, Southern District of New York *(Manhattan)*. As a result of this filing, the Department's $13,750,000 *(par amount)* investments in Lehman Brothers Holdings Inc., having a maturity date of May 25, 2010, significantly declined in market value. As of June 30, 2010 and 2009, the estimated market value of these investments was approximately $2,715,625 and $2,028,125 respectively. The last interest payment received by the Department from Lehman Brothers was on August 25, 2008. It is very unlikely the Department will receive any interest earnings from these investments for the time period subsequent to August 25, 2008.

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

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

government-sponsored enterprises, providers of guaranteed investment contracts or repurchase agreements, or any investments within the OSTF).

Concentration of Credit Risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2010, 31.9% of the Department's total investments were in Bear Stearns, 11.5% in Federal Natl Mtg Assn, 10.7% in Federal Farm Cr Bks, 10.7% in JP Morgan Chase, 6.8% in Hewlett Packard, 5.8% in Lehman Brothers Hldgs Inc. and 5.2% in General Electric Cap Corp.

Restricted Assets
Included in Cash and Cash Equivalents and Investments are amounts designated as restricted. Restrictions on the Department's cash and investments can arise from Oregon's constitutional provision or enabling legislation, federal tax law relating to bond proceeds, bond covenants, deposit liabilities and from certain other contractual arrangements. The primary purpose of the restricted assets will be to meet upcoming debt service requirements and other restricted purposes. As of June 30, 2010, the Department had restricted assets of $199,081,959. As of June 30, 2009, the Department had restricted assets of $469,659,116.

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

During the year, State Street lent the Department's fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the domestic securities on loan, or 105% of the fair value in the case of international securities. Oregon State Treasury did not impose any restrictions during the year on loans of the Department's fixed income securities. The Oregon State Treasury is fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return securities on loan. Both Oregon State Treasury and the broker-dealer borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral during the year generally do not match the maturities of their securities loans. On June 30, 2010, 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, 2010, the fair value of all securities on loan from the OSTF was $3,038,311,073. The total cash and non-cash collateral received for the securities on loan from OSTF was $3,101,449,925. The fair value of all investments made with the cash collateral received for those securities on loan was $3,100,861,705.

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

Total cash collateral received for securities on loan for the Department's proprietary funds was $92,852,712. Total fair value of all investments made with cash collateral was $92,837,605. Total securities on loan *(Department's share of OSTF securities on loan)* was $90,964,883. Securities on loan from the OSTF in total included 6.9% in U.S. Treasury securities, 60.4% in U.S. Agency securities, and 32.7% in domestic corporate bonds.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2010 and June 30, 2009:

	June 30, 2010	June 30, 2009
Veterans' Loan Program:		
Investment Income: Accrual Basis	$ 5,701,322	$ 13,039,618
Securities Lending Revenue	320,983	1,270,291
Increase/(Decrease) in Fair Value of Investments	942,525	(9,636,859)
Investment Income	$ 6,964,830	$ 4,673,050
Veterans' Home Program:		
Investment Income: Accrual Basis	$ 11,467	$ 31,504
Securities Lending Revenue	1,188	3,087
Investment Income	$ 12,655	$ 34,591

3. MORTGAGE LOANS AND CONTRACTS RECEIVABLE

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

The loan and contract receivable portfolio at June 30, 2010 is approximately $279 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 2010 the Department determined the balance of the allowance account to be less than potential losses for the remaining loan and contract portfolio. Accordingly, the account balance was increased at June 30, 2010, from approximately $4.24 million to $4.47 million. The balance of the allowance account represents approximately 1.6 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the Statement of Net Assets for June 30, 2010 and June 30, 2009.

	June 30, 2010	June 30, 2009
Loans Receivable	$ 277,290,070	$ 299,390,741
Contracts Receivable	2,130,243	2,935,266
Total Loans and Contracts Receivable	$ 279,420,313	$ 302,326,007
Less: Allowance for Principal Losses	(4,470,000)	(4,238,163)
Net Loans and Contracts Receivable	$ 274,950,313	$ 298,087,844

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, 2010, there were 108 non-amortizing accounts with an aggregate principal balance of $11,004,635. This represents approximately 4 percent of the total net loans and contracts receivable.

<u>Related Party Transactions: Home Loans to Employees</u>

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, 2010, the department made no new home loans to an eligible veteran employee. At June 30, 2010, the balance of existing home loans was $432,513 based on loans made to three employees. At June 30, 2009 the balance of existing home loans was $445,926 based on loans made to three employees.

<u>Troubled Debt Restructurings</u>

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, 2010, the Department provided this relief to two borrowers and deferred loan interest income of $8,342. This interest amount was subsequently capitalized on these loans. In total, $270,505 in loans were restructured in this fashion. From these restructured loans the Department received $11,568 in mortgage interest income during the fiscal year. For the year ended June 30, 2009, the Department deferred loan interest income of $7,714 to borrowers.

Mortgage Insurance

The Department requires borrowers to obtain private mortgage insurance on loans made subsequent to December 1991 if the original loan amount exceeds 80% of the lesser of the appraised value of the property or the purchase price. As of June 30, 2010, the Department had 270 insured accounts with six private mortgage insurers totaling approximately $57 million. The majority of insured accounts are with MGIC *(38%)* and Triad Guaranty Insurance *(46%)*. As of July 2, 2010, the Moody's ratings for MGIC and Triad were "Ba3" and "Not Rated" respectively.

Additionally, the Illinois Department of Insurance has required that all valid claims under Triad's mortgage guaranty insurance policies will be paid at 60% in cash and 40% by the creation of a deferred payment obligation. If the financial position of Triad permits, the Illinois Department of Insurance will allow Triad to increase the amount of cash paid on each claim. As of June 30, 2010, the Department had $103,932 as a deferred payment obligation from Triad. As of June 30, 2009, the Department did not have any deferred payment obligation.

Real Estate Owned

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

	June 30, 2010	June 30, 2009
Number of Properties	9	4
Lower of Cost or Fair Market Value	$1,429,235	$591,530

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, 2010 and June 30, 2009:

		June 30, 2010		June 30, 2009
Veterans' Loan Program				
Building, Property, and Equipment	$	8,911,904	$	8,911,904
Less: Accumulated Depreciation		(4,891,793)		(4,774,826)
Building, Property and Equipment, Carrying Value	$	4,020,111	$	4,137,078
Works of Art and Historical Treasures, Non-Depreciating	$	85,170	$	85,170
Total Capital Assets, Net	$	4,105,281	$	4,222,248
Veterans' Home Program				
Building, Property and Equipment	$	12,643,416	$	12,715,158
Improvements Other than Buildings		7,250		7,250
Works of Art and Historical Treasures, Depreciating		30,000		30,000
Less: Accumulated Depreciation		(3,895,083)		(3,653,406)
Depreciable Capital Assets, Carrying Value	$	8,785,583	$	9,099,002
Works of Art and Historical Treasures, Non-Depreciating		40,000		40,000
Land		600,073		600,073
Total Capital Assets, Net	$	9,425,656	$	9,739,075
Total Capital Assets, Net	$	13,530,937	$	13,961,323

The following table provides detail on the balances and activities of the Department's capital assets for the year ended June 30, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 600,073	$ -	$ -	$ 600,073
Works of Art and Historical Treasures	125,170	-	-	125,170
Total Capital Assets Not Being Depreciated	725,243	-	-	725,243
Capital Assets Being Depreciated:				
Buildings	19,768,032	-	-	19,768,032
Improvements Other than Buildings	7,250	-	-	7,250
Property and Equipment	1,859,030	-	(71,742)	1,787,288
Works of Art and Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	21,664,312	-	(71,742)	21,592,570
Less Accumulated Depreciation:				
Buildings	(6,709,619)	(369,112)	-	(7,078,730)
Improvements Other Than Buildings	(2,900)	(725)	-	(3,625)
Property and Equipment	(1,685,713)	(60,549)	71,742	(1,674,521)
Works of Art and Historical Treasures	(30,000)	-	-	(30,000)
Total Accumulated Depreciation	(8,428,232)	(430,386)	71,742	(8,786,876)
Total Capital Assets, Net	$ 13,961,323	$ (430,386)	$ -	$ 13,530,937

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, 2010 and June 30, 2009:

Bonds Payable *(Par)* at June 30, 2008	$	777,200,000
Bonds Issued		-
Bonds Retired		(44,245,000)
Bonds Payable *(Par)* at June 30, 2009	$	732,955,000
Bonds Issued		-
Bonds Retired		(291,530,000)
Bonds Payable *(Par)* at June 30, 2010	$	441,425,000

Shown below are the components of net bonds payable as disclosed on the Statement of Net Assets for June 30, 2010:

		Current		Noncurrent		Total
Bonds Payable *(Par)*	$	2,065,000	$	439,360,000	$	441,425,000
Discount on Bonds Sold		(58,547)		(472,051)		(530,598)
Net Bonds Payable	$	2,006,453	$	438,887,949	$	440,894,402

The following schedule summarizes future debt service requirements to maturity as of June 30, 2010:

Fiscal Year	***Principal***	***Interest***	***Total***
2011	$ 2,065,000	$ 6,592,344	$ 8,657,344
2012	2,170,000	6,512,626	8,682,626
2013	2,280,000	6,424,652	8,704,652
2014	2,380,000	6,329,279	8,709,279
2015	2,645,000	6,222,030	8,867,030
2016-2020	119,820,000	28,996,435	148,816,435
2021-2025	45,690,000	22,681,573	68,371,573
2026-2030	59,900,000	16,117,569	76,017,569
2031-2035	73,205,000	11,471,796	84,676,796
2036-2040	94,280,000	6,896,814	101,176,814
2041-2045	35,540,000	987,913	36,527,913
2046-2050	1,450,000	1,813	1,451,813
TOTAL	$ 441,425,000	119,234,844	560,659,844

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2010:

