COMPREHENSIVE ANNUAL FINANCIAL REPORT

OREGON DEPARTMENT OF VETERANS' AFFAIRS

An Agency of the State of Oregon

ENTERPRISE FUNDS
FOR THE FISCAL
YEARS ENDED
JUNE 30, 2012 AND
JUNE 30, 2011

Oregon Department of Veterans' Affairs

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, 2012 and June 30, 2011

Jim Willis
Director

Bruce Shriver, CPA
Chief Financial Officer

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

Cover Design: Nicole Hoeft, Public Information Section

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INTRODUCTORY SECTION

Events From This Past Year

The Department participates in various activities and events that honor and serve Oregon's veteran community.

1) Flooding at ODVA building; **2)** Gold Star Wives visit with ODVA; **3)** Governor's ceremonial signing of HB 4063 regarding professional licensing for veteran military experience; **4)** Memorial Day 2012; **5)** Director's Commendation Award presented to Michael Ward, ODOT; **6)** Military Family Appreciation Day and the launch of the Military Families Task Force; **7)** Veterans Affairs' Advisory Committee Members; **8)** Women Veterans Conference hosted in Salem, OR; **9)** Groundbreaking of Oregon's WWII Memorial at the State Capitol; **10)** Unveiling of the Stan and Jean Adams portrait at the Veterans' Home in The Dalles; **11)** The dedication of the Community Center at the Veterans' Home in The Dalles; **12)** ODVA assists with the burial of 4 Oregon Veterans whose cremains were stored at the Oregon State Hospital; **13)** Medals presented to WWII veteran; **14)** Heeling for Heroes Vocational Rehab program; **15)** Groundbreaking of the Lebanon Veterans' Home; **16)** Director Willis appointed President of the National Association of State Directors of Veterans Affairs (NASDVA)


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Oregon
John A. Kitzhaber, MD, Governor

Department of Veterans' Affairs
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October 29, 2012

To the Honorable Governor John A. Kitzhaber, M.D. 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, 2012, and June 30, 2011.

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, 2012 and June 30, 2011. 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 September 2012 Oregon Economic and Revenue Forecast from the Oregon Office of Economic Analysis *(OEA)*:

> Oregon's economic expansion is still intact for now, but remains at risk, and is losing steam due to weakness in global demand for our products. To date, local labor markets have slowly improved along with the nation overall, resulting in a slowly declining unemployment rate.
>
> Although economic growth in Oregon has continued at roughly the same slow pace since the recovery began, the forces driving this growth have recently changed. In particular, the regional housing market is beginning to show signs of life, which is helping to offset weaker market conditions among many of Oregon's major manufacturers and exporters.
>
> The fact that improvement continues is encouraging. However, the threat of external shocks has placed a burden on businesses and households, leading many to pull back on their spending out of caution. The euro zone recession – and potential crisis – in addition to the slowdown in China and an uncertain U.S. federal policy environment represent three very large risks to the global outlook. These risks are hard to handicap from a planning perspective and have created an exorbitant amount of uncertainty about the future. As a result, future plans are being delayed with businesses and individuals holding off on making long-term investments.
>
> ***Outlook***
> Despite all of the uncertainty, the economic outlook for Oregon remains positive. It is likely that the U.S. economic recovery can survive any one of these external shocks if faced in isolation.
>
> However, even if all of the external threats facing Oregon are resolved in a painless manner, the uncertainty they have caused can be expected to weigh on growth. By taking a wait-and-see approach, firms and households are ensuring that some degree of a slowdown will occur. Should they not see anything too drastic; the expected slowdown will remain just that, and not transition into something worse.
>
> Due to a recent string of weak manufacturing, consumer spending, and trade data, a broad consensus of economic forecasters has become more pessimistic about future growth prospects. Similarly, the Office of Economic Analysis outlook reflects somewhat weaker expectations for growth over the next two years. Despite the revised growth rates, the general character of Oregon's lackluster economic outlook has not changed, with more of the same, slow improvement expected going forward.
>
> The economy has faced two major drags in recent years: housing and government. After contracting 30 percent during the recession and losing a further 1.5 percent from early 2010 to early 2011, housing-related jobs have begun to grow again. While the pace of hiring is slow, simply having the housing sector turn from a negative aspect of the economy to a neutral or

slightly positive aspect is more than welcome news. The news is less good on the public sector side. Government job cuts have not ended, holding down the headline employment numbers statewide. Although the losses have not stopped, government job cuts in recent months have been less severe than a year ago.

Growth in housing-related industries and a stabilization of government payrolls is particularly good news for rural Oregon. Recent differences in the economic performance of counties across Oregon are expected to lessen going forward. As the housing market continues to heal and state and local governments stop cutting back, drags on economic growth in rural areas will lessen. Farm income remains healthy, and market conditions are stabilizing for many wood product firms. Expectations are not for strong growth, but at least a sustained upturn in many areas that have missed out on the recovery thus far.

All told, slow growth will continue to be the norm. The manufacturing cycle is past its peak, and Oregon's major trading partners are ordering fewer of our goods. Consumers will not save the day, since many still need to fix their household balance sheets by saving more or paying down debt. Recent improvements in labor markets and housing markets will help the expansion persist, but will not be enough to generate strong growth.

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, 2012, this Program had approximately 2,400 mortgage loans and contracts outstanding, with a principal balance of approximately $221 million.

- The ***Veterans' Home Program*** provides professional medical, nursing, rehabilitative, social and other support services primarily to veterans and their spouses residing in the Oregon Veterans' Home *(OVH)*. Located in The Dalles, the OVH, which opened in November 1997, has the capacity to serve 151 residents and had occupancy of approximately 140 residents at June 30, 2012. The Department owns the OVH and as of October 1, 2008, has contracted with Veterans Care Centers of Oregon *(VCCO)*, a non-profit organization, to provide the services needed by the residents.

The Department is proposing expanding the Home Loan program to include the federal Veterans Administration Loan Guarantee program, better known as a Federal VA Loan. Under this program, the federal VA "guarantees" the loan made to a veteran similar to how mortgage insurance works. The agency has drafted a legislative concept to allow the agency to fund a loan at the levels necessary to meet the requirements of the Federal VA Loan Guarantee program. It is not certain the agency will offer these loans, but without amending the current statute, the agency could not even consider doing so.

The agency will also introduce legislation to allow for more than two home loans during a veterans' lifetime. Under current law, a veteran may borrow up to $417,000 with a limit of two loans. This means if a veteran borrowed $150,000 and then did a second loan for $150,000, the veteran would have $117,000 of loan right left; however, they could not use that right, because the veteran would have exhausted his limit of loans under the law. A proposed legislative concept will amend the law allowing for an unlimited number of loans for the veteran within that $417,000. Of course, strict underwriting guidelines will be followed, but the intent is not to turn away veterans from using remaining loan rights due to an arbitrary limit in the number of loans the veteran can have.

By 2013, the Oregon Veterans' Home in The Dalles will have an electronic health records system. Additionally, a request for a federal grant has been submitted to install a wandering patient management system for the memory-care unit. These upgrades will improve compliance documentation, better monitor diseases and other health risks and help ensure a more safe and secure environment for residents that also allows maximum freedom.

In the 2013-15 biennium, it is anticipated that the second 150-bed Veterans' Home, currently being built in Linn County (Lebanon), will open. The Home will offer the same services as The Dalles Veterans' Home, however, it will be built using a "small house model". This type of design is more costly to build and operate, but provides a home-like setting for the residents.

The Oregon Department of Veterans' Affairs has also begun the grant application process with the Federal VA seeking funding for a third Veterans' Home, as authorized by Oregon Revised Statute 408.385.

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, 2012, the Veterans' Loan Program had approximately $488 million in assets and deferred outflows *(primarily consisting of cash and cash equivalents, securities lending cash collateral, investment securities, and loan and contract receivables)* and approximately $357 million in liabilities *(primarily consisting of general obligation bonds and obligations arising from securities lending)*. 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, 2012, the Veterans' Home Program had approximately $33 million in assets *(primarily consisting of cash and cash equivalents, securities lending cash collateral, receivables, and capital assets)* and approximately $3.6 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 long-term general obligation bonds are presently rated as follows:

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

As of June 30, 2012, the Department had approximately $312.3 million *(par value)* in outstanding bonds. During fiscal year 2012, no bonds were issued and approximately $62.5 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, 2012, the Department's Enterprise funds cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $250.4 million.

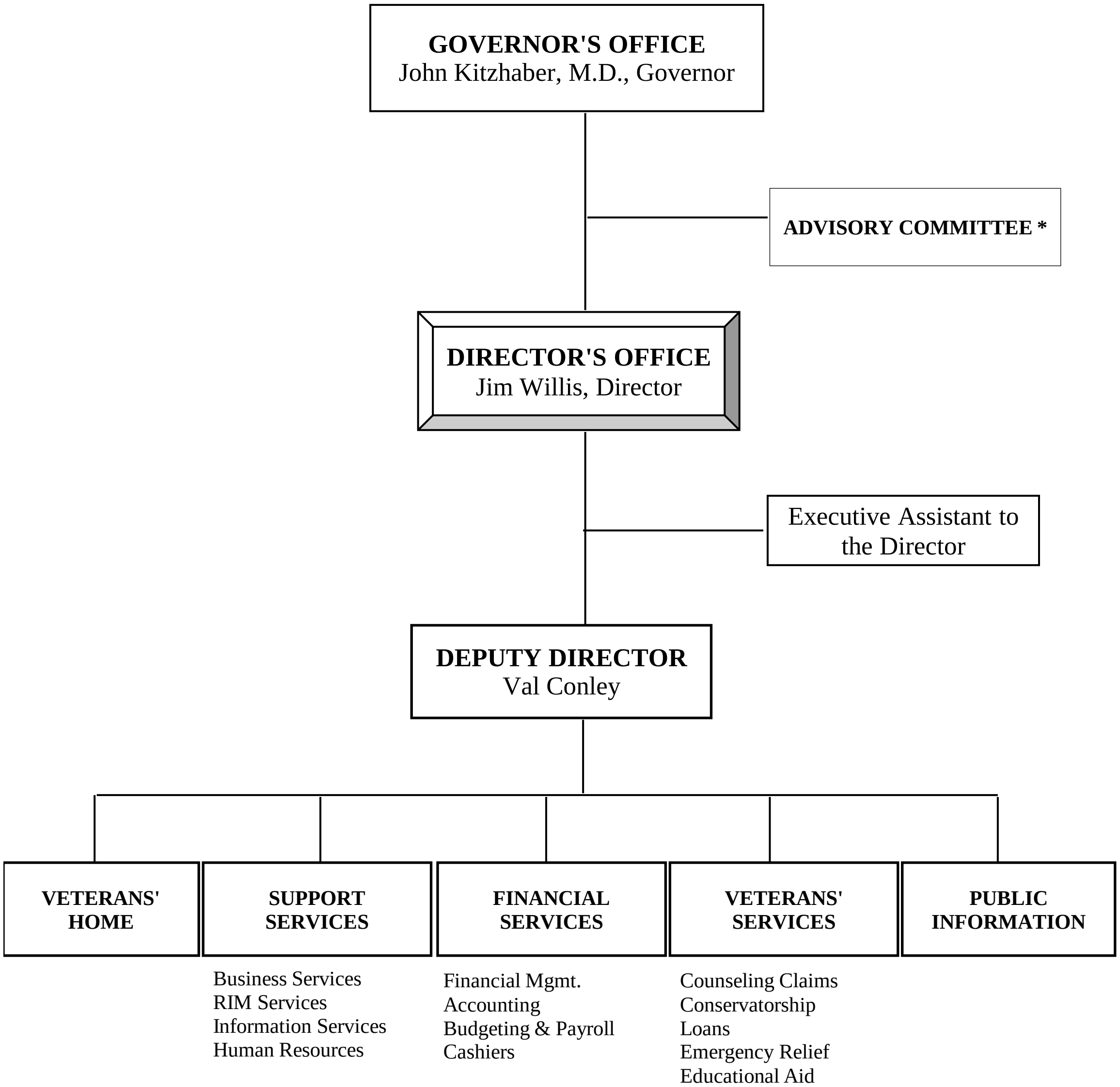
The Oregon Investment Council, of which the State Treasurer is a member, establishes investment policy for all State of Oregon funds. To further Oregon's economic growth, the Council's continuing policy has been to invest locally when investments of comparable yield, quality, and maturity can be found 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
Irv Fletcher	December 31, 2014	Gerard Lorang	March 7, 2016
Dennis Guthrie	June 30, 2016	Mary Mayer	September 14, 2015
Al Herrera	November 30, 2015	Kevin Owens	March 7, 2016
Ryan Howell	March 7, 2016	VACANT	
Trisa Kelly	April 17, 2016		

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable John Kitzhaber
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

Jim Willis, Director
Oregon 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, 2012 and June 30, 2011, 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 audits.

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 audits provide 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, 2012 and 2011, 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, enterprise funds of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the year 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 29, 2012, 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 audits.

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 management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 them.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
October 29, 2012

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, 2012. 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 $160.1 million at June 30, 2011, to approximately $160.3 million at June 30, 2012, an increase of $200 thousand, or 0.13%.

- Revenues decreased from approximately $31.6 million at June 30, 2011, to approximately $29.6 million at June 30, 2012, a decrease of $2 million, or 6.56%.

- Expenses decreased from approximately $31.4 million at June 30, 2011, to approximately $30.9 million at June 30, 2012, a decrease of $500 thousand or 1.42%.

- Outstanding general obligation bond debt decreased from approximately $374.7 million *(par value)* on June 30, 2011, to approximately $312.2 million *(par value)* on June 30, 2012, a decrease of $62.5 million.

- Mortgage loan originations for fiscal year 2012 totaled approximately $15.6 million, which was constant from the approximately $15.6 million of loans originated in fiscal year 2011.

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://cms.oregon.gov/DAS/CFO/SARS/Pages/publications.aspx.