Series	Dated	Original Coupon Rates From	To	Issued	Outstanding	Final Maturity
73	December 19, 1985	**		$ 740,000,000	$ 92,500,000	2020
77	April 1, 1998	3.850	5.300%	40,000,000	11,040,000	2030
79A	March 1, 2000	4.550	6.000%	22,000,000	3,090,000	2032
80A	August 15, 2000	4.300	5.700%	35,000,000	9,155,000	2033
81	September 1, 2001	5.125	5.250%	60,150,000	30,940,000	2043
82	June 1, 2002	5.375	5.500%	60,000,000	18,965,000	2043
83	December 2, 2004	**		30,000,000	30,000,000	2040
84	June 29, 2005	**		30,000,000	30,000,000	2040
85	June 21, 2006	##		49,000,000	49,000,000	2041
86	December 19, 2006	##		31,320,000	31,320,000	2040
87A	December 19, 2006	3.850	4.500%	13,265,000	13,265,000	2042
87B	December 19, 2006	4.700	4.700%	5,000,000	5,000,000	2042
87C	January 10, 2007	##		9,045,000	9,045,000	2028
88A	September 20, 2007	4.550	4.900%	9,650,000	9,650,000	2027
88B	September 20, 2007	##		30,000,000	30,000,000	2042
89A	September 20, 2007	3.550	4.550%	10,365,000	9,030,000	2020
89B	September 20, 2007	##		10,000,000	10,000,000	2039
90A	June 24, 2008	1.750	4.400%	11,115,000	10,540,000	2024
90B	June 24, 2008	**		38,885,000	38,885,000	2046
Total Bonds Outstanding as of June 30, 2010:					$ 441,425,000	

** Interest rates are adjusted weekly based on the weekly rate determined by the Remarketing Agent, not to exceed 14% for Series 73H and 12% for Series 83, Series 84 and Series 90B. The interest rate at the end of the fiscal year was 0.25% for Series 73H and Series 90B and 0.23% for Series 83 and Series 84.

Interest rates are adjusted daily based on the daily rate determined by the Remarketing Agent, not to exceed 12%. The interest rate at the end of the fiscal year was 0.16% for Series 85, Series 86, Series 87C, Series 88B and Series 89B.

7. DEMAND BONDS

Included in long-term debt at June 30, 2010 are the following State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, along with selected terms of their Standby Bond Purchase Agreements (SBPAs):

Series	**Outstanding Bond Principal Amount**	**Liquidity Provider**	**Scheduled Termination Date**	**Maximum Interest Commitment**	**Commitment Fee**
Series 73H	$ 92,500,000	Bayerische Landesbank	11/30/2015 (1)	40 days/14%	0.0850%
Series 83	$ 30,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 84	$ 30,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 85	$ 49,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 86	$ 31,320,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 87C	$ 9,045,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 88B	$ 30,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 89B	$ 10,000,000	Dexia Credit Local	12/31/2014	34 days/12%	0.0925%
Series 90B	$ 38,885,000	Dexia Credit Local	12/31/2013	34 days/12%	0.2500%

(1) Bayerishe Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 29, 2011.

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

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

Series	Outstanding Bond Principal Amount	Designated Remarketing Agent	Remarketing Mode	Remarketing Fee
Series 73H	$ 92,500,000	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 SBPA for Series 73H, Bayerische Landesbank Girozentrale *(BLG)* will commit to purchase any Series 73H unremarketed bonds, in each case subject to certain conditions set forth in the SBPAs. Under the SBPAs for Series 83, 84, 85, 86, 87C, 88B, 89B, and 90B, *("Series 83–90B")* Dexia Credit Local, will commit to purchase any unremarketed bonds, subject to certain conditions set forth in the SBPAs.

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

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 73H SBPA. Therefore, no tender advances or draws were outstanding as of June 30, 2010 or 2009.

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

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

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

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal and accrued interest, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPAs. As of June 30, 2010, the Department is required to pay a yearly commitment fee, which is payable quarterly in arrears.

8. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

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

During fiscal year 2010, the Department did not enter into, terminate, or have any maturities of derivatives.

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

Description	Notional Amount	Fair Value Balance June 30, 2009	Fair Value Increase / (Decrease)	Fair Value Balance June 30, 2010
Series 84	$25,000,000	$ (1,333,067)	$ (916,708)	$ (2,249,775)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2010 is negative. The fair value of the interest rate swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap.

Hedging Instruments

On June 30, 2010, the Department has the following derivative instruments outstanding:

Type	Objective	Notional Amount	Effective Date	Termination Date	Terms	Fair Value
Pay – fixed interest rate swap	Hedge of changes in cash flows on the Series 84 bonds, specifically related to changes in municipal tax-exempt interest rates	$25,000,000	3/1/2008	6/1/2040	Pay 3.665%; Receive 62.6% of 1-month LIBOR* + .265%	$ (2,249,775)

* London Interbank Offered Rate

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

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

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

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

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

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

Since the fair value of the swap as of June 30, 2010, is negative, the counterparty is not required to post collateral.

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

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

Basis Risk – is the risk that arises when variable rates of a hedging derivative instrument and a hedged item are based on different reference rates. The variable-rate debt hedged by the Department's interest rate swap is variable-rate demand obligation *(VRDO)* bonds that are remarketed weekly. The Department is exposed to basis risk on its pay-fixed interest rate swap that is hedging the VRDO bonds, because the variable-rate payments received by the Department are based on a rate other than the interest rates the Department pays on the VRDO bonds. At June 30, 2010, the interest rate on the Department's variable-rate hedged debt is 0.23%, while the 62.6% of one-month LIBOR plus 0.265% is 0.486%.

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

Cash Flows

As interest rates fluctuate, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department. Using interest rates as of June 30, 2010, debt service requirements of the variable-rate debt *(on the notional amount of the swap)* and net swap payments are as follows:

Fiscal Year	*Principal*	*Interest*	*Interest Rate Swap (Net)*	*Total*
2011	$ -	$ 57,500	$ 796,304	$ 853,804
2012	-	57,579	796,632	854,211
2013	-	57,421	796,304	853,725
2014	-	57,500	796,304	853,804
2015	-	57,500	796,304	853,804
2016-2020	2,380,000	275,581	3,784,187	6,439,768
2021-2025	3,290,000	243,401	3,328,321	6,861,722
2026-2030	4,525,000	199,403	2,701,360	7,425,763
2031-2035	6,230,000	138,703	1,974,517	8,343,220
2036-2040	8,575,000	55,200	941,525	9,571,725
TOTAL	$ 25,000,000	$ 1,199,788	$ 16,711,758	$ 42,911,546

Contingent Features

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

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

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

9. CHANGES IN LONG TERM LIABILITIES

The following table provides detail on the long-term liability activity as of June 30, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	$ 732,955,000	-	$ (291,530,000)	$ 441,425,000	$ 2,065,000
Bond Discount	(589,145)	-	58,547	(530,598)	(58,547)
Bond Premium	-	-	-	-	-
Total Bonds Payable	732,365,855	-	(291,471,453)	440,894,402	2,006,453
Compensated Absences Payable	437,739	8,422	-	446,161	294,466
Excess Mortgage Interest & Arbitrage Rebate Payable	6,219,738	4,754,504	-	10,974,242	487,548
OPEB Obligation (Net)	63,679	12,396	-	76,075	-
Total Long-Term Liabilities	$ 739,087,011	$ 4,775,322	$ (291,471,453)	$ 452,390,880	$ 2,788,467

10. INTERFUND TRANSACTIONS

At June 30, 2010, the Veterans' Loan Program had outstanding interfund receivables of $67,428, which consisted of $66,674 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $754 due from the Department's Conservatorship Trust Fund. The balances are shown as a "Due from Other Funds" and "Due to Other Funds" on the Statement of Net Assets.

At June 30, 2009, the Veterans' Loan Program had outstanding interfund receivables of $72,172, which consisted of $71,991 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $181 due from the Department's Conservatorship Trust Fund.

11. EMPLOYEE RETIREMENT PLAN

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

PERS Pension

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

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

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

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

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

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

Combined employer contributions for the years ended June 30, 2010, 2009, and 2008 were approximately \$88,850, \$264,500, and \$249,500 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2010, 2009, and 2008 were approximately \$235,400, \$230,600, and \$235,300 respectively.

12. OTHER POSTEMPLOYMENT BENEFIT PLANS

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

<u>Retirement Health Insurance Account</u>

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

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2010 was .29 percent, which is embedded within the total PERS contribution rate.

Combined employer contributions for the years ended June 30, 2010, 2009, and 2008 were approximately $11,600, $14,800 and $14,600 respectively, equal to the required contributions each year.

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

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

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2010 was .08 percent, which is embedded within the total PERS contribution rate. The Department's actual contribution for the years ended June 30, 2010 and 2009 was approximately $3,200 and $4,000 respectively, which was equal to the actuarial required contribution.

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

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

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

13. LEASE COMMITMENT AND RECEIVABLES

The Department leases office space to other state agency tenants at its headquarters in Salem. For the fiscal year ended June 30, 2010, the total rental income received from tenants was $648,740.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	July 1, 2009	June 30, 2011	$160,062
Tenant 2	July 1, 2009	June 30, 2013	$1,043,105
Tenant 3	January 15, 2009	January 14, 2014	$505,164
Total			$1,708,331

Future rental income may increase to a higher rental rate due to inflation. The approximate historical cost of this office space is $2,176,002 with a carrying value of $1,171,137 *(historical cost less accumulated depreciation of $1,004,864).*

14. 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, 2010 and June 30, 2009 there has been no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years *(July 1, 2000 through June 30, 2010)* there have been no claims that exceeded the Department's property or liability coverage.

15. 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 $50,955 for fiscal year 2010 and $23,828 for fiscal year 2009.

16. PRIOR PERIOD ADJUSTMENTS

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

17. SUBSEQUENT EVENTS

The following subsequent event occurred after June 30, 2010.

Early Bond Redemptions

The Department exercised the following early bond redemptions on October 1, 2010:

Bond Series	Amount Redeemed
77	$1,540,000
79A	$ 415,000
80A	$ 980,000
81	$4,020,000

OTHER SUPPLEMENTAL SECTION

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Governmental Funds

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

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

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

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2010 and JUNE 30, 2009

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ -	$ -	$ 1,364,133	$ 1,077,787
Securities Lending Cash Collateral	-	-	529,232	493,387
Receivables:				
Due from State General Fund	521,273	478,075	-	-
Due from Other Funds	-	-	4,297	3,244
Prepaid Items	1,419	939	-	-
Total Current Assets	522,692	479,014	1,897,662	1,574,418
TOTAL ASSETS	$ 522,692	$ 479,014	$ 1,897,662	$ 1,574,418
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 521,273	$ 478,075	$ -	$ -
Obligations under Securities Lending	-	-	529,232	493,387
Total Current Liabilities	521,273	478,075	529,232	493,387
TOTAL LIABILITIES	$ 521,273	$ 478,075	$ 529,232	$ 493,387
FUND BALANCES				
Reserved for Prepaid Items	$ 1,419	$ 939	$ -	$ -
Unreserved, Undesignated Fund Balance	-	-	1,368,430	1,081,031
TOTAL FUND BALANCES	$ 1,419	$ 939	$ 1,368,430	$ 1,081,031
TOTAL LIABILITIES AND FUND BALANCES	$ 522,692	$ 479,014	$ 1,897,662	$ 1,574,418

	Special Revenue Fund		Governmental Funds	
	Other Veterans' Trust Accounts		TOTAL	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	$ 88,458	$ 88,213	$ 1,452,591	$ 1,166,000
	34,319	40,382	563,551	533,769
	-	-	521,273	478,075
	-	-	4,297	3,244
	-	-	1,419	939
	122,777	128,595	2,543,131	2,182,027
	$ 122,777	$ 128,595	$ 2,543,131	$ 2,182,027
	$ -	$ -	$ 521,273	$ 478,075
	34,319	40,382	563,551	533,769
	34,319	40,382	1,084,824	1,011,844
	$ 34,319	$ 40,382	$ 1,084,824	$ 1,011,844
	$ -	$ -	$ 1,419	$ 939
	88,458	88,213	1,456,888	1,169,244
	$ 88,458	$ 88,213	$ 1,458,307	$ 1,170,183
	$ 122,777	$ 128,595	$ 2,543,131	$ 2,182,027

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMBINED STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and JUNE 30, 2009

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues				
Donations	$ -	$ -	$ 257,300	$ 130,223
Interest Income	-	-	8,753	21,781
Total Revenues	-	-	266,053	152,004
Expenditures				
Veterans' Services				
Personal Services	769,058	805,469	-	-
Services and Supplies	139,843	163,065	-	-
Securities Lending Investment Expense	-	-	829	1,962
State Treasury Charges	-	-	-	-
Trust Fund Grants	-	-	-	-
Special Payments	2,061,188	1,925,045	-	-
Total Expenditures	2,970,089	2,893,579	829	1,962
Other Financing Sources (Uses)				
State Appropriations	2,970,089	2,893,579	-	-
Operating Transfer In from DMV	-	-	42,689	35,793
Operating Transfer Out to Veterans' Home	-	-	(20,514)	(18,060)
Total Other Financing Sources (Uses)	2,970,089	2,893,579	22,175	17,733
Net Change in Fund Balance	-	-	287,399	167,775
Beginning Fund Balance	939	2,000	1,081,031	913,256
Change in Reserve for Prepaid Items	480	(1,061)	-	-
Ending Fund Balance	$ 1,419	$ 939	$ 1,368,430	$ 1,081,031

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
$ 459	$ -	$ 257,759	$ 130,223
654	2,012	9,407	23,793
1,113	2,012	267,166	154,016
-	-	769,058	805,469
-	-	139,843	163,065
124	161	953	2,123
54	120	54	120
690	4,730	690	4,730
-	-	2,061,188	1,925,045
868	5,011	2,971,786	2,900,552
-	-	2,970,089	2,893,579
-	-	42,689	35,793
-	-	(20,514)	(18,060)
-	-	2,992,264	2,911,312
245	(2,999)	287,644	164,776
88,213	91,212	1,170,183	1,006,468
-	-	480	(1,061)
$ 88,458	$ 88,213	$ 1,458,307	$ 1,170,183

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STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

SCHEDULE OF LEGISLATIVE AUTHORIZATION (NON-GAAP BUDGETARY BASIS)

COMPARED TO ACTUAL EXPENDITURES SUBJECT TO BUDGET

GOVERNMENTAL FUND

FOR THE BIENNIUM ENDING JUNE 30, 2011

AS OF JUNE 30, 2010

	General Fund			
	2009-2011 Original Budget	2009-2011 Adjusted Budget	First Year Actual June 30, 2010	Variance Favorable/ (Unfavorable)
General Fund:				
Veterans' Services Division - Appropriation	$ 6,168,915	$ 6,209,160	$ 2,970,089	$ 3,239,071
Total General Fund	$ 6,168,915	$ 6,209,160	$ 2,970,089	$ 3,239,071

Fiduciary Fund

Private Purpose Trust Fund

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

Conservatorship Private Purpose Trust Fund - The Department acts as conservator of estates of approximately 161 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, 2010 and JUNE 30, 2009

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2010	June 30, 2009
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 23,737,639	$ 23,414,006
Investments	1,128,920	1,107,746
Securities Lending Cash Collateral	9,209,305	10,718,422
Receivables:		
Accrued Interest	10,891	18,449
Other	-	3,750
Total Current Assets	34,086,755	35,262,373
Noncurrent Assets		
Conservatorship Real Property	4,279,763	3,640,506
Conservatorship Personal Property	419,159	355,887
Total Noncurrent Assets	4,698,922	3,996,393
TOTAL ASSETS	$ 38,785,677	$ 39,258,766
LIABILITIES		
Current Liabilities		
Due to Other Funds	$ 754	$ 181
Mortgages on Conservatorship Real Property	68,664	63,000
Obligations under Securities Lending	9,209,305	10,718,422
Total Current Liabilities	9,278,723	10,781,603
Noncurrent Liabilities		
Mortgages on Conservatorship Real Property	2,138,753	2,027,609
Total Noncurrent Liabilities	2,138,753	2,027,609
TOTAL LIABILITIES	11,417,476	12,809,212
NET ASSETS		
Net Assets Held in Trust for Individuals	27,368,201	26,449,554
TOTAL NET ASSETS	$ 27,368,201	$ 26,449,554

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF CHANGES IN

FIDUCIARY NET ASSETS

FIDUCIARY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and JUNE 30, 2009

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2010	June 30, 2009
ADDITIONS		
Contributions:		
Veterans' Benefits	$ 8,114,701	$ 7,385,697
Investment Income:		
Interest Income	179,313	521,345
Valuation Changes and Redemptions of Investments	57,518	(4,977)
TOTAL ADDITIONS	$ 8,351,532	$ 7,902,065
DEDUCTIONS		
Veterans' Services: Beneficiary Care	$ 7,415,346	$ 7,499,795
Securities Lending Investment Expense	17,539	46,519
TOTAL DEDUCTIONS	7,432,885	7,546,314
Net Increase/ (Decrease)	918,647	355,751
CHANGE IN NET ASSETS	918,647	355,751
BEGINNING NET ASSETS	26,449,554	26,093,803
ENDING NET ASSETS	$ 27,368,201	$ 26,449,554

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STATISTICAL SECTION

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET ASSETS
PROPRIETARY FUND - VETERANS' LOAN PROGRAM only
FOR THE FISCAL YEARS ENDED 2001 - 2010