- 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, 2012 were approximately $520.7 million, a decrease of $107 million from June 30, 2011. The change in assets consists primarily of $20.8 million decrease in cash and cash equivalents, a $12.1 million decrease in investments, a $47.5 million decrease in securities lending cash collateral, and a $30 million decrease in net loans and contracts receivable.

Total liabilities at June 30, 2012, were $360.4 million, a decrease of $107.2 million from June 30, 2011. The change in liabilities consists primarily of a decrease of $62.3 million in bonds payable, a decrease of $47.5 million in obligations under securities lending, and an increase of $2.7 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		
	2012	**2011**	**2010**
Assets & Deferred Outflows:			
Current and Other Assets	$ 502,566,136	$ 611,403,503	$ 687,679,127
Capital Assets	18,115,187	16,297,036	13,530,938
Total Assets & Deferred Outflows	$ 520,681,323	$ 627,700,539	$ 701,210,065
Liabilities:			
Long Term Liabilities	$ 327,822,694	$ 386,261,729	$ 451,852,188
Other Liabilities	32,569,836	81,353,957	102,905,947
Total Liabilities	$ 360,392,530	$ 467,615,686	$ 554,758,135
Net Assets:			
Invested in Capital Assets	$ 18,115,187	$ 16,297,036	$ 13,530,938
Expendable, Restricted for Capital Construction	10,254,538	10,431,646	-
Unrestricted	131,919,068	133,356,171	132,920,992
Total Net Assets	$ 160,288,793	$ 160,084,853	$ 146,451,930

Cash and Cash Equivalents and Investments
Total cash and cash equivalents and investments decreased by approximately $32.8 million, or 11.6%, from June 30, 2011 to June 30, 2012. The decrease reflects the Department's continued use of available receipts for early bond redemptions and receipt of less mortgage and investment interest income.

Loans Receivable
Total mortgages and other loans receivable decreased by $30 million in fiscal year 2012. This decrease was primarily due to prepayments on outstanding mortgage loans.

Capital Assets
Capital asset activity during the year included the completion of the Community Center at the Oregon Veterans' Home, construction in progress for the Lebanon Veterans' Home, and a prior period adjustment related to previously unrecorded historical assets. For additional details, see the Notes to the Financial Statements *(Notes 4 and 15)*.

Bonds Payable
Bonds Payable decreased by $62.5 million *(par value)* from June 30, 2011 to June 30, 2012. During fiscal year 2012, the Department did not issue any general obligation bonds. For fiscal year 2011, the Department issued approximately $83.2 million in general obligation bonds. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Assets

Capital assets for the Department increased due to activity related to the second veterans' home and construction of a community center, both projects resulted in 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		
	2012	**2011**	**2010**
Operating Revenues:			
Interest Income:			
Mortgage Loans	$ 10,494,442	$ 11,797,640	$ 11,445,675
Contracts	108,784	139,828	209,608
Investment Income:			
Interest and Income	2,325,646	3,318,611	6,034,960
Change in Fair Value of Investments	86,837	750,707	942,525
LCLI Premium Revenue	715,356	822,503	962,230
LCLI Processing Fee	102,000	102,000	102,000
Resident Related Revenues	13,677,396	12,615,906	11,833,514
Other Fees and Charges	1,691,141	1,518,250	1,735,816
Conservatorship Fees	298,380	289,939	284,381
Gain on Sale of Foreclosed Property	76,034	295,954	34,542
Total Operating Revenue	$ 29,576,016	$ 31,651,338	$ 33,585,251
Operating Expenses:			
Bond Interest	$ 7,498,587	$ 8,520,503	$ 8,495,161
Salaries and Other Payroll Expenses	5,884,495	5,935,113	5,844,356
Bond Costs	1,858,820	1,378,103	1,117,848
Securities Lending Investment Expense	61,981	236,119	322,171
Real Estate Owned Expense	491,313	259,411	130,125
Services and Supplies	1,423,002	1,865,604	1,986,553
LCLI Claims & Admin. Expense	1,091,934	1,155,382	1,266,568
Veterans' Home Operations	11,603,548	11,103,989	11,050,913
Depreciation Expense	426,343	433,109	430,386
Bad Debt Expense	336,329	360,478	936,600
Other Expenses	242,959	117,585	94,516
Total Operating Expenses	$ 30,919,311	$ 31,365,396	$ 31,675,197
Net Transfers from Vet Home Trust Fund	$ 177,700	$ 947,478	$ 20,514
Net Transfers to Dept. of Admin Services	(238,463)	(234,656)	(233,425)
Capital Contributions	1,066,147	12,722,770	-
Total Transfers	$ 1,005,384	$ 13,435,592	$ (212,911)
Change in Net Assets	$ (337,911)	$ 13,721,534	$ 1,697,143
Net Assets – Beginning	160,084,853	146,451,930	144,747,965
Prior Period Adjustment	541,851	(88,611)	6,822
Net Assets - Beginning Restated	160,626,704	146,363,319	144,754,787
Net Assets – Ending	$ 160,288,793	$ 160,084,853	$ 146,451,930

The Department's proprietary fund revenue is generated principally from interest earned on mortgage loans, investment income, and resident-related revenues. In fiscal year 2012, revenue generated through proprietary funds totaled approximately $29.6 million, of which approximately $13 million, or 44% is from income earned on loans and investments and $13.7 million, or 46.2% 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 $31.0 million, of which approximately $7.5 million, or 24.3% is bond interest expense and $11.6 million, or 37.5%, is from veterans' home operations.

The change in net assets for the year ended June 30, 2012 resulted in an increase of approximately $200 thousand compared to a $13.6 million increase for the year ending June 30, 2011. The primary factors contributing to this change was the $1.5 million donation in land for the second veterans home and $12.7 million in capital contributions for the second veterans home and construction of the community center in fiscal year 2011.

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, 2012, the Department had approximately $312.3 million *(par value)* in outstanding general obligation bonds. During fiscal year 2012, no general obligation bonds were issued.

Information on the Department's long-term debt can be found in the Notes to the Financial Statements *(Note 5 and 6)*.

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.

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012 AND JUNE 30, 2011

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS & DEFERRED OUTFLOWS				
Current Assets				
Cash and Cash Equivalents	$ 70,538,060	$ 92,654,442	$ 5,809,130	$ 3,981,396
Cash and Cash Equivalents - Restricted	1,970,398	3,107,401	10,254,538	10,431,646
Securities Lending Cash Collateral	22,652,458	67,609,488	1,891,251	4,459,350
Investments	14,525,830	3,540,625	-	-
Investments - Restricted	-	5,005,250	-	-
Receivables:				
Accrued Interest	1,485,707	1,641,564	-	-
Loan Cancellation Life Insurance Premiums	70,243	71,655	-	-
Resident Care Related	-	-	1,566,269	1,376,424
Other	24,542	24,638	-	-
Due from Other Funds	68,285	66,147	-	-
Real Estate Owned	1,908,323	1,570,465	-	-
Prepaid Expenses	8,506	6,946	-	-
Total Current Assets	113,252,352	175,298,621	19,521,188	20,248,816
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	140,316,030	139,488,446	-	-
Investments	7,005,810	21,783,303	-	-
Investments - Restricted	-	3,269,211	-	-
Mortgage Loans and Contracts Receivable (Net)	217,022,740	247,018,965	-	-
Resident Care Receivable (Net)	-	-	14,369	26,927
Other Receivable	1,082,269	523,531	-	-
Deferred Underwriter's Discount	1,303,955	1,937,005	-	-
Capital Assets:				
Building, Property and Equipment	8,925,405	8,954,357	15,507,603	12,718,076
Improvements Other than Buildings	-	-	13,695	13,695
Land	-	-	2,100,073	2,100,073
Construction in Progress	-	-	458,006	1,566,650
Works of Art and Historical Treasures	627,021	85,170	70,000	70,000
Accumulated Depreciation	(5,088,810)	(5,008,953)	(4,497,806)	(4,202,032)
Total Noncurrent Assets	371,194,420	418,051,035	13,665,940	12,293,389
Deferred Outflow of Resources	3,047,423	1,808,678	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 487,494,195	$ 595,158,334	$ 33,187,128	$ 32,542,205
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 167,851	$ 237,200	$ 1,542,863	$ 1,125,035
Loan Cancellation Life Insurance Premium Payable	40,635	58,000	-	-
Loan Cancellation Life Insurance Claims Payable	19,406	90,094	-	-
Due to Other Funds	-	-	68,285	66,147
Deposit Liabilities	1,834,763	1,976,620	-	187
Deferred Revenue	-	-	124,746	92,502
Accrued Interest on Bonds	450,338	964,913	-	-
Obligations under Securities Lending	22,652,458	67,609,488	1,891,251	4,459,350
Compensated Absences Payable	301,467	296,022	3,046	3,392
Excess Interest and Arbitrage Rebate Payable	-	-	-	-
Bonds Payable-Maturing Within One Year (Net)	3,377,727	3,302,227	-	-
Matured Bonds Payable	95,000	1,072,780	-	-
Total Current Liabilities	28,939,645	75,607,344	3,630,191	5,746,613
Noncurrent Liabilities				
Bonds Payable-Maturing After One Year (Net)	308,656,156	371,039,732	-	-
Compensated Absences Payable	155,301	152,496	1,569	1,748
Excess Interest and Arbitrage Rebate Payable	15,860,488	13,170,925	-	-
Other Postemployment Benefits Obligation (Net)	100,645	87,656	1,112	494
Derivative Instrument - Interest Rate Swap	3,047,423	1,808,678	-	-
Total Noncurrent Liabilities	327,820,013	386,259,487	2,681	2,242
TOTAL LIABILITIES	356,759,658	461,866,831	3,632,872	5,748,855
NET ASSETS				
Invested in Capital Assets	4,463,616	4,030,574	13,651,571	12,266,462
Expendable, Restricted for Capital Construction	-	-	10,254,538	10,431,646
Unrestricted	126,270,921	129,260,929	5,648,147	4,095,242
TOTAL NET ASSETS	$ 130,734,537	$ 133,291,503	$ 29,554,256	$ 26,793,350

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

Enterprise Funds	
TOTAL	
June 30, 2012	June 30, 2011
$ 76,347,190	$ 96,635,838
12,224,936	13,539,047
24,543,709	72,068,838
14,525,830	3,540,625
-	5,005,250
1,485,707	1,641,564
70,243	71,655
1,566,269	1,376,424
24,542	24,638
68,285	66,147
1,908,323	1,570,465
8,506	6,946
132,773,540	195,547,437
140,316,030	139,488,446
7,005,810	21,783,303
-	3,269,211
217,022,740	247,018,965
14,369	26,927
1,082,269	523,531
1,303,955	1,937,005
24,433,008	21,672,433
13,695	13,695
2,100,073	2,100,073
458,006	1,566,650
697,021	155,170
(9,586,616)	(9,210,985)
384,860,360	430,344,424
3,047,423	1,808,678
$ 520,681,323	$ 627,700,539
$ 1,710,714	$ 1,362,235
40,635	58,000
19,406	90,094
68,285	66,147
1,834,763	1,976,807
124,746	92,502
450,338	964,913
24,543,709	72,068,838
304,513	299,414
-	-
3,377,727	3,302,227
95,000	1,072,780
32,569,836	81,353,957
308,656,156	371,039,732
156,870	154,244
15,860,488	13,170,925
101,757	88,150
3,047,423	1,808,678
327,822,694	386,261,729
360,392,530	467,615,686
18,115,187	16,297,036
10,254,538	10,431,646
131,919,068	133,356,171
$ 160,288,793	$ 160,084,853

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, 2012 AND JUNE 30, 2011

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
OPERATING REVENUES				
Interest Income:				
Mortgage Loans	$ 10,494,442	$ 11,797,640	$ -	$ -
Contracts	108,784	139,828	-	-
Investment Income	2,327,058	4,043,049	85,425	26,269
Loan Cancellation Life Insurance Premiums	715,356	822,503	-	-
Loan Cancellation Life Insurance Processing Fee	102,000	102,000	-	-
Resident Revenue (Net)	-	-	13,677,396	12,615,906
Other Fees and Charges	1,689,093	1,516,602	2,048	1,648
Conservatorship Fees	298,380	289,939	-	-
Gain on Sale of Foreclosed Property	76,034	295,954	-	-
TOTAL OPERATING REVENUES	15,811,147	19,007,515	13,764,869	12,643,823
OPERATING EXPENSES				
Bond Interest	7,498,587	8,520,503	-	-
Salaries and Other Payroll Expenses	5,653,694	5,717,843	230,801	217,270
Bond Expenses	1,858,820	1,378,103	-	-
Securities Lending Investment Expense	57,794	232,258	4,187	3,861
Real Estate Owned Expense	491,313	259,411	-	-
Services and Supplies	1,340,540	1,744,035	82,462	121,569
Claims Expense - Loan Cancellation Life Insurance	1,091,934	1,155,382	-	-
Veterans' Home Operations	-	-	11,603,548	11,103,989
Depreciation Expense	108,809	117,160	317,534	315,949
Bad Debt Expense	336,329	360,478	-	-
Other Expenses	242,959	117,585	-	-
TOTAL OPERATING EXPENSES	18,680,779	19,602,758	12,238,532	11,762,638
OPERATING INCOME (LOSS)	(2,869,632)	(595,243)	1,526,337	881,185
Nonoperating Revenues (Expenses):				
Net Transfers from Veterans' Home Trust Fund	-	-	177,700	947,478
Net Transfers to Dept. of Administrative Services	(229,185)	(225,977)	(9,278)	(8,679)
Capital Contributions	-	-	1,066,147	12,722,770
TOTAL NONOPERATING REVENUES (EXPENSES)	(229,185)	(225,977)	1,234,569	13,661,569
CHANGE IN NET ASSETS	(3,098,817)	(821,220)	2,760,906	14,542,754
NET ASSETS				
NET ASSETS - Beginning	133,291,503	134,201,334	26,793,350	12,250,596
Prior Period Adjustment	541,851	(88,611)	-	-
NET ASSETS - Beginning Restated	133,833,354	134,112,723	26,793,350	12,250,596
NET ASSETS - Ending	$ 130,734,537	$ 133,291,503	$ 29,554,256	$ 26,793,350