ASSETS & DEFERRED OUTFLOWS	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
Current Assets *(1)*				
Cash and Cash Equivalents *(2)*	$ 89,880,157	$ 63,666,685	$ 87,234,247	$ 80,795,986
Cash and Cash Equivalents - Restricted	4,601,059	5,454,658	6,685,594	6,308,466
Securities Lending Cash Collateral	91,912,913	209,834,541	220,256,145	171,313,426
Investments	10,903,602	22,126,185	2,511,661	-
Investments - Restricted	15,004,650	25,537,018	56,189,591	95,073,362
Receivables:				
Accrued Interest	1,957,271	2,157,552	2,945,247	2,753,190
Due from State Treasury	-	-	-	-
LCLI Premiums *(3)*	87,229	92,070	107,214	147,259
Other	24,407	13,256	10,817	10,875
Due from Other Funds	67,428	72,172	63,499	73,850
Real Estate Owned	1,429,235	591,530	9,842	-
Prepaid Expenses	7,970	5,379	16,145	39,796
Total Current Assets	$ 215,875,921	$ 329,551,046	$ 376,030,002	$ 356,516,210
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	$ 166,349,089	$ 413,146,725	$ 372,930,995	$ 402,707,726
Investments	7,845,319	15,815,890	-	2,544,843
Investments - Restricted	13,127,161	25,520,715	84,613,906	30,074,187
Mortgage Loans and Contracts Receivable (Net)	274,950,313	298,087,844	306,408,188	283,736,757
Notes Receivable	-	-	-	123,428
Other Receivable	449,742	270,279	2,391,606	1,712,187
Deferred Underwriter's Discount	1,914,482	2,025,039	2,158,705	1,847,213
Capital Assets:				
Building, Property and Equipment	8,911,904	8,911,904	9,484,489	9,563,859
Works of Art and Historical Treasures *(4)*	85,170	85,170	85,170	85,170
Accumulated Depreciation	(4,891,793)	(4,774,826)	(5,226,182)	(5,269,006)
Total Noncurrent Assets	$ 468,741,387	$ 759,088,740	$ 772,846,877	$ 727,126,364
Deferred Outflow of Resources *(5)*	$ 2,249,775	$ -	$ -	$ -
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 686,867,083	$ 1,088,639,786	$ 1,148,876,879	$ 1,083,642,574
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 228,675	$ 240,559	$ 358,119	$ 292,260
Line of Credit Payable	-	-	1,000,000	30,835,000
LCLI Premium Payable	67,779	86,853	99,208	103,602
LCLI Claims Payable *(3)*	243,351	108,999	108,164	254,704
Deposit Liabilities	2,107,611	2,200,352	2,187,904	2,005,195
Accrued Interest on Bonds	1,046,013	1,249,984	3,201,652	6,144,051
Obligations Under Securities Lending	91,912,913	209,834,541	220,256,145	171,313,426
Claims and Judgements Payable	-	-	-	875
Compensated Absences Payable	289,901	283,340	279,685	287,513
Excess Interest and Arbitrage Rebate Payable	487,548	452,944	268,193	105,259
Bonds Payable - Maturing Within One Year (Net)	2,006,453	2,041,454	41,454,365	61,353,153
Matured Bonds Payable	2,425,669	3,167,453	4,398,482	4,199,669
Total Current Liabilities	$ 100,815,913	$ 219,666,479	$ 273,611,917	$ 276,894,707
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	$ 438,887,949	$ 730,324,401	$ 735,100,855	$ 677,075,220
Claims and Judgements Payable	-	-	-	-
Compensated Absences Payable	149,343	139,556	137,755	141,611
Excess Interest and Arbitrage Rebate Payable	10,486,694	5,766,794	3,180,198	1,561,754
Other Postemployment Benefits Obligation (Net)	76,075	63,679	33,247	-
Derivative Instrument - Interest Rate Swap *(5)*	2,249,775	-	-	-
Total Noncurrent Liabilities	$ 451,849,836	$ 736,294,430	$ 738,452,055	$ 678,778,585
TOTAL LIABILITIES	$ 552,665,749	$ 955,960,909	$ 1,012,063,972	$ 955,673,292
NET ASSETS *(6)*				
Invested in Capital Assets	$ 4,105,281	$ 4,222,248	$ 4,343,477	$ 4,380,023
Net Assets, Unrestricted	130,096,053	128,456,629	132,469,430	123,589,259
TOTAL NET ASSETS	$ 134,201,334	$ 132,678,877	$ 136,812,907	$ 127,969,282
TOTAL LIABILITIES AND NET ASSETS	$ 686,867,083	$ 1,088,639,786	$ 1,148,876,879	$ 1,083,642,574

(1) Prior to the fiscal year ended June 30, 2002, cash and investments were not reported as non-current or restricted.
(2) Current Cash and Cash Equivalents amounts have been adjusted for deposit liabilities.
(3) Starting in fiscal year 2005, a change was made to report Loan Cancellation Life Insurance (LCLI) Claims Payable separately.
(4) Starting in fiscal year 2002, Works of Art and Historical Treasures reported separately as required by GASB Statement 34.
(5) Starting in fiscal year 2010, derivatives reported separately as required by GASB Statement 53.
(6) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."

June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
$ 68,536,698	$ 73,133,598	$ 108,065,770	$ 127,071,341	$ 67,460,354	$ 442,430,164
5,775,565	6,211,795	7,753,427	9,041,323	11,326,992	-
56,088,643	84,522,242	263,145,877	59,557,642	33,442,192	17,203,117
-	-	-	-	-	-
100,656,772	-	-	-	-	298,669,923
3,240,750	3,876,695	5,545,325	8,586,686	8,479,863	9,868,497
-	-	-	6,000,000	-	-
170,762	185,655	217,577	274,500	332,500	401,000
34,301	11,731	23,533	12,600	10,900	10,100
138,755	494,164	5,269	163	26,747	29,165
-	96,048	171,189	302,563	351,966	143,858
27,271	8,115	19,449	26,563	45,272	10,787
$ 234,669,517	$ 168,540,043	$ 384,947,416	$ 210,873,381	$ 121,476,786	$ 768,766,611
$ 419,260,547	$ 428,157,516	$ 405,536,924	$ 353,982,441	$ 437,853,753	$ -
2,564,209	-	-	-	-	-
26,342,808	134,928,764	155,641,016	266,394,138	288,644,185	-
266,034,069	284,220,290	339,922,044	456,419,543	582,527,538	671,337,265
176,040	360,000	360,000	-	-	-
1,931,151	481,294	-	-	-	-
1,991,927	1,929,928	1,913,369	2,209,215	2,413,889	1,539,153
9,949,641	9,945,155	9,945,155	9,955,561	9,726,670	9,646,082
85,170	85,170	85,170	85,170	85,170	-
(5,647,415)	(5,391,789)	(5,032,348)	(4,647,330)	(4,215,939)	(3,677,384)
$ 722,688,147	$ 854,716,328	$ 908,371,330	$ 1,084,398,738	$ 1,317,035,266	$ 678,845,116
$ -	$ -	$ -	$ -	$ -	$ -
$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119	$ 1,438,512,052	$ 1,447,611,727
$ 301,996	$ 361,717	$ 566,738	$ 762,672	$ 410,616	$ 882,049
1,000,000	-	-	-	-	20,000,000
135,470	171,010	347,345	455,246	562,197	698,213
13,762	137,379	-	-	-	-
1,637,899	1,503,156	1,495,581	1,910,501	2,154,231	1,957,767
8,234,121	9,891,835	12,368,445	16,329,000	20,183,563	23,140,000
56,088,643	84,522,242	263,145,877	59,557,642	33,442,192	17,203,117
-	-	-	-	-	-
294,236	252,202	417,495	453,859	552,488	136,007
212,771	-	-	-	186,645	-
62,250,115	62,727,149	83,314,364	104,119,165	114,325,964	136,922,950
4,002,196	4,537,629	6,257,846	7,130,822	9,172,761	9,226,844
$ 134,171,209	$ 164,104,319	$ 367,913,691	$ 190,718,907	$ 180,990,657	$ 210,166,947
$ 701,016,462	$ 738,766,577	$ 798,269,848	$ 964,911,356	$ 1,113,899,221	$ 1,141,427,558
15,518	-	-	-	-	-
98,079	108,087	-	-	-	408,020
891,286	402,055	385,380	287,175	319,483	678,122
-	-	-	-	-	-
-	-	-	-	-	-
$ 702,021,345	$ 739,276,719	$ 798,655,228	$ 965,198,531	$ 1,114,218,704	$ 1,142,513,700
$ 836,192,554	$ 903,381,038	$ 1,166,568,919	$ 1,155,917,438	$ 1,295,209,361	$ 1,352,680,647
$ 4,387,396	$ 4,638,536	$ 4,997,977	$ 5,393,401	$ 5,595,901	$ 5,968,698
116,777,714	115,236,797	121,751,850	133,961,280	137,706,790	88,962,382
$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080
$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119	$ 1,438,512,052	$ 1,447,611,727

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - VETERANS' LOAN PROGRAM only
FOR THE FISCAL YEARS ENDED 2001 - 2010

	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 11,445,675	$ 16,014,046	$ 17,611,704	$ 17,526,662
Contract Interest Income	209,608	302,145	434,945	593,760
Other Interest Income	-	-	3,219	7,595
Investment Income	6,964,830	4,673,050	33,154,407	37,675,500
Gain on Sale of Foreclosed Property	34,542	35,160	-	-
Loan Cancellation Life Insurance Premiums	962,230	1,142,192	1,356,657	1,626,287
Loan Cancellation Life Insurance Processing Fees	102,000	102,000	102,000	180,000
Other Fees and Charges	1,733,649	1,841,337	2,155,231	2,131,847
Conservatorship Fees	284,381	294,951	313,493	333,974
TOTAL OPERATING REVENUES	$ 21,736,915	$ 24,404,881	$ 55,131,656	$ 60,075,625
OPERATING EXPENSES				
Bond Interest Expense	$ 8,495,161	$ 15,702,350	$ 26,856,570	$ 34,581,972
Interest on Line of Credit	-	49,948	721,945	279,906
Salaries and Other Payroll Expenses	5,642,344	5,773,576	5,953,581	5,445,234
Bond Expenses	1,117,848	1,247,214	1,242,882	1,581,932
Securities Lending Investment Expense	320,983	1,270,291	6,678,572	6,266,412
Real Estate Owned Expense	130,125	29,547	2,324	2,267
Services and Supplies	1,867,440	1,665,656	1,971,272	2,133,903
Claims Expense - Loan Cancellation Life Insurance *(1)*	1,266,568	1,938,157	2,312,867	2,717,581
Depreciation Expense	116,967	113,378	160,174	156,656
Bad Debt Expense	936,600	-	-	(545,135)
Special Payments	-	(1,106)	98,674	-
Other Expenses	94,516	325,670	687,994	645,158
TOTAL OPERATING EXPENSES	$ 19,988,552	$ 28,114,681	$ 46,686,855	$ 53,265,886
OPERATING INCOME (LOSS)	$ 1,748,363	$ (3,709,800)	$ 8,444,801	$ 6,809,739
NONOPERATING INCOME (EXPENSES)				
Net Transfers to Dept. of Administrative Services	$ -	$ (230,438)	$ -	$ (5,567)
Net Transfers from Military Dept.	-	-	98,824	-
Net Transfers from/(to) General Fund	(225,906)	(185,941)	300,000	-
Gain/(Loss) on Early Extinguishment of Debt	-	(7,851)	-	-
CHANGE IN NET ASSETS	$ 1,522,457	$ (4,134,030)	$ 8,843,625	$ 6,804,172
NET ASSETS				
Beginning Net Assets *(2)*	$ 132,678,877	$ 136,812,907	$ 127,969,282	$ 121,165,110
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 132,678,877	$ 136,812,907	$ 127,969,282	$ 121,165,110
Ending Net Assets	$ 134,201,334	$ 132,678,877	$ 136,812,907	$ 127,969,282

(1) Starting in fiscal year 2003, the Department included the activity of the Loan Cancellation Life Insurance program in the Statement of Revenues, Expenses, And Changes In Fund Net Assets.
(2) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."