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

Enterprise Funds	
TOTAL	
June 30, 2012	June 30, 2011
$ 10,494,442	$ 11,797,640
108,784	139,828
2,412,483	4,069,318
715,356	822,503
102,000	102,000
13,677,396	12,615,906
1,691,141	1,518,250
298,380	289,939
76,034	295,954
29,576,016	31,651,338
7,498,587	8,520,503
5,884,495	5,935,113
1,858,820	1,378,103
61,981	236,119
491,313	259,411
1,423,002	1,865,604
1,091,934	1,155,382
11,603,548	11,103,989
426,343	433,109
336,329	360,478
242,959	117,585
30,919,311	31,365,396
(1,343,295)	285,942
177,700	947,478
(238,463)	(234,656)
1,066,147	12,722,770
1,005,384	13,435,592
(337,911)	13,721,534
160,084,853	146,451,930
541,851	(88,611)
160,626,704	146,363,319
$ 160,288,793	$ 160,084,853

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2012	June 30, 2011
Cash Flows from Operating Activities:		
Receipts from Customers	$ 1,250,679	$ 1,129,809
Receipts from Other Funds for Services	1,492,454	1,542,299
Loan Principal Repayments	44,950,547	44,894,146
Loan Interest Received	13,251,305	15,190,244
Payments to Employees for Services	(5,636,456)	(5,694,464)
Payments to Suppliers	(2,551,110)	(2,334,532)
Payments to Other Funds for Services	(731,240)	(902,820)
Loans Made	(19,396,427)	(19,312,465)
Other Receipts (Payments)	3,220,488	2,017,507
Net Cash Provided (Used) in Operating Activities	35,850,240	36,529,724
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	(63,442,780)	82,950,447
Principal Payments on Bonds	(7,988,148)	(151,197,889)
Interest Payments on Bonds	(1,116,674)	(8,565,503)
Bond Issuance Costs	-	(1,370,521)
Transfers from Other Funds	-	-
Transfers to Other Funds	(229,185)	(225,977)
Net Cash Provided (Used) in Noncapital Financing Activities	(72,776,787)	(78,409,443)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	-	(42,453)
Capital Contributions	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	-	(42,453)
Cash Flows from Investing Activities:		
Purchases of Investments	-	(14,000,000)
Proceeds from Sales or Maturities of Investments	12,153,586	28,033,050
Interest on Investments and Cash Balances	2,347,160	2,309,106
Investment Income from Securities Lending	57,794	232,258
Investment Expense from Securities Lending	(57,794)	(232,258)
Net Cash Provided (Used) in Investing Activities	14,500,746	16,342,156
Net Increase (Decrease) in Cash and Cash Equivalents	(22,425,801)	(25,580,016)
Cash and Cash Equivalents - Beginning	235,250,289	260,830,305
Cash and Cash Equivalents - Ending	$ 212,824,488	$ 235,250,289
Reconciled to Statement of Net Assets:		
Cash and Cash Equivalents - Current	$ 70,538,060	$ 92,654,442
Cash and Cash Equivalents - Current, Restricted	1,970,398	3,107,401
Cash and Cash Equivalents - Noncurrent, Restricted	140,316,030	139,488,446
Cash and Cash Equivalents - Ending (shown above)	$ 212,824,488	$ 235,250,289

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
$ 13,532,353	$ 12,804,999	$ 14,783,032	$ 13,934,808
-	-	1,492,454	1,542,299
-	-	44,950,547	44,894,146
-	-	13,251,305	15,190,244
(230,707)	(218,554)	(5,867,163)	(5,913,018)
(10,401,529)	(10,219,825)	(12,952,639)	(12,554,357)
(864,515)	(898,958)	(1,595,755)	(1,801,778)
-	-	(19,396,427)	(19,312,465)
1,861	(4,241)	3,222,349	2,013,266
2,037,463	1,463,421	37,887,703	37,993,145
-	-	(63,442,780)	82,950,447
-	-	(7,988,148)	(151,197,889)
-	-	(1,116,674)	(8,565,503)
-	-	-	(1,370,521)
437,700	947,478	437,700	947,478
(269,278)	(8,679)	(498,463)	(234,656)
168,422	938,799	(72,608,365)	(77,470,644)
(1,702,644)	(1,656,754)	(1,702,644)	(1,699,207)
1,066,147	11,222,770	1,066,147	11,222,770
(636,497)	9,566,016	(636,497)	9,523,563
-	-	-	(14,000,000)
-	-	12,153,586	28,033,050
81,238	22,408	2,428,398	2,331,514
4,187	3,861	61,981	236,119
(4,187)	(3,861)	(61,981)	(236,119)
81,238	22,408	14,581,984	16,364,564
1,650,626	11,990,644	(20,775,175)	(13,589,372)
14,413,042	2,422,398	249,663,331	263,252,703
$ 16,063,668	$ 14,413,042	$ 228,888,156	$ 249,663,331
$ 5,809,130	$ 3,981,396	$ 76,347,190	$ 96,635,838
10,254,538	10,431,646	12,224,936	13,539,047
-	-	140,316,030	139,488,446
$ 16,063,668	$ 14,413,042	$ 228,888,156	$ 249,663,331

(Continued on next page)

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

(Continued from prior page)

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2012	June 30, 2011
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ (2,869,632)	$ (595,243)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	108,809	117,160
Amortization of Bond Premium, Discount and Underwriter's	633,050	(20,351)
Discount on Called Bonds	156,923	93,030
Interest Received on Investments Reported as Operating Revenue	(2,491,790)	(3,292,071)
Investment Expense	57,794	232,258
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	7,988,148	8,565,503
Bond Costs	1,116,674	1,370,521
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	157,365	331,050
Due from Other Funds	(2,138)	1,281
Prepaid Items	(1,559)	1,023
Loans and Contracts Receivable	29,437,486	27,857,560
Foreclosed and Deeded Property	(337,858)	(141,230)
Accounts Payable	(654,612)	(67,535)
Due to Other Funds	-	-
Deposit Liabilities	(159,223)	(140,769)
Deferred Revenue	2,689,563	2,196,682
Compensated Absences Payable	8,250	9,274
Post Employment Benefits	12,989	11,581
Total Adjustments	38,719,871	37,124,967
Net Cash Provided (Used) by Operating Activities	$ 35,850,239	$ 36,529,724

	June 30, 2012	June 30, 2011
Noncash Investing and Capital and Related Financing Activities:		
Capital Assets Contributed	$ -	$ -
Net Change in Fair Value of Investments	86,837	750,707
Foreclosed Property	1,908,323	1,570,465
Total Noncash Investing and Capital and Related Financing Activities	$ 1,995,160	$ 2,321,172

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
$ 1,526,337	$ 881,185	$ (1,343,295)	$ 285,942
317,534	315,949	426,343	433,109
-	-	156,923	93,030
(85,425)	(26,269)	(2,577,215)	(3,318,340)
4,187	3,861	61,981	236,119
-	-	7,988,148	8,565,503
-	-	1,116,674	1,370,521
(177,286)	151,777	(19,921)	482,827
-	-	(2,138)	1,281
-	-	(1,559)	1,023
-	-	29,437,486	27,857,560
-	-	(337,858)	(141,230)
417,827	107,301	(236,785)	39,766
2,138	(527)	2,138	(527)
(187)	(5,889)	(159,410)	(146,658)
32,244	37,316	2,721,807	2,233,998
(524)	(1,777)	7,726	7,497
618	494	13,607	12,075
511,126	582,236	38,597,947	37,727,554
$ 2,037,463	$ 1,463,421	$ 37,254,652	$ 38,013,496
$ -	$ 1,500,000	$ -	$ 1,500,000
-	-	86,837	750,707
-	-	1,908,323	1,570,465
$ -	$ 1,500,000	$ 1,995,160	$ 3,821,172

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

In 1944 Oregon voters approved a constitutional amendment that authorized the creation of a Veterans' home and farm loan program. A year later the Department was established to administer this program. The Department's 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.

In 1993 the Legislative Assembly authorized the Department to provide skilled nursing care to veterans and their spouses through an Oregon Veterans' Home. In 1995, the Legislative Assembly authorized a second Oregon Veterans' Home. The *Veterans' Home Program* provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans. Opened in 1997, the Oregon Veterans' Home located in The Dalles, the single-story 75,000 square foot facility offers care in a home-like environment, complementing the philosophy of personal independence. Through a competitive-bid process, the location for the second Oregon Veterans' Home was recently selected to be in Lebanon, with a projected construction commencement date of April 2013.

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 certain 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.

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.

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 325 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 returned to 350 hours and employees 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 separation from state service.

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. These fees are payable quarterly in arrears.

Comparative Data and Reclassifications
Certain amounts presented in the prior year data may 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, 2012 and June 30, 2011 are included in the table below:

	Veterans' Loan Program	Veterans' Home Program	Total June 30, 2012	Total June 30, 2011
Book Balance - Cash and Cash Equivalents				
Current unrestricted	$ 70,538,060	$ 5,809,130	$ 76,347,190	$ 96,635,838
Current restricted	1,970,398	10,254,538	12,224,936	13,539,047
Noncurrent restricted	140,316,030	-	140,316,030	139,488,446
Combined Book Balance	$ 212,824,488	$ 16,063,668	$ 228,888,156	$ 249,663,331
Bank Balance - Cash and Cash Equivalents	$ 213,648,973	$ 16,059,255	$ 229,708,228	$ 249,634,722

As of June 30, 2012, a combined total of $209,287,046 *(Veterans' Loan Program with $193,227,791 and the Veterans' Home Program with $16,059,255)* 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 for the combined total of all savings deposits. Where interest-bearing balances exceed the FDIC amount, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Oregon Office of the State Treasurer in the Public Funds Collateralization Program *(PFCP)*. Non-interest bearing accounts are fully covered by FDIC insurance under the Dodd-Frank Wall Street Reform and Consumer Protection Act until December 31, 2012. 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, 2012, the OSTF consisted of approximately 41 percent U.S. government & agency securities; 3 percent short-term commercial paper; 50 percent corporate notes; 5 percent government guaranteed corporate securities; and the remainder were time certificates of deposit. A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held $20,326,182 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, 2012 the Department estimated that required balance to be $1,392,000. 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 1.

At June 30, 2012, the Department held $95,000 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, as specified by FDIC regulations. This money is included in Cash and Cash Equivalents – Restricted, a current asset. On June 30, 2011, the matured bonds payable balance was $1,072,780.

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, 2012, the State Treasurer invested the Department's funds primarily in U.S. agency securities and corporate bonds.

A portion of the proceeds of Bond Series 81 and 82 were invested in Repurchase Agreements. On December 1, 2011, Bond Series 81 and 82 were redeemed in full and the related Repurchase Agreements were terminated.

The schedule below presents the schedule of interest rate risk and credit quality disclosures as of June 30, 2012:

		Investment Maturities (in years)				
Investment Type	**S&P Credit Rating**	**< 1 year**	**1-5 Years**	**6-10 Years**	**More than 10 years**	**Total Market Value**
Corporate Bonds	AA	$ 7,005,810	-	-	-	$ 7,005,810
Corporate Bonds	A	$ 9,505,780	-	-	-	$ 9,505,780
US Federal Agency Debt	A	$ 5,020,050	-	-	-	$ 5,020,050
Total Investments		$ 21,531,640	-	-	-	$ 21,531,640

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, 2011 , the estimated market value of these investments was approximately $3,540,625 . During fiscal year 2012, the State Treasury liquidated the Lehman Brothers investments and on March 21, 2012, the Department received $3,884,375 *(par amount)* for its portion of the holdings.The last interest payment received by the Department from Lehman Brothers was on August 25, 2008. Upon liquidation the Department did not receive interest earnings for the time period subsequent to August 25, 2008 and it is very unlikely that any interest earnings will be received from these investments.

<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 generally 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)*.

<u>Concentration of Credit Risk:</u>
Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2012, 32.5% of the Department's total investments were in Goldman Sachs Group, 32.5% in Westpac Banking Corp, 23.3% in Fannie Mae and 11.6% in General Electric Cap Corp.

<u>Restricted Assets</u>
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, 2012, the Department had restricted assets of $152,540,966. As of June 30, 2011, the Department had restricted assets of $161,301,954.

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.

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, 2012, the fair value of all securities on loan from the OSTF was $891,434,590. The total cash and non-cash collateral received for the securities on loan from OSTF was $911,017,404. The fair value of all investments made with the cash collateral received for those securities on loan was $911,189,896.

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 $24,543,709. Total fair value of all investments made with cash collateral was $24,548,356. Total securities on loan *(Department's share of OSTF securities on loan)* was $24,016,129. Securities on loan from the OSTF in total included 85.97% in U.S. Agency securities, and 14.03% in domestic fixed income securities.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2012 and June 30, 2011:

		June 30, 2012		June 30, 2011
Veterans' Loan Program:				
Investment Income: Accrual Basis	$	2,182,427	$	3,060,084
Securities Lending Revenue		57,794		232,258
Increase/(Decrease) in Fair Value of Investments		86,837		750,707
Investment Income	$	2,327,058	$	4,043,049
Veterans' Home Program:				
Investment Income: Accrual Basis	$	81,238	$	22,408
Securities Lending Revenue		4,187		3,861
Investment Income	$	85,425	$	26,269

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, 2012 is approximately $221 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 2012 the Department determined the balance of the allowance account to be in line with potential losses for the remaining loan and contract portfolio. Accordingly, the account balance at June 30, 2012, is approximately $4 million. The balance of the allowance account represents approximately 1.8 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, 2012 and June 30, 2011.

	June 30, 2012	June 30, 2011
Loans Receivable	$ 220,055,144	$ 250,046,929
Contracts Receivable	967,596	1,437,036
Total Loans and Contracts Receivable	$ 221,022,740	$ 251,483,965
Less: Allowance for Principal Losses	(4,000,000)	(4,465,000)
Net Loans and Contracts Receivable	$ 217,022,740	$ 247,018,965

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, 2012, there were 90 non-amortizing accounts with an aggregate principal balance of $9,476,303. This represents approximately 4.4 percent of the total net loans and contracts receivable.

Related Party Transactions: Home Loans to Employees

Department employees are entitled to apply for an ODVA home loan if they meet the eligibility criteria, namely military service and citizenship in the state, and also underwriting standards such as those related to credit history and income level. The interest rate on the home loan and other terms and conditions of these loans are identical to those home loans made to non-employees. During the fiscal year ended June 30, 2012, the Department made no new home loans to an eligible veteran employee. At June 30, 2012, the balance of existing home loans was $369,163 based on loans made to two employees. At June 30, 2011 the balance of existing home loans was $378,240 based on loans made to two employees.

Troubled Debt Restructurings

The Department makes every reasonable attempt to keep a borrower in the home purchased under the Veterans' Loan Program. In order to avoid foreclosure, one method of working with borrowers is to temporarily reduce loan payments for borrowers. This is allowed under ORS 407.095. During the year ended June 30, 2012, the Department provided this relief to six borrowers and deferred loan interest income of $29,918. This interest amount was subsequently capitalized on these loans. In total, $1,365,705 in loans were restructured in this fashion. From these restructured loans the Department received $65,782 in mortgage interest income during the fiscal year. For the year ended June 30, 2011, the Department deferred loan interest income to borrowers of $8,119.

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, 2012, the Department had 219 insured accounts with seven private mortgage insurers totaling approximately $45.7 million. The majority of insured accounts are with MGIC *(47%)* and Triad Guaranty Insurance *(38%)*. As of June 30, 2012, the Moody's ratings for MGIC and Triad were "B1" and "Not Rated" respectively.

Additionally, the Illinois Department of Insurance has required that all valid claims under Triad's mortgage guaranty insurance policies 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, 2012, the Department had $414,143 as a deferred payment obligation from Triad. As of June 30, 2011, the Department had $199,638 as a 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, 2012	June 30, 2011
Number of Properties	10	10
Lower of Cost or Fair Market Value	$1,908,323	$1,570,465

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, 2012 and June 30, 2011:

	June 30, 2012	June 30, 2011
Veterans' Loan Program		
Building, Property, and Equipment	$ 8,925,405	$ 8,954,357
Less: Accumulated Depreciation	(5,008,810)	(5,008,953)
Building, Property and Equipment, Carrying Value	$ 3,836,595	$ 3,945,404
Works of Art and Historical Treasures, Non-Depreciating	$ 627,021	$ 85,170
Total Capital Assets, Net	$ 4,463,616	$ 4,030,574
Veterans' Home Program		
Building, Property and Equipment	$ 15,507,603	$ 12,718,076
Improvements Other than Buildings	13,695	13,695
Works of Art and Historical Treasures, Depreciating	30,000	30,000
Less: Accumulated Depreciation	(4,497,806)	(4,202,032)
Depreciable Capital Assets, Carrying Value	$ 11,503,492	$ 8,559,739
Works of Art and Historical Treasures, Non-Depreciating	40,000	40,000
Land	2,100,073	2,100,073
Construction in Progress	458,006	1,566,650
Total Capital Assets, Net	$ 13,651,571	$ 12,266,462
Total Capital Assets, Net	$ 18,115,187	$ 16,297,036

Construction in Progress:

During fiscal year 2012, the Department completed construction on a 9,300 square foot Community Center adjacent to the Oregon Veterans' Home. The Construction in Progress amount as of June 30, 2011, and additional funds expended for construction during the current fiscal year were capitalized as Building, Property and Equipment as of June 30, 2012.

Additionally, the Department has begun the design and construction process for the second Veterans' Home in Lebanon, Oregon. As of June 30, 2012, the $458,006 in Construction in Progress is related to the second Veterans' Home.

The following table provides detail on the balances and activities of the Department's capital assets for the year ended June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 2,100,073	$ -	$ -	$ 2,100,073
Construction in Progress	1,566,650	1,663,019	(2,771,663)	458,006
Works of Art and Historical Treasures	125,170	541,851	-	667,021
Total Capital Assets Not Being Depreciated	3,791,893	2,204,870	(2,771,663)	3,225,100
Capital Assets Being Depreciated:				
Buildings	19,881,651	2,771,663	-	22,653,314
Improvements Other than Buildings	13,695	-	-	13,695
Property and Equipment	1,790,782	39,625	(50,712)	1,779,695
Works of Art and Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	21,716,128	2,811,288	(50,712)	24,476,704
Less Accumulated Depreciation:				
Buildings	(7,448,237)	(372,694)	-	(7,820,931)
Improvements Other than Buildings	(4,887)	(1,370)	-	(6,257)
Property and Equipment	(1,727,861)	(52,280)	50,712	(1,729,429)
Works of Art and Historical Treasures	(30,000)	-	-	(30,000)
Total Accumulated Depreciation	(9,210,985)	(426,344)	50,712	(9,586,617)
Total Capital Assets, Net	**$ 16,297,036**	**$ 4,589,814**	**$ (2,771,663)**	**$ 18,115,187**

5. 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, 2012 and June 30, 2011:

Bonds Payable *(Par)* at June 30, 2010	$	441,425,000
Bonds Issued		83,150,000
Bonds Retired		(149,845,000)
Bonds Payable *(Par)* at June 30, 2011	$	374,730,000
Bonds Issued		-
Bonds Retired		(62,465,000)
Bonds Payable *(Par)* at June 30, 2012	$	312,265,000

Shown below are the components of net bonds payable as disclosed on the Statement of Net Assets for June 30, 2012:

	Current	Noncurrent	Total
Bonds Payable *(Par)*	$ 3,395,000	$ 308,870,000	$ 312,265,000
Discount on Bonds Sold	(17,273)	(213,844)	(231,117)
Net Bonds Payable	$ 3,377,727	$ 308,656,156	$ 312,033,883

The following schedule summarizes future debt service requirements to maturity as of June 30, 2012:

Fiscal Year	***Principal***	***Interest***	***Total***
2013	$ 3,395,000	$ 5,348,654	$ 8,743,654
2014	3,490,000	5,280,624	8,770,624
2015	3,645,000	5,200,886	8,845,886
2016	4,300,000	5,108,179	9,408,179
2017	5,025,000	5,001,334	10,026,334
2018-2022	56,760,000	22,392,490	79,152,490
2023-2027	43,590,000	16,654,674	60,244,674
2028-2032	54,985,000	11,986,103	66,971,103
2033-2037	65,085,000	7,926,406	73,011,406
2038-2042	62,550,000	2,319,447	64,869,447
2043-2046	9,440,000	32,887	9,472,887
TOTAL	$ 312,265,000	$ 87,251,684	$ 399,516,684

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2012:

Series	Dated	Original Coupon Rates From	To	Issued	Outstanding	Final Maturity
73	December 19, 1985	**		$ 740,000,000	$ 21,900,000	2020
83	December 2, 2004	**		30,000,000	10,965,000	2040
84	June 29, 2005	**		30,000,000	30,000,000	2040
85	June 21, 2006	##		49,000,000	15,140,000	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	7,545,000	2020
90A	June 24, 2008	1.750	4.400%	11,115,000	9,335,000	2024
90B	June 24, 2008	**		38,885,000	38,885,000	2046
91	November 16, 2010	0.300	4.700%	53,090,000	51,395,000	2041
92A	November 16, 2010	0.300	4.250%	20,060,000	18,820,000	2031
92B	November 16, 2010	4.625	4.625%	10,000,000	10,000,000	2039
Total Bonds Outstanding as of June 30, 2012:					$ 312,265,000	

** 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 0.23% for Series 73H, 0.17% for Series 83, Series 84 and Series 90B.

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

6. DEMAND BONDS

Included in long-term debt at June 30, 2012 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	$ 21,900,000	Bayerische Landesbank	11/30/2015 (1)	40 days/14%	0.0850%
Series 83	$ 10,965,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	34 days/12%	0.4250%
Series 84	$ 30,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	34 days/12%	0.4250%
Series 85	$ 15,140,000	U.S. Bank National Association	4/4/2014	34 days/12%	0.4500%
Series 86	$ 31,320,000	U.S. Bank National Association	4/4/2014	34 days/12%	0.4500%
Series 87C	$ 9,045,000	U.S. Bank National Association	4/4/2014	34 days/12%	0.4500%
Series 88B	$ 30,000,000	U.S. Bank National Association	4/4/2014	34 days/12%	0.4500%
Series 90B	$ 38,885,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	34 days/12%	0.4250%

(1) Bayerische Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 26, 2013.

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 Agent a remarketing fee for this service:

Series	Outstanding Bond Principal Amount	Designated Remarketing Agent	Remarketing Mode	Remarketing Fee
Series 73H	$ 21,900,000	JPMorgan Securities Inc	Weekly	0.050%
Series 83	$ 10,965,000	JPMorgan Securities Inc	Weekly	0.050%
Series 84	$ 30,000,000	JPMorgan Securities Inc	Weekly	0.050%
Series 85	$ 15,140,000	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 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 *("Series 73H SBPA")*, Bayerische Landesbank Girozentrale *(BLG)* will commit to purchase any Series 73H unremarketed bonds, subject to certain conditions set forth in the SBPA. Under the SBPA for Series 83, 84 and 90B *("Series 83, 84 & 90B SBPA"),* The Bank of Tokyo-Mitsubishi UFJ, Ltd. *(BTMU)* will commit to purchase any Series 83, 84 or 90B unremarketed bonds, subject to certain conditions set forth in the SBPA. Under the SBPA for Series 85, 86, 87C and 88B *("Series 85-88B SBPA"),* U.S. Bank National Association *(USB)*, will commit to purchase any Series 85, 86, 87C or 88B unremarketed bonds, subject to certain conditions set forth in the SBPA.

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 for fiscal years 2012 and 2011. Therefore, no tender advances or draws were outstanding as of June 30, 2012 or 2011.

If a tender advance did occur under the Series 83, 84 & 90B SBPA, it would accrue interest at the bank's base rate *(either the prime lending rate plus 1%, the federal funds rate plus 2%, or 7.5%, whichever is higher)* for the time period up to 30 days; at the bank's base rate plus 0.50% for the time period covering 31 days up to 60 days; at the bank's base rate plus 1% for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 2%. Interest on tender advances must generally be repaid 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, an indexed rate or a non-covered interest rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. Tendered bonds that are unremarketed by the 91st day after the purchase date of the tender advance must be paid in full over a four-year period in eight equal (or nearly equal) semi-annual installments, unless and until the bonds are remarketed or redeemed. If repayment of any tender advances does not occur within the specified timeframes contained in the Series 83, 84 and 90B SBPA, a default would have occurred.

If a tender advance did occur under the Series 85-88B SBPA, it would accrue interest at the bank's base rate *(either the prime lending rate plus 1%, the federal funds rate plus 2%, the SIFMA rate plus 1% or 7% for the time period 31 days after the purchase date and thereafter, whichever is higher)* for the time period up to 30 days; at the bank's base rate plus 1% for the time period covering 31 days up to 90 days; at the bank's base rate plus 1.5% for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 3%. Interest on tender advances must generally be repaid 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, an indexed rate or a non-covered interest rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. Tendered bonds that are unremarketed by the 91st day after the purchase date of the tender advance must be paid in full over a four-year period in eight equal (or nearly equal) semi-annual installments, unless and until the bonds are remarketed or redeemed. If repayment of any tender advances does not occur within the specified timeframes contained in the Series 85-88B SBPA, a default would have occurred.

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 83, 84 and 90B SBPA or the Series 85-88B SBPA for fiscal years 2012 and 2011. Therefore, no tender advances or draws were outstanding as of June 30, 2012 or 2011.

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. The Department is required to pay a commitment fee, which is payable quarterly in arrears.

7. 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 2012, 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, 2011	Fair Value Increase / (Decrease)	Fair Value Balance June 30, 2012
Series 84	$25,000,000	$ (1,808,678)	$ (1,238,745)	$ (3,047,423)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2012 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, 2012, 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%	$ (3,047,423)

* 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 Baa1 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, 2012, 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, 2012, the interest rate on the Department's variable-rate hedged debt is 0.17%, while the 62.6% of one-month LIBOR plus 0.265% is 0.41446%.

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, 2012, 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***
2013	$ -	$ 42,441	$ 814,195	$ 856,636
2014	-	42,500	814,055	856,555
2015	-	42,500	814,055	856,555
2016	410,000	42,331	804,261	1,256,592
2017	445,000	41,501	790,095	1,276,596
2018-2022	2,720,000	195,064	3,699,480	6,614,544
2023-2027	3,735,000	168,158	3,170,234	7,073,392
2028-2032	5,140,000	131,176	2,442,176	7,713,352
2033-2037	7,080,000	80,105	1,439,228	8,599,333
2038-2040	5,470,000	15,964	231,192	5,717,156
TOTAL	$ 25,000,000	$ 801,740	$ 15,018,971	$ 40,820,711

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.

8. CHANGES IN LONG TERM LIABILITIES

The following table provides detail on the long-term liability activity as of June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	$ 374,730,000	$ -	$ (62,465,000)	$ 312,265,000	$ 3,395,000
Bond Discount	(388,041)	-	156,923	(231,118)	(17,273)
Total Bonds Payable	374,341,959	-	(62,308,077)	312,033,882	3,377,727
Compensated Absences Payable	453,658	7,725	-	461,383	304,513
Excess Mortgage Interest & Arbitrage Rebate Payable	13,170,925	2,689,563	-	15,860,488	-
OPEB Obligation (Net)	88,150	13,607	-	101,757	-
Total Long-Term Liabilities	$ 388,054,692	$ 2,710,895	$ (62,308,077)	$ 328,457,510	$ 3,682,240

9. INTERFUND TRANSACTIONS

At June 30, 2012 and 2011, the Veterans' Loan Program had outstanding interfund receivables of $68,285 and $66,417 respectively, which was due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home. The balances are shown as a "Due from Other Funds" and "Due to Other Funds" on the Statement of Net Assets.

10. 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.

Oregon Public Service Retirement Plan
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 9.55%; and the OPSRP rate is 8.05%.