June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
$ 17,561,219	$ 21,225,116	$ 26,789,783	$ 36,742,510	$ 43,749,526	$ 50,861,579
806,376	1,169,324	1,687,323	2,535,147	3,522,372	4,562,401
10,953	19,050	11,208	-	-	-
28,198,335	18,013,534	13,338,726	24,675,139	35,956,850	57,521,901
7,551	139,199	493,409	39,121	172,472	9,052
1,962,357	2,523,140	2,704,444	3,642,487	-	-
180,000	220,834	425,004	425,004	425,004	425,004
1,941,079	947,834	939,950	1,189,691	1,447,451	1,342,762
354,808	334,340	345,750	364,510	338,136	353,417
$ 51,022,678	$ 44,592,371	$ 46,735,597	$ 69,613,609	$ 85,611,811	$ 115,076,116
$ 35,121,631	$ 37,103,554	$ 44,537,191	$ 58,066,877	$ 68,560,732	$ 85,455,556
525,600	159,267	-	7,500	580,883	-
5,239,879	4,793,870	5,875,969	6,838,554	6,974,557	6,932,307
1,129,971	1,324,123	1,155,355	909,379	868,243	925,722
2,910,155	2,199,165	1,899,175	630,893	522,316	1,156,100
9,485	47,490	52,526	80,757	73,308	57,863
2,174,420	1,776,839	2,140,262	2,958,497	2,480,268	2,741,678
2,952,064	4,637,009	4,927,874	5,121,239	-	-
255,626	359,441	408,883	431,391	538,555	453,159
(918,401)	(1,104,080)	(1,656,784)	(1,744,700)	(906,906)	(1,078,111)
-	-	-	51,000	-	-
332,471	170,187	-	210,232	180,045	74,888
$ 49,732,901	$ 51,466,865	$ 59,340,451	$ 73,561,619	$ 79,872,001	$ 96,719,162
$ 1,289,777	$ (6,874,494)	$ (12,604,854)	$ (3,948,010)	$ 5,739,810	$ 18,356,954
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	(17,231)
$ 1,289,777	$ (6,874,494)	$ (12,604,854)	$ (3,948,010)	$ 5,739,810	$ 18,339,723
$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357
-	-	-	-	42,556,801	-
-	-	-	-	75,000	-
$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 137,562,881	$ 76,591,357
$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691	$ 94,931,080

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

ASSETS, LIABILITIES AND NET ASSETS

PROPRIETARY FUND - VETERANS' HOME PROGRAM only

FOR THE FISCAL YEARS ENDED 2001 - 2010

ASSETS		June 30, 2010		June 30, 2009		June 30, 2008		June 30, 2007
Current Assets *(1)*								
Cash and Cash Equivalents	$	2,422,398	$	1,982,432	$	1,653,358	$	1,105,989
Securities Lending Cash Collateral		939,799		907,514		818,718		387,988
Resident Care Receivable		1,484,378		1,398,921		1,136,487		1,158,387
Other Receivable		-		-		-		-
Due from Other Funds		-		-		-		-
Prepaid Expenses		-		-		-		-
Total Current Assets	$	4,846,575	$	4,288,867	$	3,608,563	$	2,652,364
Noncurrent Assets								
Resident Care Receivable (Net)	$	70,750	$	138,125	$	6,693	$	13,754
Capital Assets:								
Building, Property and Equipment		12,643,416		12,715,158		12,708,097		12,562,282
Improvements Other than Buildings		7,250		7,250		7,250		7,250
Land		600,073		600,073		600,073		600,073
Works of Art and Historical Treasures *(2)*		70,000		70,000		70,000		70,000
Accumulated Depreciation		(3,895,082)		(3,653,406)		(3,339,812)		(3,027,776)
Total Noncurrent Assets	$	9,496,407	$	9,877,200	$	10,052,301	$	10,225,583
TOTAL ASSETS	$	14,342,982	$	14,166,067	$	13,660,864	$	12,877,947
LIABILITIES								
Current Liabilities								
Accounts Payable	$	1,017,734	$	963,037	$ $	889,510	$	855,175
Due to Other Funds		66,674		71,991		63,499		55,909
Deposit Liabilities		6,076		7,990		361		361
Deferred Revenue		55,186		131,604		-		-
Obligations Under Securities Lending		939,799		907,514		818,718		387,988
Compensated Absences Payable		4,565		9,945		5,345		2,277
Total Current Liabilities	$	2,090,034	$	2,092,081		1,777,433	$	1,301,710
Noncurrent Liabilities								
Compensated Absences Payable	$	2,352	$	4,898		2,632	$	1,121
Claims and Judgements Payable		-		-		-		-
Total Noncurrent Liabilities	$	2,352	$	4,898		2,632	$	1,121
TOTAL LIABILITIES	$	2,092,386	$	2,096,979		1,780,065	$	1,302,831
NET ASSETS *(3)*								
Invested in Capital Assets	$	9,425,657	$	9,739,075		10,045,608	$	10,211,829
Contributed Capital		-		-		-		-
Net Assets, Unrestricted		2,824,939		2,330,013		1,835,191		1,363,287
TOTAL NET ASSETS	$	12,250,596	$	12,069,088		11,880,799	$	11,575,116
TOTAL LIABILITIES AND NET ASSETS	$	14,342,982	$	14,166,067	$ $	13,660,864	$	12,877,947

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

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

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

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
	$ 1,474,963	$ 1,414,057	$ 726,735	$ 478,842	$ 492,654	$ 536,062
	189,105	248,379	342,687	63,195	34,495	21,523
	707,089	818,414	661,432	390,000	435,000	-
	51,800	-	-	16,794	22,000	557,685
	-	5,405	-	-	-	-
	571	553	553	846	793	268
	$ 2,423,528	$ 2,486,808	$ 1,731,407	$ 949,677	$ 984,942	$ 1,115,538
	$ 2,614	$ 3,572	$ 3,572	$ 3,606	$ -	$ -
	12,540,540	12,517,677	12,517,677	12,506,729	12,507,774	12,467,619
	7,250	7,250	-	-	-	-
	600,073	600,073	600,073	600,073	593,578	89,500
	70,000	70,000	70,000	70,000	70,000	-
	(2,738,926)	(2,449,306)	(2,161,834)	(1,878,984)	(1,525,504)	(1,195,057)
	$ 10,481,551	$ 10,749,266	$ 11,029,488	$ 11,301,424	$ 11,645,848	$ 11,362,062
	$ 12,905,079	$ 13,236,074	$ 12,760,895	$ 12,251,101	$ 12,630,790	$ 12,477,600
	$ 705,069	$ 873,212	$ 958,079	$ 411,023	$ 457,983	$ 568,091
	119,104	493,755	-	-	-	-
	652	361	-	976	7,097	-
	-	-	-	-	-	-
	189,105	248,379	342,687	63,195	34,495	21,523
	437	3,455	16,073	13,480	16,746	3,651
	$ 1,014,367	$ 1,619,162	$ 1,316,839	$ 488,674	$ 516,321	$ 593,265
	$ 146	$ 1,481	$ -	$ -	$ -	$ 10,953
	6,994	-	-	-	-	-
	$ 7,140	$ 1,481	$ -	$ -	$ -	$ 10,953
	$ 1,021,507	$ 1,620,643	$ 1,316,839	$ 488,674	$ 516,321	$ 604,218
	$ 10,478,937	$ 10,745,694	$ 11,025,916	$ 11,297,818	$ 11,645,848	$ -
	-	-	-	-	-	12,720,567
	1,404,635	869,737	418,140	464,609	468,621	(847,185)
	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382
	$ 12,905,079	$ 13,236,074	$ 12,760,895	$ 12,251,101	$ 12,630,790	$ 12,477,600

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - VETERANS' HOME PROGRAM only
FOR THE FISCAL YEARS ENDED 2001 - 2010