Combined employer contributions for the years ended June 30, 2012, 2011, and 2010 were approximately $349,200 $96,400, and $88,850 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2012, 2011, and 2010 were approximately $230,900, $252,800, and $235,400 respectively.

11. 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

Retirement Health Insurance Account
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, 2012 was 0.59% for Tier 1 and Tier 2 employees and 0.50% for OPSRP employees, which is embedded within the total PERS contribution rate.

Combined employer contributions for the years ended June 30, 2012, 2011, and 2010 were approximately $21,600, $10,300 and $11,600 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.

Retiree Health Insurance Premium Account

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

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2012 was 0.16% for Tier 1 and Tier 2 employees and 0.11% for OPSRP employees, which is embedded within the total PERS contribution rate. The Department's actual contribution for the years ended June 30, 2012 and 2011 were approximately $5,500 and $2,400 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.

Public Employees Benefit Board Plan

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

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

12. 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, 2012, the total rental income received from tenants was $698,219.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	July 1, 2011	June 30, 2013	$ 160,062
Tenant 2	July 1, 2009	June 30, 2013	347,702
Tenant 3	December 1, 2010	June 30, 2013	58,642
Tenant 4	August 1, 2011	June 30, 2013	143,796
Total			$ 710,202

Future rental income may increase to a higher rental rate due to inflation. The approximate historical cost of this office space is $2,389,153 with a carrying value of $1,230,177 *(historical cost less accumulated depreciation of $1,158,976).*

13. RISK FINANCING

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

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

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

During the fiscal years ended June 30, 2012 and June 30, 2011 there has been no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years *(July 1, 2002 through June 30, 2012)* there have been no claims that exceeded the Department's property or liability coverage.

14. ALLOWANCES IN PROPRIETARY FUND VETERANS' HOME PROGRAM

Revenues in the Veterans' Home Program are reported net of discounts and allowances in the accompanying financial statements. The amounts netted against Resident Related Revenues are $26,611 for fiscal year 2012 and $12,445 for fiscal year 2011.

15. PRIOR PERIOD ADJUSTMENTS

During fiscal year ended June 30, 2012, the Department recorded a prior period adjustment of $541,851. This adjustment in the Veterans' Loan Program consisted of recording previously unrecorded assets, primarily veterans' memorials on the grounds of the Department.

During fiscal year ended June 30, 2011, the Department recorded a prior period adjustment of $88,611. This adjustment in the Veterans' Loan Program consisted of reclassifying services and supplies expense to a separate fund and recording the loss on bond discount and underwriter's discount.

OTHER SUPPLEMENTAL SECTION

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.

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012 and JUNE 30, 2011

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ -	$ -	$ 806,098	$ 784,006
Securities Lending Cash Collateral	-	-	94,906	242,569
Receivables:				
Due from State General Fund	508,066	468,689	-	-
Due from Other Funds		-	6,026	5,000
Prepaid Items	932	647	-	-
Total Current Assets	508,998	469,336	907,030	1,031,575
TOTAL ASSETS	$ 508,998	$ 469,336	$ 907,030	$ 1,031,575
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 508,066	$ 468,689	$ -	$ -
Obligations under Securities Lending	-	-	94,906	242,569
Total Current Liabilities	508,066	468,689	94,906	242,569
TOTAL LIABILITIES	$ 508,066	$ 468,689	$ 94,906	$ 242,569
FUND BALANCES				
Nonspendable Fund Balance - Prepaids	$ 932	$ 647	$ -	$ -
Restricted Fund Balance - Donor/Other External Party	-	-	812,124	789,006
TOTAL FUND BALANCES	$ 932	$ 647	$ 812,124	$ 789,006
TOTAL LIABILITIES AND FUND BALANCES	$ 508,998	$ 469,336	$ 907,030	$ 1,031,575

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
$ 98,505	$ 82,963	$ 904,603	$ 866,969
11,597	25,668	106,503	268,237
-	-	508,066	468,689
-	-	6,026	5,000
-	-	932	647
110,102	108,631	1,526,130	1,609,542
$ 110,102	$ 108,631	$ 1,526,130	$ 1,609,542
$ -	$ -	$ 508,066	$ 468,689
11,597	25,668	106,503	268,237
11,597	25,668	614,569	736,926
$ 11,597	$ 25,668	$ 614,569	$ 736,926
$ -	$ -	$ 932	$ 647
98,505	82,963	910,629	871,969
$ 98,505	$ 82,963	$ 911,561	$ 872,616
$ 110,102	$ 108,631	$ 1,526,130	$ 1,609,542

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMBINED STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and JUNE 30, 2011

	General Fund		Special Revenue Fund	
			Veterans' Home Trust	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues				
Donations	$ -	$ -	$ 135,800	$ 311,135
Interest Income	-	-	4,233	6,353
Total Revenues	-	-	140,033	317,488
Expenditures				
Veterans' Services				
Personal Services	779,968	783,046	-	-
Services and Supplies	208,055	60,514	-	-
Securities Lending Investment Expense	-	-	210	917
State Treasury Charges	-	-	-	-
Trust Fund Distributions	-	-	-	-
Special Payments	2,332,079	1,922,151	-	-
Total Expenditures	3,320,102	2,765,711	210	917
Other Financing Sources (Uses)				
State Appropriations	3,320,102	2,765,711	-	-
Operating Transfer In from DMV	-	-	60,995	51,483
Operating Transfer Out to Veterans' Home	-	-	(177,700)	(947,478)
Total Other Financing Sources (Uses)	3,320,102	2,765,711	(116,705)	(895,995)
Net Change in Fund Balance	-	-	23,118	(579,424)
Beginning Fund Balance	647	1,419	789,006	1,368,430
Change in Reserve for Prepaid Items	285	(772)	-	-
Ending Fund Balance	$ 932	$ 647	$ 812,124	$ 789,006

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
$ 44,516	$ -	$ 180,316	$ 311,135
571	543	4,804	6,896
45,087	543	185,120	318,031
-	-	779,968	783,046
-	-	208,055	60,514
146	119	356	1,036
25	97	25	97
29,374	5,822	29,374	5,822
-	-	2,332,079	1,922,151
29,545	6,038	3,349,857	2,772,666
-	-	3,320,102	2,765,711
-	-	60,995	51,483
-	-	(177,700)	(947,478)
-	-	3,203,397	1,869,716
15,542	(5,495)	38,660	(584,919)
82,963	88,458	872,616	1,458,307
-	-	285	(772)
$ 98,505	$ 82,963	$ 911,561	$ 872,616

UNAUDITED

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, 2013

AS OF JUNE 30, 2012

	General Fund			
	2011-2013 Original Budget	2011-2013 Adjusted Budget	First Year Actual June 30, 2012	Variance Favorable/ (Unfavorable)
General Fund:				
Veterans' Services Division - Appropriation	$ 6,675,314	$ 6,562,195	$ 3,302,102	$ 3,260,093
Total General Fund	$ 6,675,314	$ 6,562,195	$ 3,302,102	$ 3,260,093

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 151 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.

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012 and JUNE 30, 2011

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2012	June 30, 2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 20,286,691	$ 22,693,269
Investments	861,222	893,039
Securities Lending Cash Collateral	2,388,447	7,021,226
Receivables:		
Accrued Interest	10,068	9,777
Other	-	-
Total Current Assets	23,546,428	30,617,311
Noncurrent Assets		
Conservatorship Real Property	4,272,660	4,316,260
Conservatorship Personal Property	471,963	400,973
Total Noncurrent Assets	4,744,623	4,717,233
TOTAL ASSETS	$ 28,291,051	$ 35,334,544
LIABILITIES		
Current Liabilities		
Due to Other Funds	$ 857	$ -
Mortgages on Conservatorship Real Property	80,364	68,664
Obligations under Securities Lending	2,388,447	7,021,226
Total Current Liabilities	2,469,668	7,089,890
Noncurrent Liabilities		
Mortgages on Conservatorship Real Property	1,960,501	2,105,339
Total Noncurrent Liabilities	1,960,501	2,105,339
TOTAL LIABILITIES	4,430,169	9,195,229
NET ASSETS		
Net Assets Held in Trust for Individuals	23,860,882	26,139,315
TOTAL NET ASSETS	$ 23,860,882	$ 26,139,315

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF CHANGES IN

FIDUCIARY NET ASSETS

FIDUCIARY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and JUNE 30, 2011

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2012	June 30, 2011
ADDITIONS		
Contributions:		
Veterans' Benefits	$ 7,273,136	$ 6,784,250
Investment Income:		
Interest Income	119,202	144,220
Valuation Changes and Redemptions of Investments	24,690	(42,413)
TOTAL ADDITIONS	$ 7,417,028	$ 6,886,057
DEDUCTIONS		
Veterans' Services: Beneficiary Care	$ 9,689,618	$ 8,093,748
Securities Lending Investment Expense	5,843	21,195
TOTAL DEDUCTIONS	9,695,461	8,114,943
Net Increase/ (Decrease)	(2,278,433)	(1,228,886)
CHANGE IN NET ASSETS	(2,278,433)	(1,228,886)
BEGINNING NET ASSETS	26,139,315	27,368,201
ENDING NET ASSETS	$ 23,860,882	$ 26,139,315

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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 2003 - 2012

ASSETS & DEFERRED OUTFLOWS	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
Current Assets				
Cash and Cash Equivalents *(1)*	$ 70,538,060	$ 92,654,442	$ 89,880,157	$ 63,666,685
Cash and Cash Equivalents - Restricted	1,970,398	3,107,401	4,601,059	5,454,658
Securities Lending Cash Collateral	22,652,458	67,609,488	91,912,913	209,834,541
Investments	14,525,830	3,540,625	10,903,602	22,126,185
Investments - Restricted	-	5,005,250	15,004,650	25,537,018
Receivables:				
Accrued Interest	1,485,707	1,641,564	1,957,271	2,157,552
Due from State Treasury	-	-	-	-
LCLI Premiums *(2)*	70,243	71,655	87,229	92,070
Other	24,542	24,638	24,407	13,256
Due from Other Funds	68,285	66,147	67,428	72,172
Real Estate Owned	1,908,323	1,570,465	1,429,235	591,530
Prepaid Expenses	8,506	6,946	7,970	5,379
Total Current Assets	$ 113,252,352	$ 175,298,621	$ 215,875,921	$ 329,551,046
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	$ 140,316,030	$ 139,488,446	$ 166,349,089	$ 413,146,725
Investments	7,005,810	21,783,303	7,845,319	15,815,890
Investments - Restricted	-	3,269,211	13,127,161	25,520,715
Mortgage Loans and Contracts Receivable (Net)	217,022,740	247,018,965	274,950,313	298,087,844
Notes Receivable	-	-	-	-
Other Receivable	1,082,269	523,531	449,742	270,279
Deferred Underwriter's Discount	1,303,955	1,937,005	1,914,482	2,025,039
Capital Assets:				
Building, Property and Equipment	8,925,405	8,954,357	8,911,904	8,911,904
Works of Art and Historical Treasures	627,021	85,170	85,170	85,170
Accumulated Depreciation	(5,088,810)	(5,008,953)	(4,891,793)	(4,774,826)
Total Noncurrent Assets	$ 371,194,420	$ 418,051,035	$ 468,741,387	$ 759,088,740
Deferred Outflow of Resources *(3)*	$ 3,047,423	$ 1,808,678	$ 2,249,775	$ -
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 487,494,195	$ 595,158,334	$ 686,867,083	$ 1,088,639,786
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 167,851	$ 237,200	$ 228,675	$ 240,559
Line of Credit Payable	-	-	-	-
LCLI Premium Payable	40,635	58,000	67,779	86,853
LCLI Claims Payable *(2)*	19,406	90,094	243,351	108,999
Deposit Liabilities	1,834,763	1,976,620	2,107,611	2,200,352
Accrued Interest on Bonds	450,338	964,913	1,046,013	1,249,984
Obligations Under Securities Lending	22,652,458	67,609,488	91,912,913	209,834,541
Claims and Judgements Payable	-	-	-	-
Compensated Absences Payable	301,467	296,022	289,901	283,340
Excess Interest and Arbitrage Rebate Payable	-	-	487,548	452,944
Bonds Payable - Maturing Within One Year (Net)	3,377,727	3,302,227	2,006,453	2,041,454
Matured Bonds Payable	95,000	1,072,780	2,425,669	3,167,453
Total Current Liabilities	$ 28,939,645	$ 75,607,344	$ 100,815,913	$ 219,666,479
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	$ 308,656,156	$ 371,039,732	$ 438,887,949	$ 730,324,401
Claims and Judgements Payable	-	-	-	-
Compensated Absences Payable	155,301	152,496	149,343	139,556
Excess Interest and Arbitrage Rebate Payable	15,860,488	13,170,925	10,486,694	5,766,794
Other Postemployment Benefits Obligation (Net)	100,645	87,656	76,075	63,679
Derivative Instrument - Interest Rate Swap *(3)*	3,047,423	1,808,678	2,249,775	-
Total Noncurrent Liabilities	$ 327,820,013	$ 386,259,487	$ 451,849,836	$ 736,294,430
TOTAL LIABILITIES	$ 356,759,658	$ 461,866,831	$ 552,665,749	$ 955,960,909
NET ASSETS				
Invested in Capital Assets	$ 4,463,616	$ 4,030,574	$ 4,105,281	$ 4,222,248
Net Assets, Unrestricted	126,270,921	129,260,929	130,096,053	128,456,629
TOTAL NET ASSETS	$ 130,734,537	$ 133,291,503	$ 134,201,334	$ 132,678,877
TOTAL LIABILITIES AND NET ASSETS	$ 487,494,195	$ 595,158,334	$ 686,867,083	$ 1,088,639,786

(1) Current Cash and Cash Equivalents amounts have been adjusted for deposit liabilities.
(2) Starting in fiscal year 2005, a change was made to report Loan Cancellation Life Insurance (LCLI) Claims Payable separately.
(3) Starting in fiscal year 2010, derivatives reported separately as required by GASB Statement 53.

	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
	$ 87,234,247	$ 80,795,986	$ 68,536,698	$ 73,133,598	$ 108,065,770	$ 127,071,341
	6,685,594	6,308,466	5,775,565	6,211,795	7,753,427	9,041,323
	220,256,145	171,313,426	56,088,643	84,522,242	263,145,877	59,557,642
	2,511,661	-	-	-	-	-
	56,189,591	95,073,362	100,656,772	-	-	-
	2,945,247	2,753,190	3,240,750	3,876,695	5,545,325	8,586,686
	-	-	-	-	-	6,000,000
	107,214	147,259	170,762	185,655	217,577	274,500
	10,817	10,875	34,301	11,731	23,533	12,600
	63,499	73,850	138,755	494,164	5,269	163
	9,842	-	-	96,048	171,189	302,563
	16,145	39,796	27,271	8,115	19,449	26,563
	$ 376,030,002	$ 356,516,210	$ 234,669,517	$ 168,540,043	$ 384,947,416	$ 210,873,381
	$ 372,930,995	$ 402,707,726	$ 419,260,547	$ 428,157,516	$ 405,536,924	$ 353,982,441
	-	2,544,843	2,564,209	-	-	-
	84,613,906	30,074,187	26,342,808	134,928,764	155,641,016	266,394,138
	306,408,188	283,736,757	266,034,069	284,220,290	339,922,044	456,419,543
	-	123,428	176,040	360,000	360,000	-
	2,391,606	1,712,187	1,931,151	481,294	-	-
	2,158,705	1,847,213	1,991,927	1,929,928	1,913,369	2,209,215
	9,484,489	9,563,859	9,949,641	9,945,155	9,945,155	9,955,561
	85,170	85,170	85,170	85,170	85,170	85,170
	(5,226,182)	(5,269,006)	(5,647,415)	(5,391,789)	(5,032,348)	(4,647,330)
	$ 772,846,877	$ 727,126,364	$ 722,688,147	$ 854,716,328	$ 908,371,330	$ 1,084,398,738
	$ -	$ -	$ -	$ -	$ -	$ -
	$ 1,148,876,879	$ 1,083,642,574	$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119
	$ 358,119	$ 292,260	$ 301,996	$ 361,717	$ 566,738	$ 762,672
	1,000,000	30,835,000	1,000,000	-	-	-
	99,208	103,602	135,470	171,010	347,345	455,246
	108,164	254,704	13,762	137,379	-	-
	2,187,904	2,005,195	1,637,899	1,503,156	1,495,581	1,910,501
	3,201,652	6,144,051	8,234,121	9,891,835	12,368,445	16,329,000
	220,256,145	171,313,426	56,088,643	84,522,242	263,145,877	59,557,642
	-	875	-	-	-	-
	279,685	287,513	294,236	252,202	417,495	453,859
	268,193	105,259	212,771	-	-	-
	41,454,365	61,353,153	62,250,115	62,727,149	83,314,364	104,119,165
	4,398,482	4,199,669	4,002,196	4,537,629	6,257,846	7,130,822
	$ 273,611,917	$ 276,894,707	$ 134,171,209	$ 164,104,319	$ 367,913,691	$ 190,718,907
	$ 735,100,855	$ 677,075,220	$ 701,016,462	$ 738,766,577	$ 798,269,848	$ 964,911,356
	-	-	15,518	-	-	-
	137,755	141,611	98,079	108,087	-	-
	3,180,198	1,561,754	891,286	402,055	385,380	287,175
	33,247	-	-	-	-	-
	-	-	-	-	-	-
	$ 738,452,055	$ 678,778,585	$ 702,021,345	$ 739,276,719	$ 798,655,228	$ 965,198,531
	$ 1,012,063,972	$ 955,673,292	$ 836,192,554	$ 903,381,038	$ 1,166,568,919	$ 1,155,917,438
	$ 4,343,477	$ 4,380,023	$ 4,387,396	$ 4,638,536	$ 4,997,977	$ 5,393,401
	132,469,430	123,589,259	116,777,714	115,236,797	121,751,850	133,961,280
	$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681
	$ 1,148,876,879	$ 1,083,642,574	$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746	$ 1,295,272,119

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 2003 - 2012

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 10,494,442	$ 11,797,640	$ 11,445,675	$ 16,014,046
Contract Interest Income	108,784	139,828	209,608	302,145
Other Interest Income	-	-	-	-
Investment Income	2,327,058	4,043,049	6,964,830	4,673,050
Gain on Sale of Foreclosed Property	76,034	295,954	34,542	35,160
Loan Cancellation Life Insurance Premiums	715,356	822,503	962,230	1,142,192
Loan Cancellation Life Insurance Processing Fees	102,000	102,000	102,000	102,000
Other Fees and Charges	1,689,093	1,516,602	1,733,649	1,841,337
Conservatorship Fees	298,380	289,939	284,381	294,951
TOTAL OPERATING REVENUES	$ 15,811,147	$ 19,007,515	$ 21,736,915	$ 24,404,881
OPERATING EXPENSES				
Bond Interest Expense	$ 7,498,587	$ 8,520,503	$ 8,495,161	$ 15,702,350
Interest on Line of Credit		-	-	49,948
Salaries and Other Payroll Expenses	5,653,694	5,717,843	5,642,344	5,773,576
Bond Expenses	1,858,820	1,378,103	1,117,848	1,247,214
Securities Lending Investment Expense	57,794	232,258	320,983	1,270,291
Real Estate Owned Expense	491,313	259,411	130,125	29,547
Services and Supplies	1,340,540	1,744,035	1,867,440	1,665,656
Claims Expense - Loan Cancellation Life Insurance	1,091,934	1,155,382	1,266,568	1,938,157
Depreciation Expense	108,809	117,160	116,967	113,378
Bad Debt Expense	336,329	360,478	936,600	-
Special Payments	-	-	-	(1,106)
Other Expenses	242,959	117,585	94,516	325,670
TOTAL OPERATING EXPENSES	$ 18,680,779	$ 19,602,758	$ 19,988,552	$ 28,114,681
OPERATING INCOME (LOSS)	$ (2,869,632)	$ (595,243)	$ 1,748,363	$ (3,709,800)
NONOPERATING INCOME (EXPENSES)				
Net Transfers to Dept. of Administrative Services	$ (229,185)	$ (225,977)	$ (225,906)	$ (230,438)
Net Transfers from Military Dept.	-	-	-	-
Net Transfers from/(to) General Fund	-	-	-	(185,941)
Gain/(Loss) on Early Extinguishment of Debt	-	-	-	(7,851)
	(229,185)	(225,977)	(225,906)	(424,230)
CHANGE IN NET ASSETS	$ (3,098,817)	$ (821,220)	$ 1,522,457	$ (4,134,030)
NET ASSETS				
Beginning Net Assets	$ 133,291,503	$ 134,201,334	$ 132,678,877	$ 136,812,907
Prior Period Adjustment	541,851	(88,611)	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 133,833,354	$ 134,112,723	$ 132,678,877	$ 136,812,907
Ending Net Assets	$ 130,734,537	$ 133,291,503	$ 134,201,334	$ 132,678,877

June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
$ 17,611,704	$ 17,526,662	$ 17,561,219	$ 21,225,116	$ 26,789,783	$ 36,742,510
434,945	593,760	806,376	1,169,324	1,687,323	2,535,147
3,219	7,595	10,953	19,050	11,208	-
33,154,407	37,675,500	28,198,335	18,013,534	13,338,726	24,675,139
-	-	7,551	139,199	493,409	39,121
1,356,657	1,626,287	1,962,357	2,523,140	2,704,444	3,642,487
102,000	180,000	180,000	220,834	425,004	425,004
2,155,231	2,131,847	1,941,079	947,834	939,950	1,189,691
313,493	333,974	354,808	334,340	345,750	364,510
$ 55,131,656	$ 60,075,625	$ 51,022,678	$ 44,592,371	$ 46,735,597	$ 69,613,609
$ 26,856,570	$ 34,581,972	$ 35,121,631	$ 37,103,554	$ 44,537,191	$ 58,066,877
721,945	279,906	525,600	159,267	-	7,500
5,953,581	5,445,234	5,239,879	4,793,870	5,875,969	6,838,554
1,242,882	1,581,932	1,129,971	1,324,123	1,155,355	909,379
6,678,572	6,266,412	2,910,155	2,199,165	1,899,175	630,893
2,324	2,267	9,485	47,490	52,526	80,757
1,971,272	2,133,903	2,174,420	1,776,839	2,140,262	2,958,497
2,312,867	2,717,581	2,952,064	4,637,009	4,927,874	5,121,239
160,174	156,656	255,626	359,441	408,883	431,391
-	(545,135)	(918,401)	(1,104,080)	(1,656,784)	(1,744,700)
98,674	-	-	-	-	51,000
687,994	645,158	332,471	170,187	-	210,232
$ 46,686,855	$ 53,265,886	$ 49,732,901	$ 51,466,865	$ 59,340,451	$ 73,561,619
$ 8,444,801	$ 6,809,739	$ 1,289,777	$ (6,874,494)	$ (12,604,854)	$ (3,948,010)
$ -	$ (5,567)	$ -	$ -	$ -	$ -
98,824	-	-	-	-	-
300,000	-	-	-	-	-
-	-	-	-	-	-
398,824	(5,567)	-	-	-	-
$ 8,843,625	$ 6,804,172	$ 1,289,777	$ (6,874,494)	$ (12,604,854)	$ (3,948,010)
$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691
-	-	-	-	-	-
-	-	-	-	-	-
$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681	$ 143,302,691
$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET ASSETS
PROPRIETARY FUND - VETERANS' HOME PROGRAM only
FOR THE FISCAL YEARS ENDED 2003 - 2012

ASSETS	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
Current Assets				
Cash and Cash Equivalents	$ 5,809,130	$ 3,981,396	$ 2,422,398	$ 1,982,432
Cash and Cash Equivalents - Restricted	10,254,538	10,431,646	-	-
Securities Lending Cash Collateral	1,891,251	4,459,350	939,799	907,514
Resident Care Receivable	1,566,269	1,376,424	1,484,378	1,398,921
Other Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Current Assets	$ 19,521,188	$ 20,248,816	$ 4,846,575	$ 4,288,867
Noncurrent Assets				
Resident Care Receivable (Net)	$ 14,369	$ 26,927	$ 70,750	$ 138,125
Capital Assets:				
Building, Property and Equipment	15,507,603	12,718,076	12,643,416	12,715,158
Improvements Other than Buildings	13,695	13,695	7,250	7,250
Land	2,100,073	2,100,073	600,073	600,073
Construction in Progress	458,006	1,566,650	-	-
Works of Art and Historical Treasures	70,000	70,000	70,000	70,000
Accumulated Depreciation	(4,497,806)	(4,202,032)	(3,895,082)	(3,653,406)
Total Noncurrent Assets	$ 13,665,940	$ 12,293,389	$ 9,496,407	$ 9,877,200
TOTAL ASSETS	$ 33,187,128	$ 32,542,205	$ 14,342,982	$ 14,166,067
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 1,542,863	$ 1,125,035	$ 1,017,734	$ 963,037
Due to Other Funds	68,285	66,147	66,674	71,991
Deposit Liabilities	-	187	6,076	7,990
Deferred Revenue	124,746	92,502	55,186	131,604
Obligations Under Securities Lending	1,891,251	4,459,350	939,799	907,514
Compensated Absences Payable	3,046	3,392	4,565	9,945
Total Current Liabilities	$ 3,630,191	$ 5,746,613	$ 2,090,034	$ 2,092,081
Noncurrent Liabilities				
Compensated Absences Payable	$ 1,569	$ 1,748	$ 2,352	$ 4,898
Other Post Employment Benefits Obligation (Net)	1,112	494	-	-
Claims and Judgements Payable	-	-	-	-
Total Noncurrent Liabilities	$ 2,681	$ 2,242	$ 2,352	$ 4,898
TOTAL LIABILITIES	$ 3,632,872	$ 5,748,855	$ 2,092,386	$ 2,096,979
NET ASSETS				
Invested in Capital Assets	$ 13,651,571	$ 12,266,462	$ 9,425,657	$ 9,739,075
Expendable, Restricted for Capital Construction	10,254,538	10,431,646	-	-
Unrestricted	5,648,147	4,095,242	2,824,939	2,330,013
TOTAL NET ASSETS	$ 29,554,256	$ 26,793,350	$ 12,250,596	$ 12,069,088
TOTAL LIABILITIES AND NET ASSETS	$ 33,187,128	$ 32,542,205	$ 14,342,982	$ 14,166,067

	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
	$ 1,653,358	$ 1,105,989	$ 1,474,963	$ 1,414,057	$ 726,735	$ 478,842
	-	-	-	-	-	-
	818,718	387,988	189,105	248,379	342,687	63,195
	1,136,487	1,158,387	707,089	818,414	661,432	390,000
	-	-	51,800	-	-	16,794
	-	-	-	5,405	-	-
	-	-	571	553	553	846
	$ 3,608,563	$ 2,652,364	$ 2,423,528	$ 2,486,808	$ 1,731,407	$ 949,677
	$ 6,693	$ 13,754	$ 2,614	$ 3,572	$ 3,572	$ 3,606
	12,708,097	12,562,282	12,540,540	12,517,677	12,517,677	12,506,729
	7,250	7,250	7,250	7,250	-	-
	600,073	600,073	600,073	600,073	600,073	600,073
	-	-	-	-	-	-
	70,000	70,000	70,000	70,000	70,000	70,000
	(3,339,812)	(3,027,776)	(2,738,926)	(2,449,306)	(2,161,834)	(1,878,984)
	$ 10,052,301	$ 10,225,583	$ 10,481,551	$ 10,749,266	$ 11,029,488	$ 11,301,424
	$ 13,660,864	$ 12,877,947	$ 12,905,079	$ 13,236,074	$ 12,760,895	$ 12,251,101
	$ 889,510	$ 855,175	$ 705,069	$ 873,212	$ 958,079	$ 411,023
	63,499	55,909	119,104	493,755	-	-
	361	361	652	361	-	976
	-	-	-	-	-	-
	818,718	387,988	189,105	248,379	342,687	63,195
	5,345	2,277	437	3,455	16,073	13,480
	$ 1,777,433	$ 1,301,710	$ 1,014,367	$ 1,619,162	$ 1,316,839	$ 488,674
	$ 2,632	$ 1,121	$ 146	$ 1,481	$ -	$ -
	-	-	-	-	-	-
	-	-	6,994	-	-	-
	$ 2,632	$ 1,121	$ 7,140	$ 1,481	$ -	$ -
	$ 1,780,065	$ 1,302,831	$ 1,021,507	$ 1,620,643	$ 1,316,839	$ 488,674
	$ 10,045,608	$ 10,211,829	$ 10,478,937	$ 10,745,694	$ 11,025,916	$ 11,297,818
	-	-	-	-	-	-
	1,835,191	1,363,287	1,404,635	869,737	418,140	464,609
	$ 11,880,799	$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427
	$ 13,660,864	$ 12,877,947	$ 12,905,079	$ 13,236,074	$ 12,760,895	$ 12,251,101