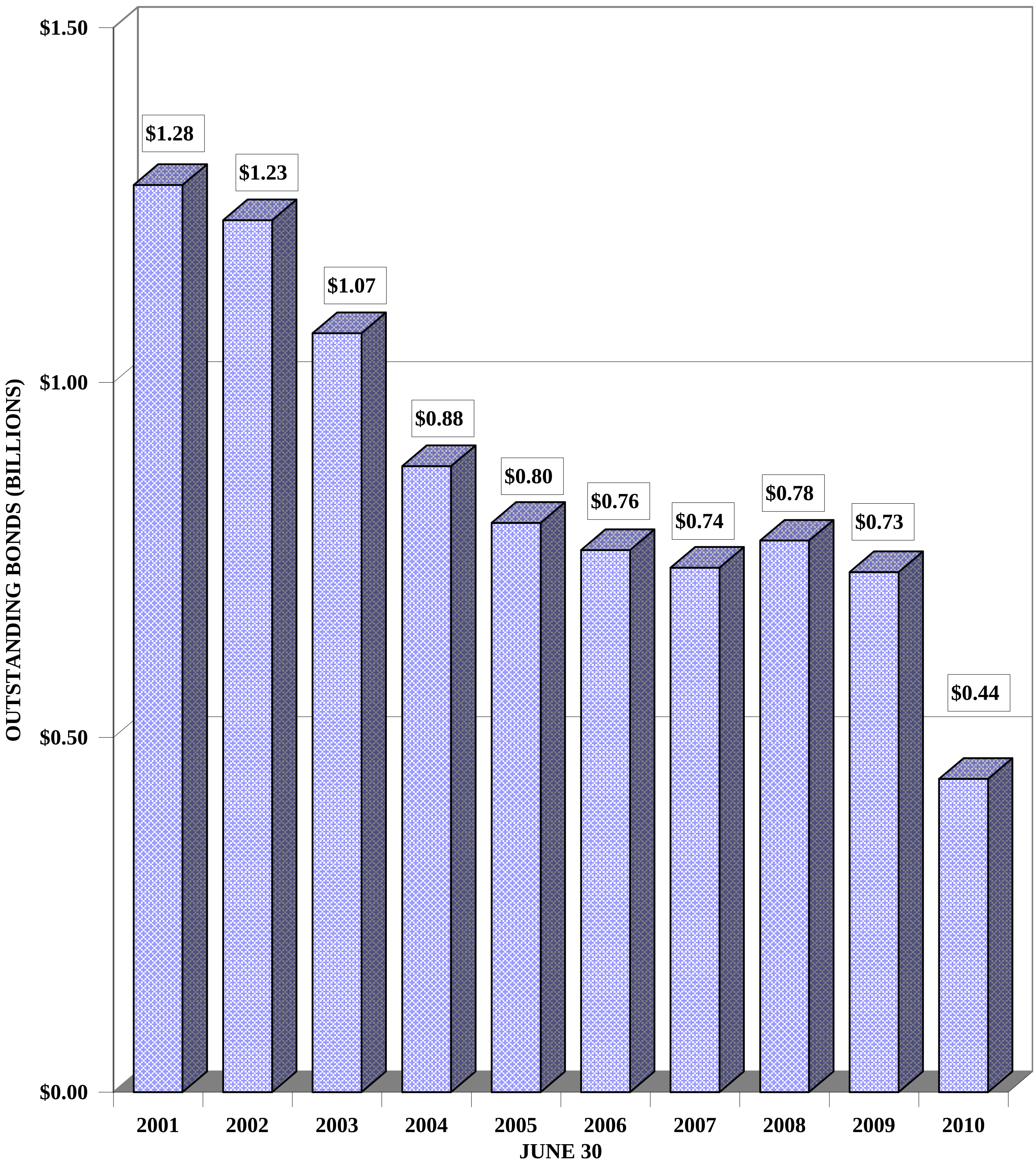
	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
OPERATING REVENUES				
Investment Income	$ 12,655	$ 34,591	$ 62,149	$ 57,064
Resident Revenue (Net) *(1)*	11,833,514	11,709,871	10,985,553	10,223,934
Other Fees and Charges	2,167	1,708	2,191	2,066
TOTAL OPERATING REVENUES	$ 11,848,336	$ 11,746,170	$ 11,049,893	$ 10,283,064
OPERATING EXPENSES				
Salaries and Other Payroll Expenses	$ 202,012	$ 145,500	$ 120,273	$ 98,888
Securities Lending Investment Expense	1,188	3,087	15,600	12,974
Services and Supplies	119,113	64,966	81,099	583,527
Veterans' Home Operations	11,050,913	11,044,368	10,365,986	9,632,303
Depreciation Expense	313,419	313,593	315,110	288,852
TOTAL OPERATING EXPENSES	$ 11,686,645	$ 11,571,514	$ 10,898,068	$ 10,616,544
OPERATING INCOME (LOSS)	$ 161,691	$ 174,656	$ 151,825	$ (333,480)
NONOPERATING INCOME (EXPENSES)				
Net Transfers from Veterans' Home Trust Fund	$ 20,514	$ 18,060	$ 153,858	$ 25,024
Net Transfers to Dept. of Administrative Services	(7,519)	(4,427)	-	-
Capital Contributions	-	-	-	-
CHANGE IN NET ASSETS	$ 174,686	$ 188,289	$ 305,683	$ (308,456)
NET ASSETS				
Beginning Net Assets	$ 12,069,088	$ 11,880,799	$ 11,575,116	$ 11,883,572
Prior Period Adjustment	6,822	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 12,075,910	$ 11,880,799	$ 11,575,116	$ 11,883,572
Net Contributed Construction Capital	-	-	-	-
Ending Net Assets	$ 12,250,596	$ 12,069,088	$ 11,880,799	$ 11,575,116

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

June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
$ 73,604	$ 24,217	$ 8,390	$ 8,487	$ 13,983	$ 38,155
9,809,017	8,674,907	6,157,225	5,043,010	5,465,696	5,194,921
1,946	2,825	2,134	-	-	23,828
$ 9,884,567	$ 8,701,949	$ 6,167,749	$ 5,051,497	$ 5,479,679	$ 5,256,904
$ 80,684	$ 512,025	$ 213,063	$ 205,262	$ 218,460	$ 203,790
10,346	4,349	1,846	654	590	1,917
157,869	208,319	107,766	134,843	54,645	313,874
9,120,185	7,596,750	6,181,784	4,732,459	5,238,567	4,773,004
289,619	287,472	288,918	353,480	331,368	329,069
$ 9,658,703	$ 8,608,915	$ 6,793,377	$ 5,426,698	$ 5,843,630	$ 5,621,654
$ 225,864	$ 93,034	$ (625,628)	$ (375,201)	$ (363,951)	$ (364,750)
$ 25,483	$ 71,091	$ 298,257	$ 17,709	$ 1,380	$ 16,503
-	-	-	-	-	-
16,794	7,250	9,000	-	-	-
$ 268,141	$ 171,375	$ (318,371)	$ (357,492)	$ (362,571)	$ (348,247)
$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071
-	-	-	5,450	563,658	-
-	-	-	-	40,000	-
$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,119,919	$ 12,477,040	$ 12,102,071
-	-	-	-	-	119,558
$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469	$ 11,873,382