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 2003 - 2012

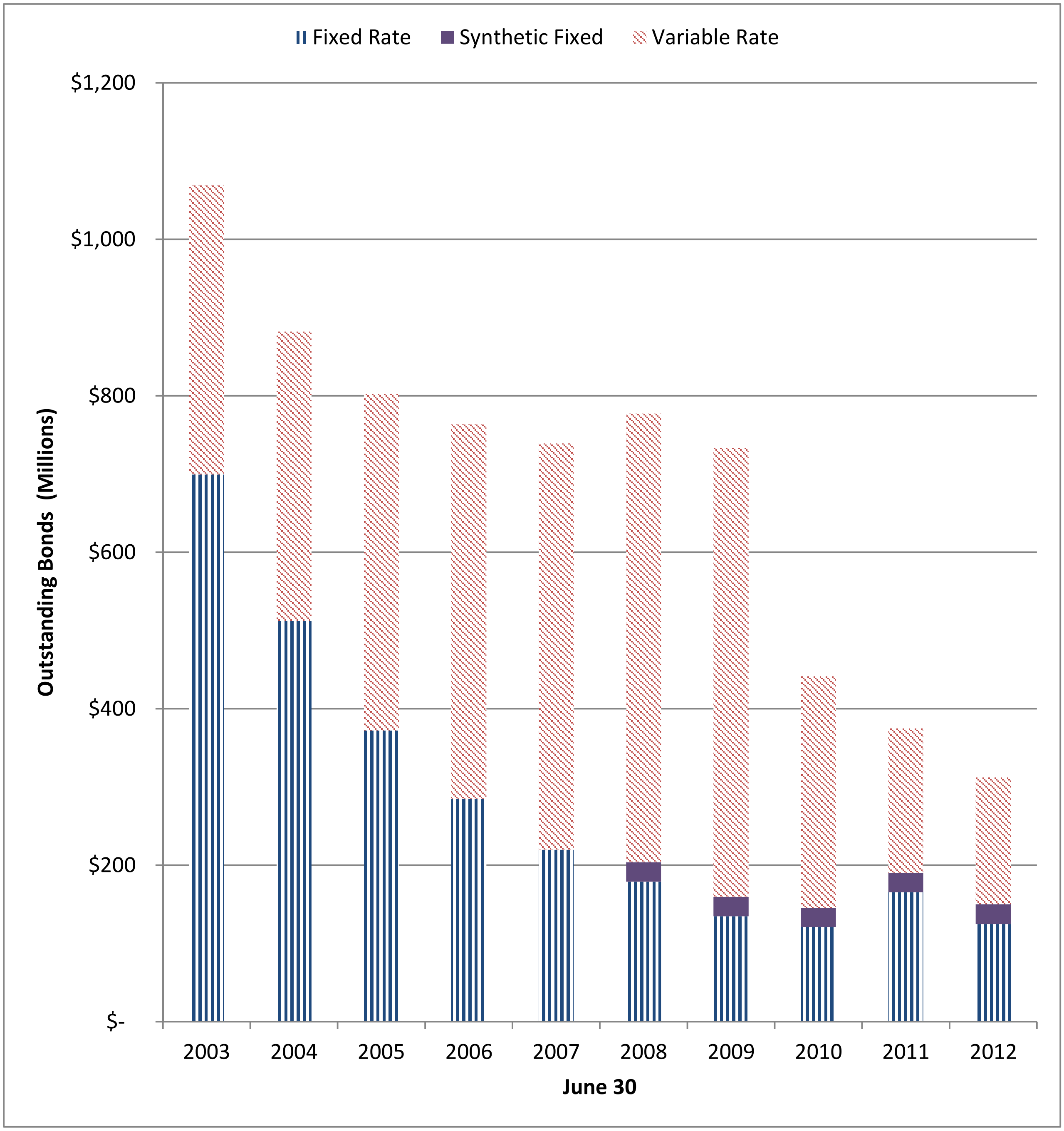
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
OPERATING REVENUES				
Investment Income	$ 85,425	$ 26,269	$ 12,655	$ 34,591
Resident Revenue (Net) *(1)*	13,677,396	12,615,906	11,833,514	11,709,871
Other Fees and Charges	2,048	1,648	2,167	1,708
TOTAL OPERATING REVENUES	$ 13,764,869	$ 12,643,823	$ 11,848,336	$ 11,746,170
OPERATING EXPENSES				
Salaries and Other Payroll Expenses	$ 230,801	$ 217,270	$ 202,012	$ 145,500
Securities Lending Investment Expense	4,187	3,861	1,188	3,087
Services and Supplies	82,462	121,569	119,113	64,966
Veterans' Home Operations	11,603,548	11,103,989	11,050,913	11,044,368
Depreciation Expense	317,534	315,949	313,419	313,593
TOTAL OPERATING EXPENSES	$ 12,238,532	$ 11,762,638	$ 11,686,645	$ 11,571,514
OPERATING INCOME (LOSS)	$ 1,526,337	$ 881,185	$ 161,691	$ 174,656
NONOPERATING REVENUE (EXPENSES)				
Net Transfers from Veterans' Home Trust Fund	$ 177,700	$ 947,478	$ 20,514	$ 18,060
Net Transfers to Dept. of Administrative Services	(9,278)	(8,679)	(7,519)	(4,427)
Capital Contributions	1,066,147	12,722,770	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	1,234,569	13,661,569	12,995	13,633
CHANGE IN NET ASSETS	$ 2,760,906	$ 14,542,754	$ 174,686	$ 188,289
NET ASSETS				
Beginning Net Assets	$ 26,793,350	$ 12,250,596	$ 12,069,088	$ 11,880,799
Prior Period Adjustment	-	-	6,822	-
Beginning Net Assets, Restated	$ 26,793,350	$ 12,250,596	$ 12,075,910	$ 11,880,799
Ending Net Assets	$ 29,554,256	$ 26,793,350	$ 12,250,596	$ 12,069,088

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

June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
$ 62,149	$ 57,064	$ 73,604	$ 24,217	$ 8,390	$ 8,487
10,985,553	10,223,934	9,809,017	8,674,907	6,157,225	5,043,010
2,191	2,066	1,946	2,825	2,134	-
$ 11,049,893	$ 10,283,064	$ 9,884,567	$ 8,701,949	$ 6,167,749	$ 5,051,497
$ 120,273	$ 98,888	$ 80,684	$ 512,025	$ 213,063	$ 205,262
15,600	12,974	10,346	4,349	1,846	654
81,099	583,527	157,869	208,319	107,766	134,843
10,365,986	9,632,303	9,120,185	7,596,750	6,181,784	4,732,459
315,110	288,852	289,619	287,472	288,918	353,480
$ 10,898,068	$ 10,616,544	$ 9,658,703	$ 8,608,915	$ 6,793,377	$ 5,426,698
$ 151,825	$ (333,480)	$ 225,864	$ 93,034	$ (625,628)	$ (375,201)
$ 153,858	$ 25,024	$ 25,483	$ 71,091	$ 298,257	$ 17,709
-	-	-	-	-	-
-	-	16,794	7,250	9,000	-
153,858	25,024	42,277	78,341	307,257	17,709
$ 305,683	$ (308,456)	$ 268,141	$ 171,375	$ (318,371)	$ (357,492)
$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,114,469
-	-	-	-	-	5,450
$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427	$ 12,119,919
$ 11,880,799	$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM