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

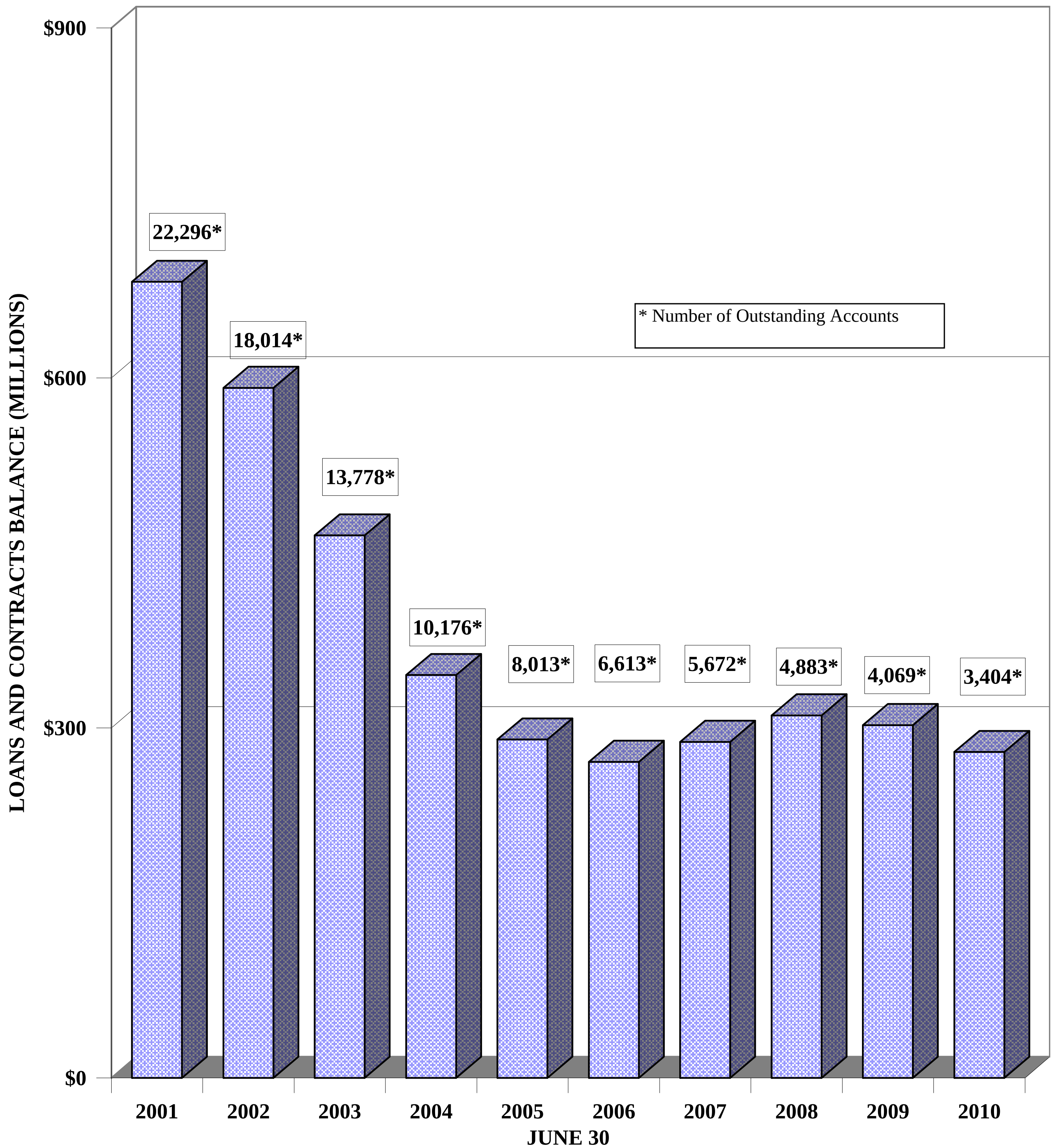
PRINCIPAL BALANCE OF BONDS OUTSTANDING



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

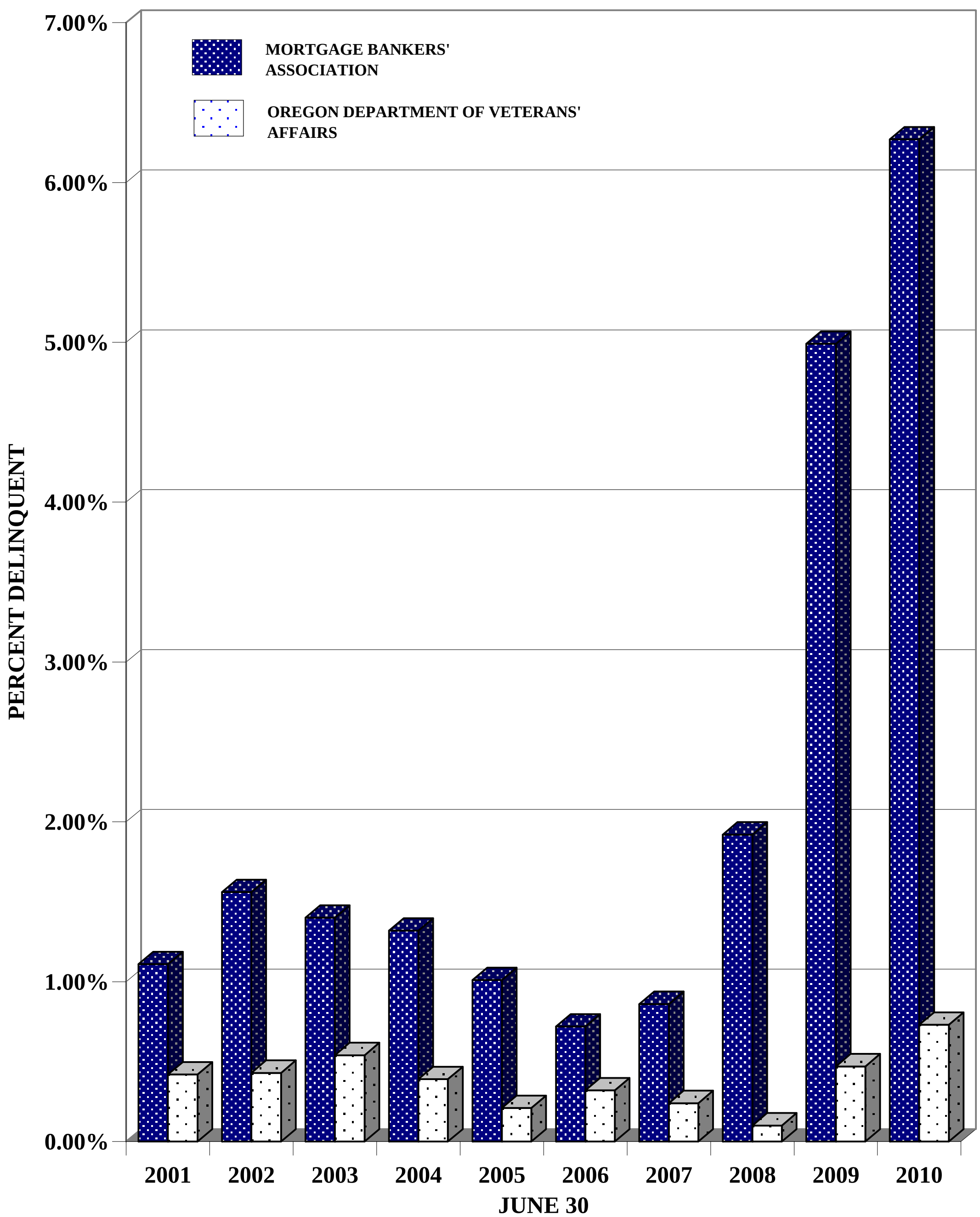
LOANS AND CONTRACTS OUTSTANDING



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

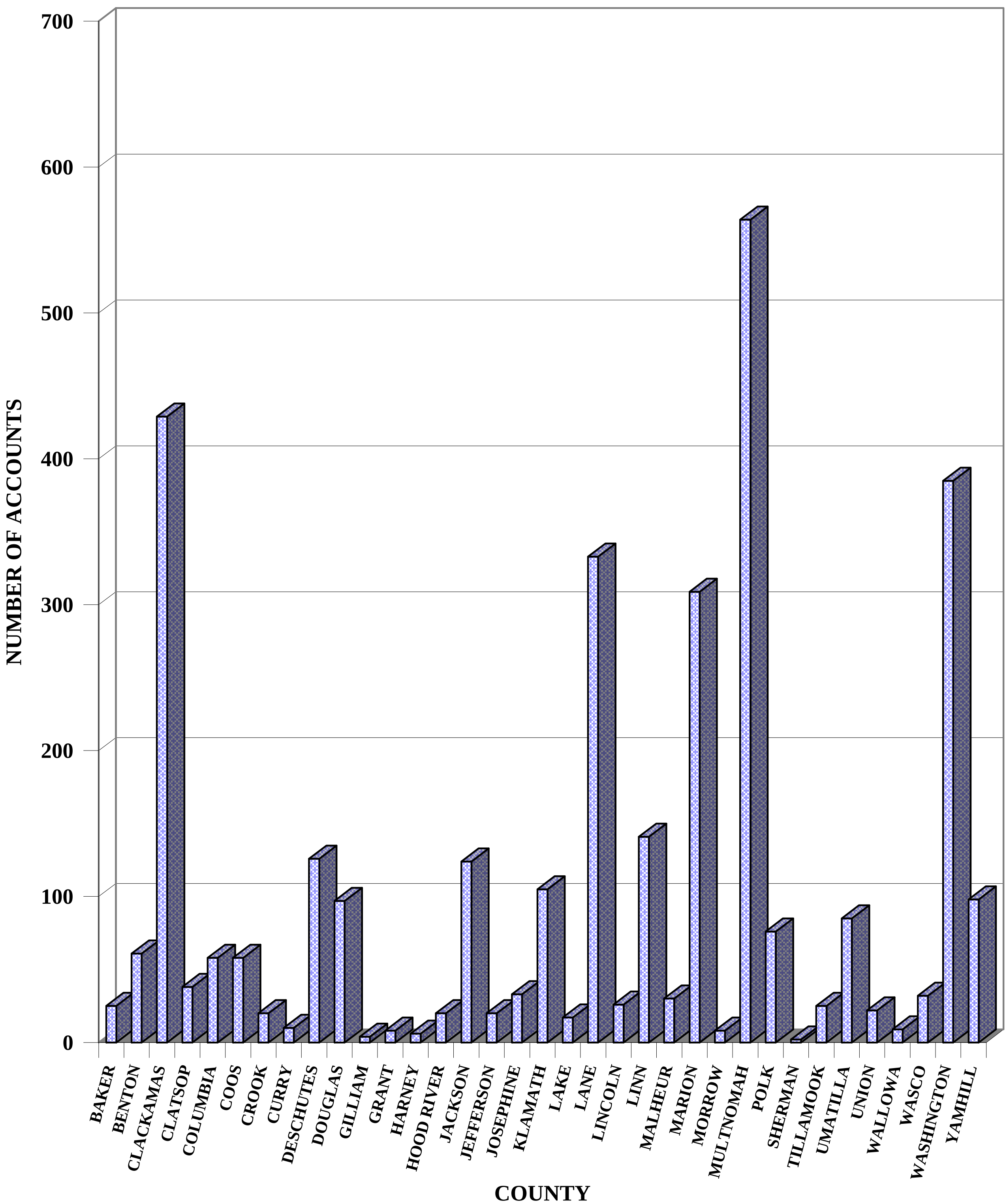
LOAN AND CONTRACT 90+ DAY DELINQUENCIES



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

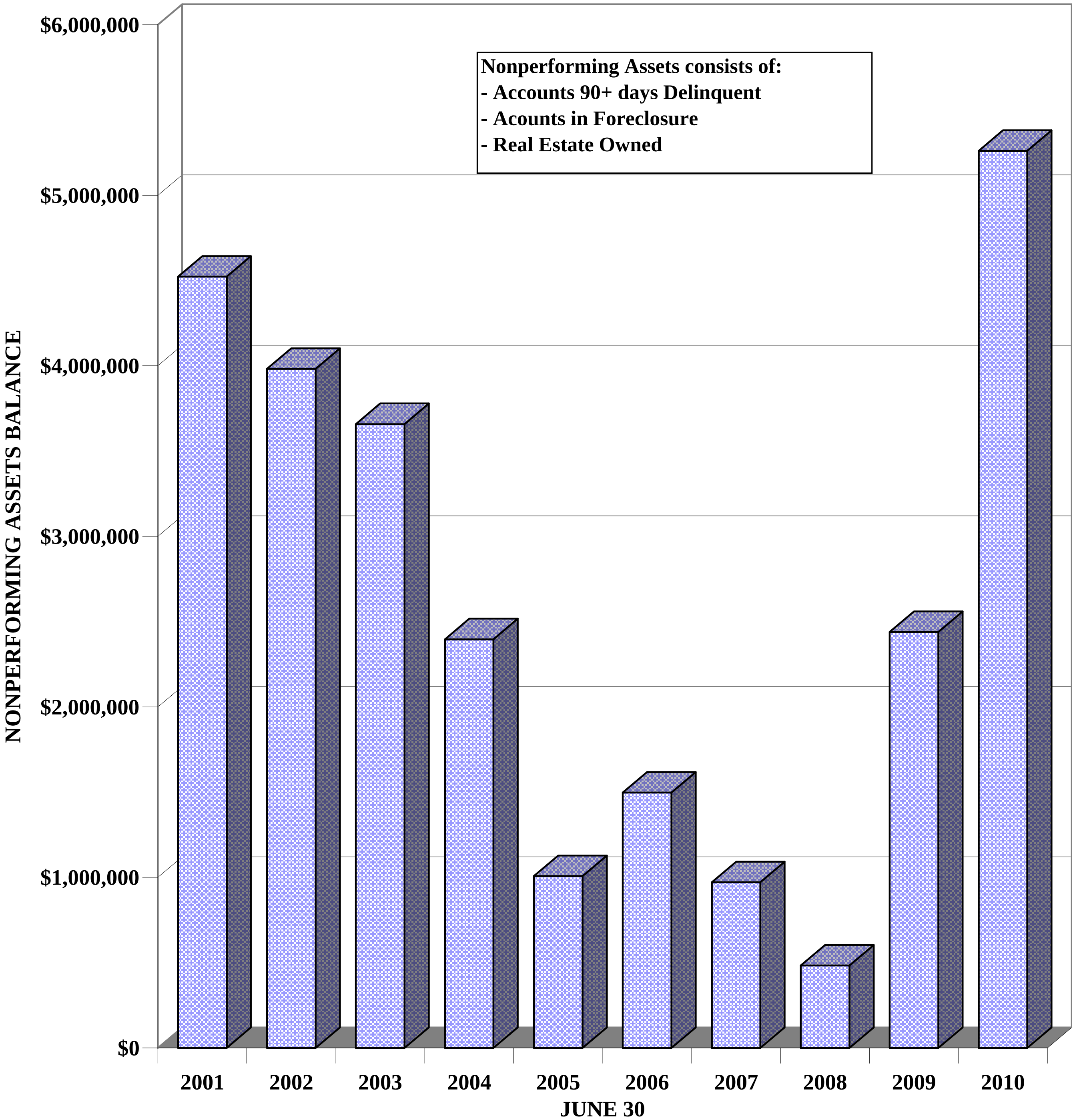
LOANS AND CONTRACTS OUTSTANDING BY COUNTY
AS OF JUNE 30, 2010



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

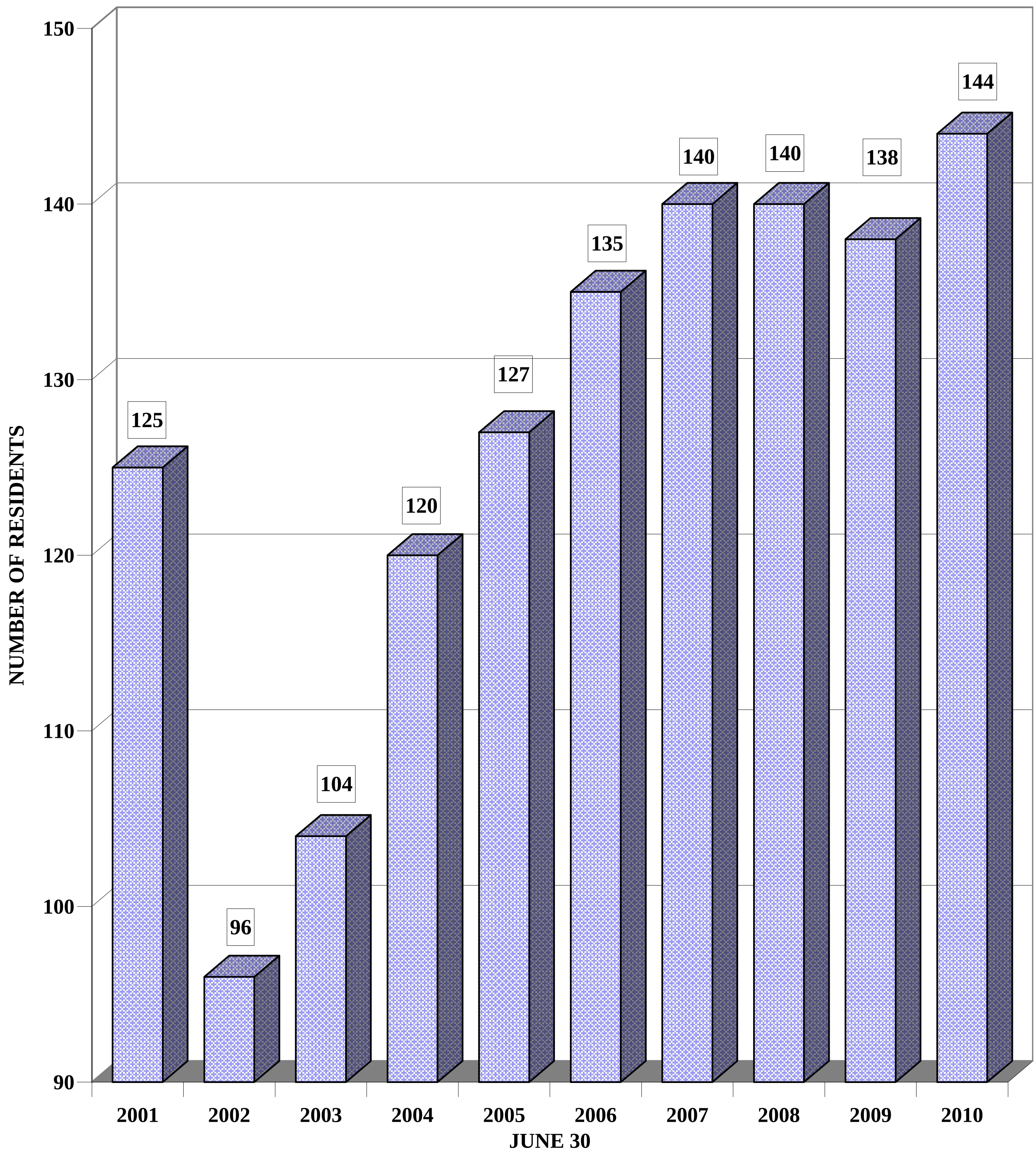
NONPERFORMING ASSETS OF THE VETERANS' LOAN PROGRAM



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

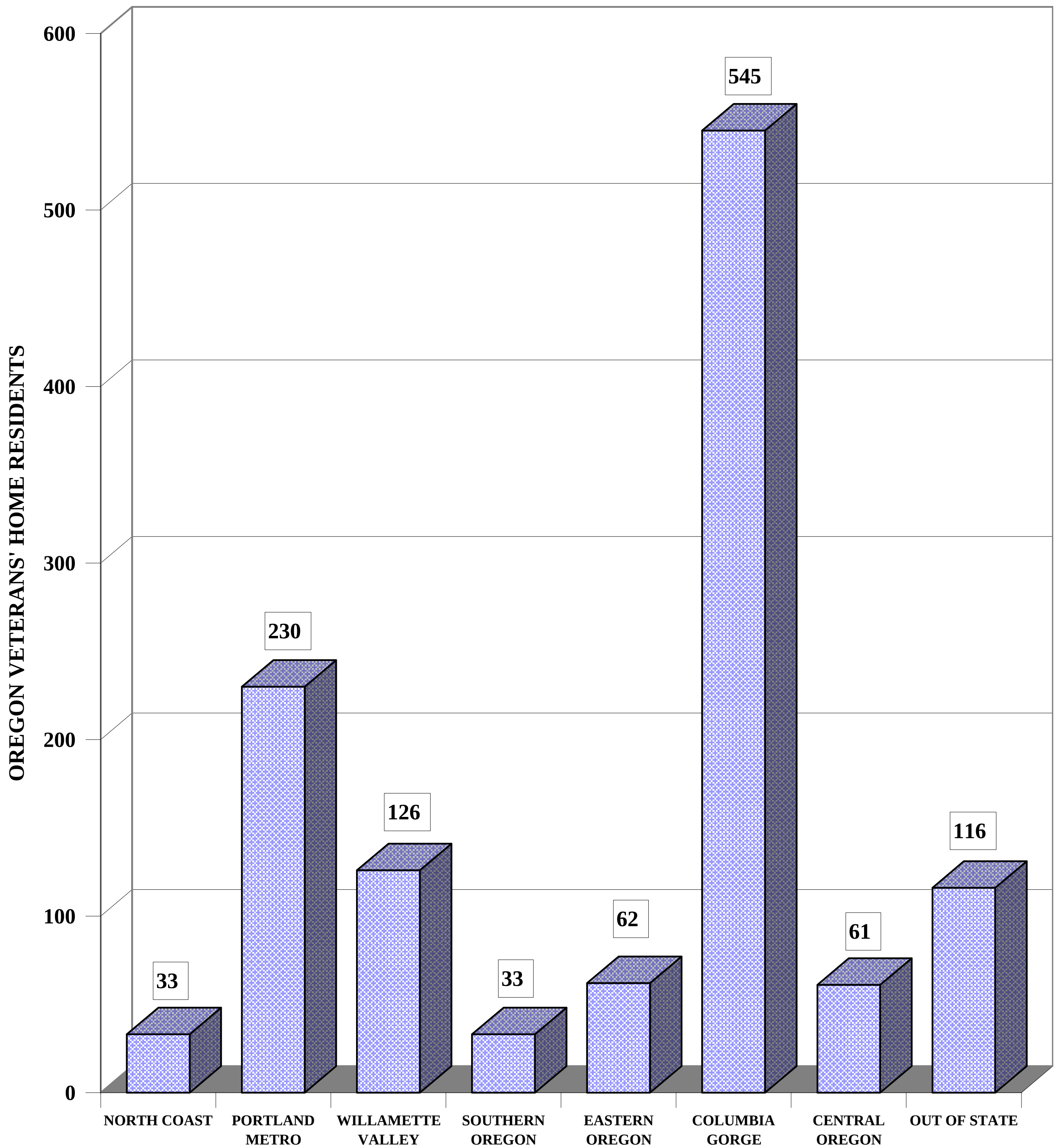
RESIDENT CENSUS AT THE OREGON VETERANS' HOME



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

CUMULATIVE RESIDENT ADMISSIONS BY GEOGRAPHIC AREA
NOVEMBER 1, 1997 THROUGH JUNE 30, 2010



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

OTHER REPORTS

MERINA & COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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

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

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

We have audited the 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, 2010, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 13, 2010.We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

Compliance and Other Matters

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

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

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
October 13, 2010

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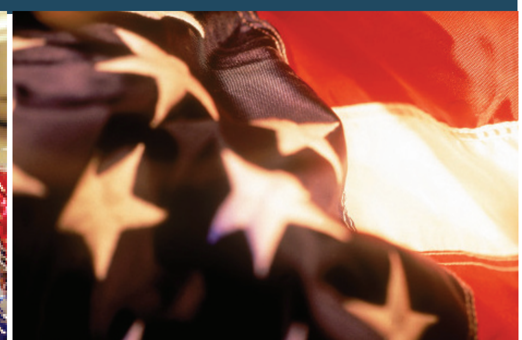

OREGON DEPARTMENT OF VETERANS' AFFAIRS

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