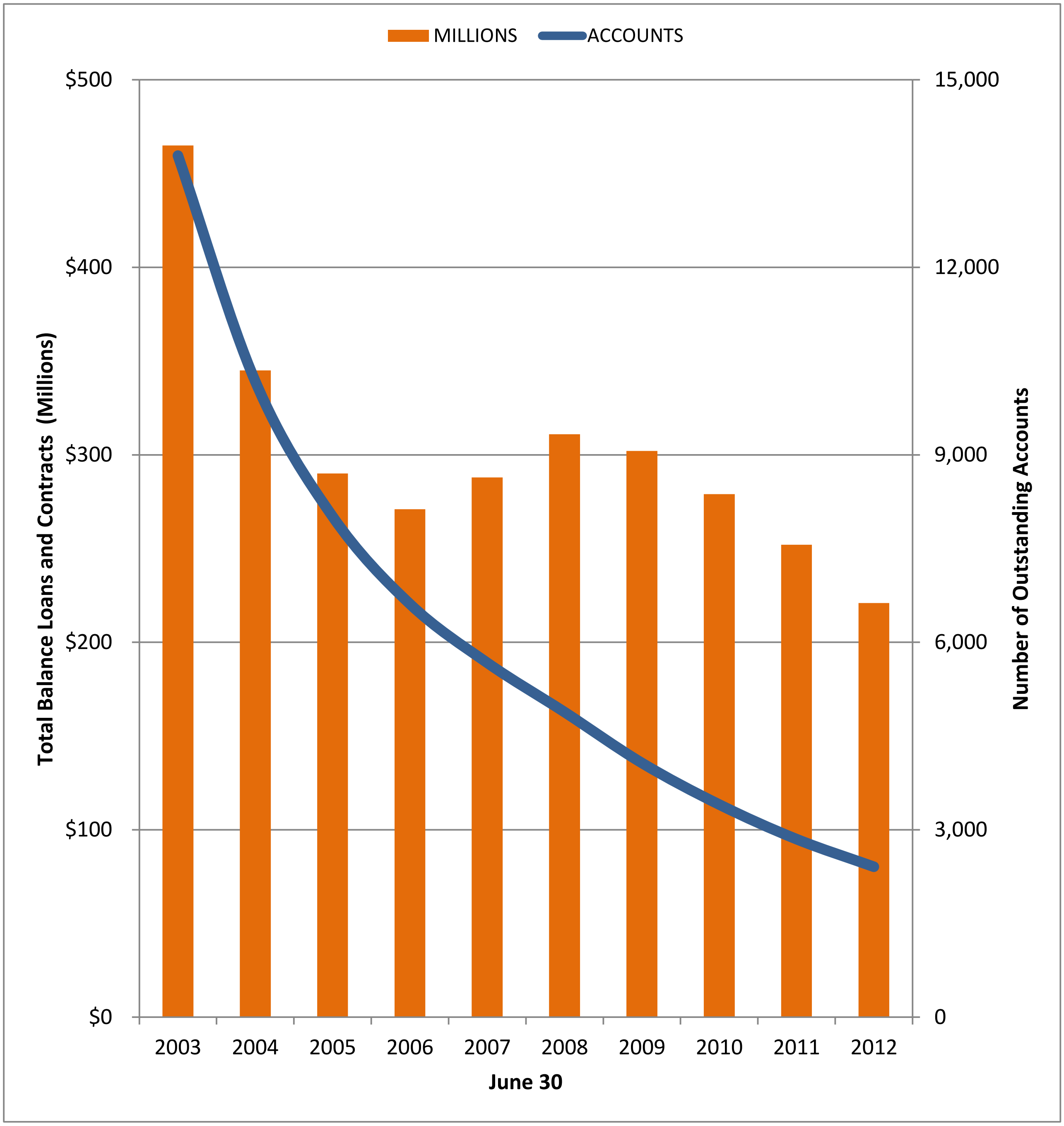
PRINCIPAL BALANCE OF BONDS OUTSTANDING



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM

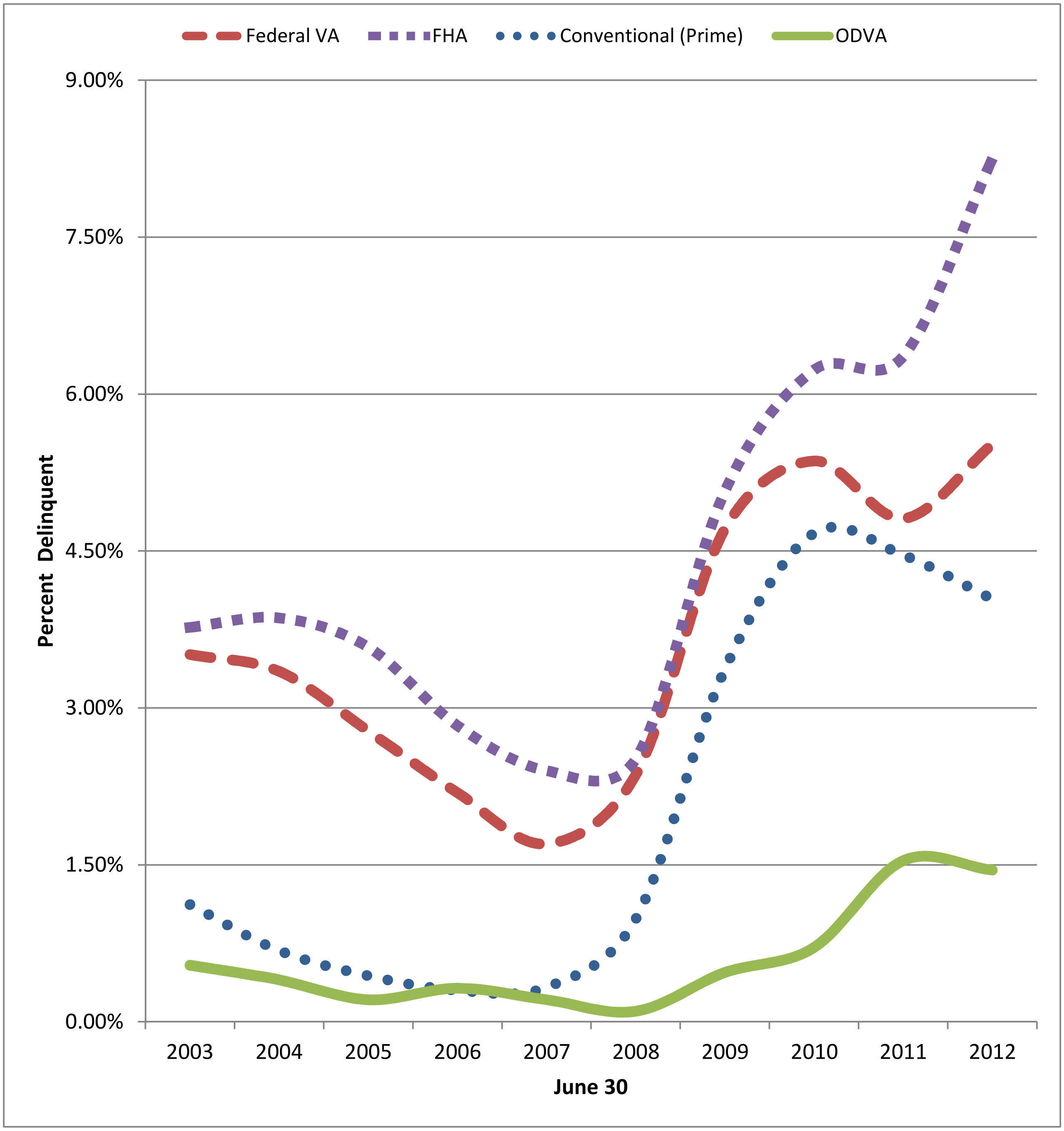
LOANS AND CONTRACTS OUTSTANDING



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM

LOAN AND CONTRACT 90+ DAY DELINQUENCIES

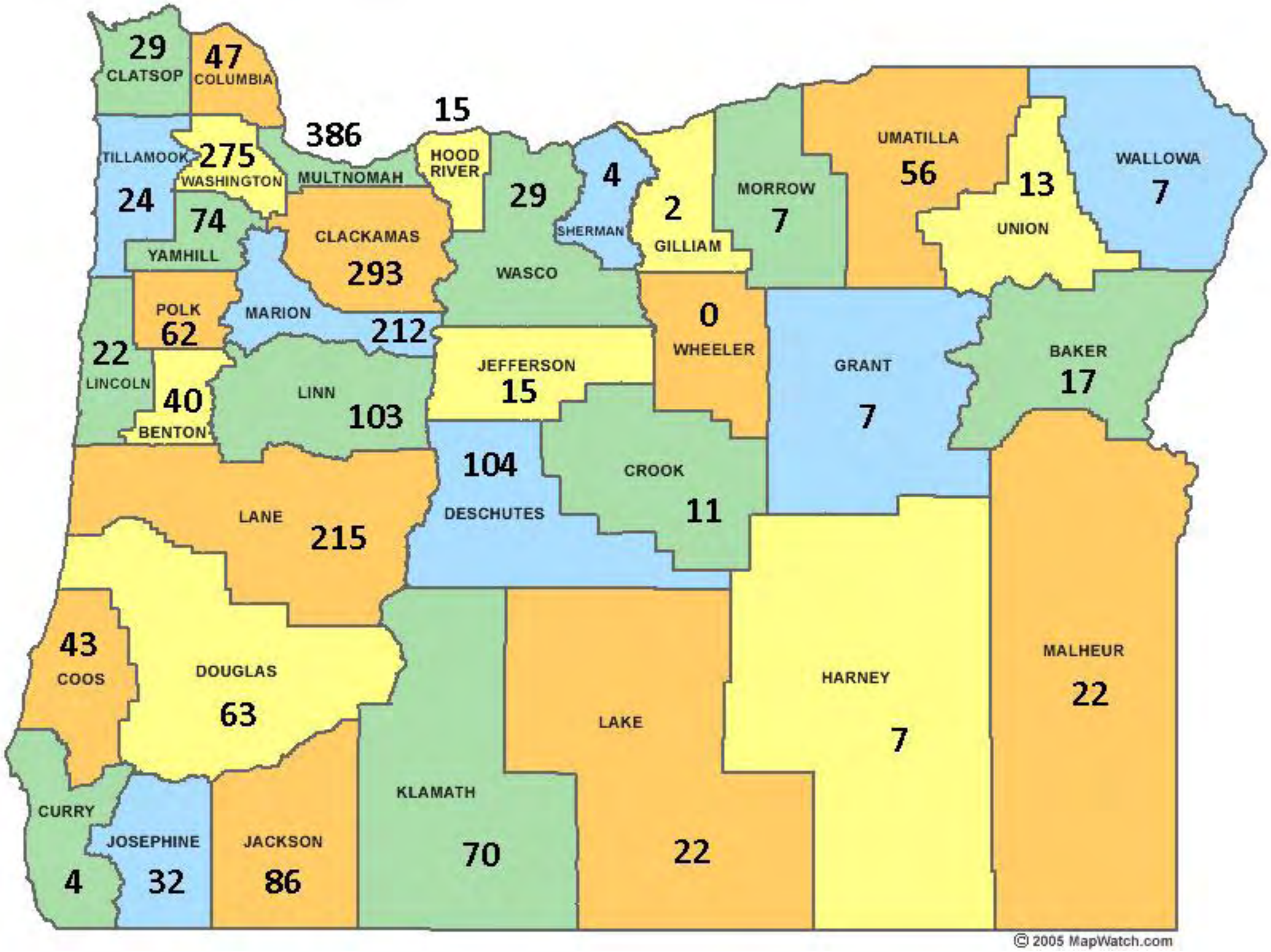


Source: Statistical Reports of the Oregon Department of Veterans' Affairs.

90+ Day Delinquencies include past due loans and loans in foreclosure. Comparison includes Oregon data only.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

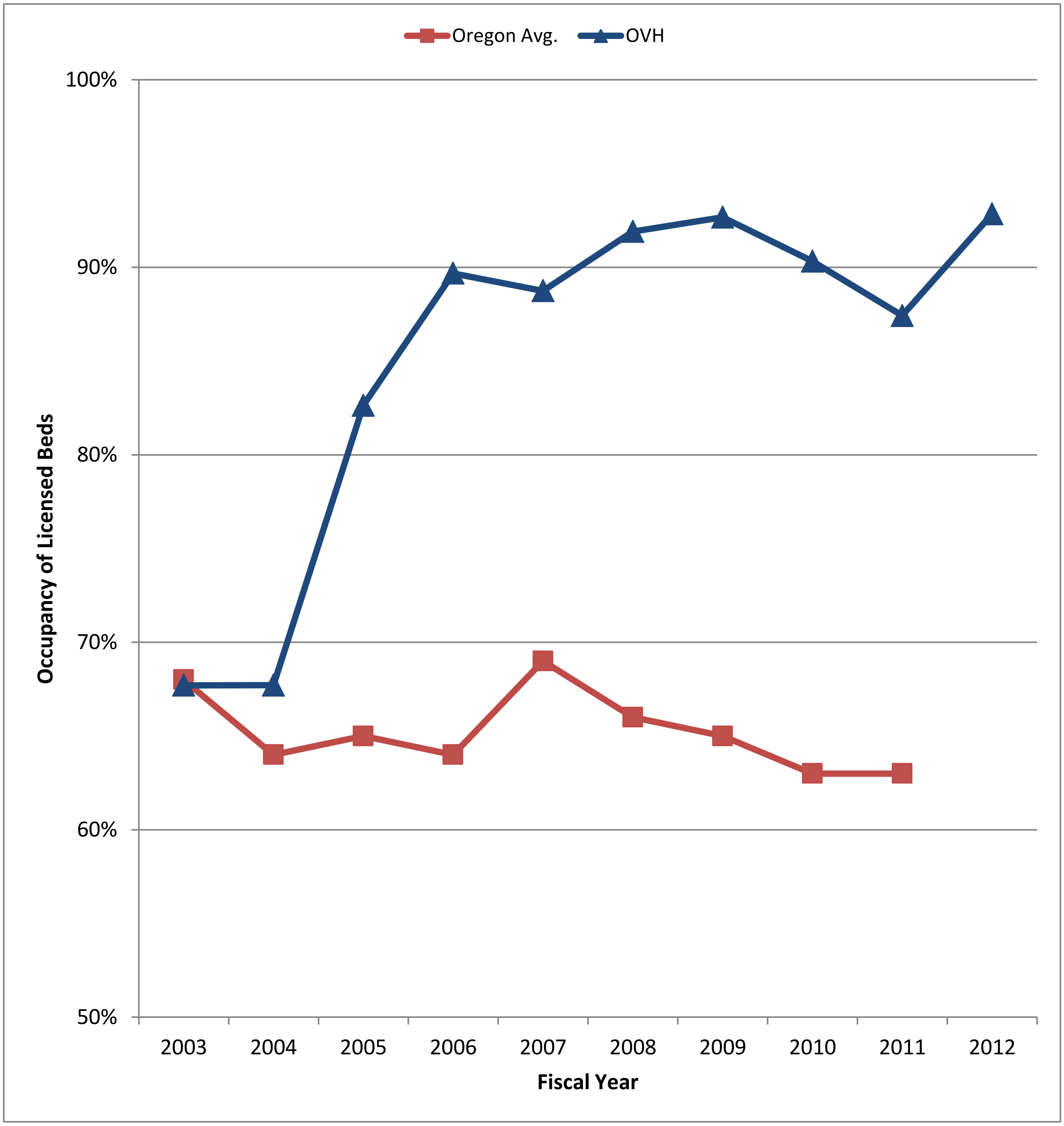
LOANS AND CONTRACTS OUTSTANDING BY COUNTY
AS OF JUNE 30, 2012



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM

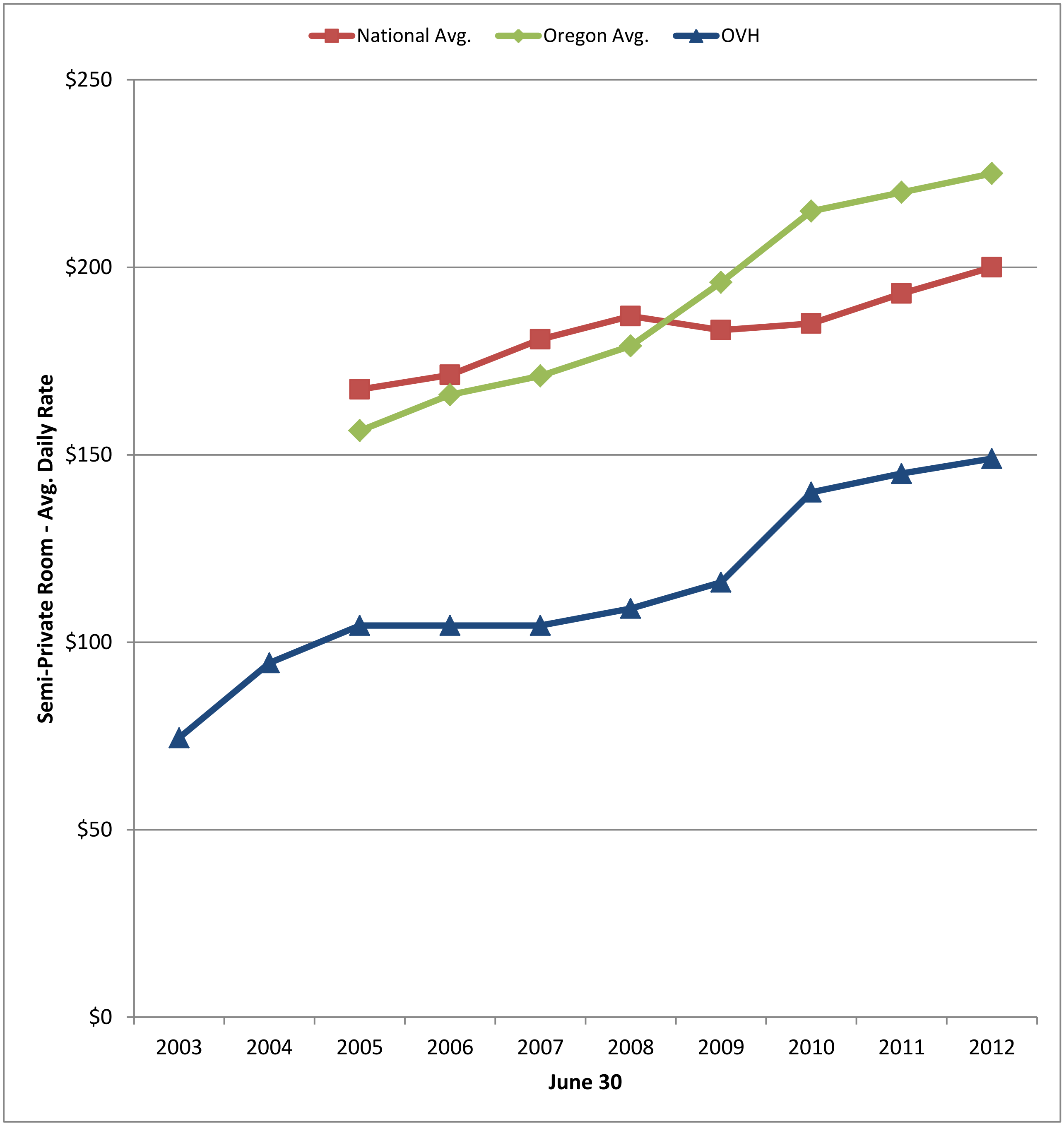
AVERAGE OCCUPANCY RATE



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM

RESIDENT PRIVATE PAY RATES

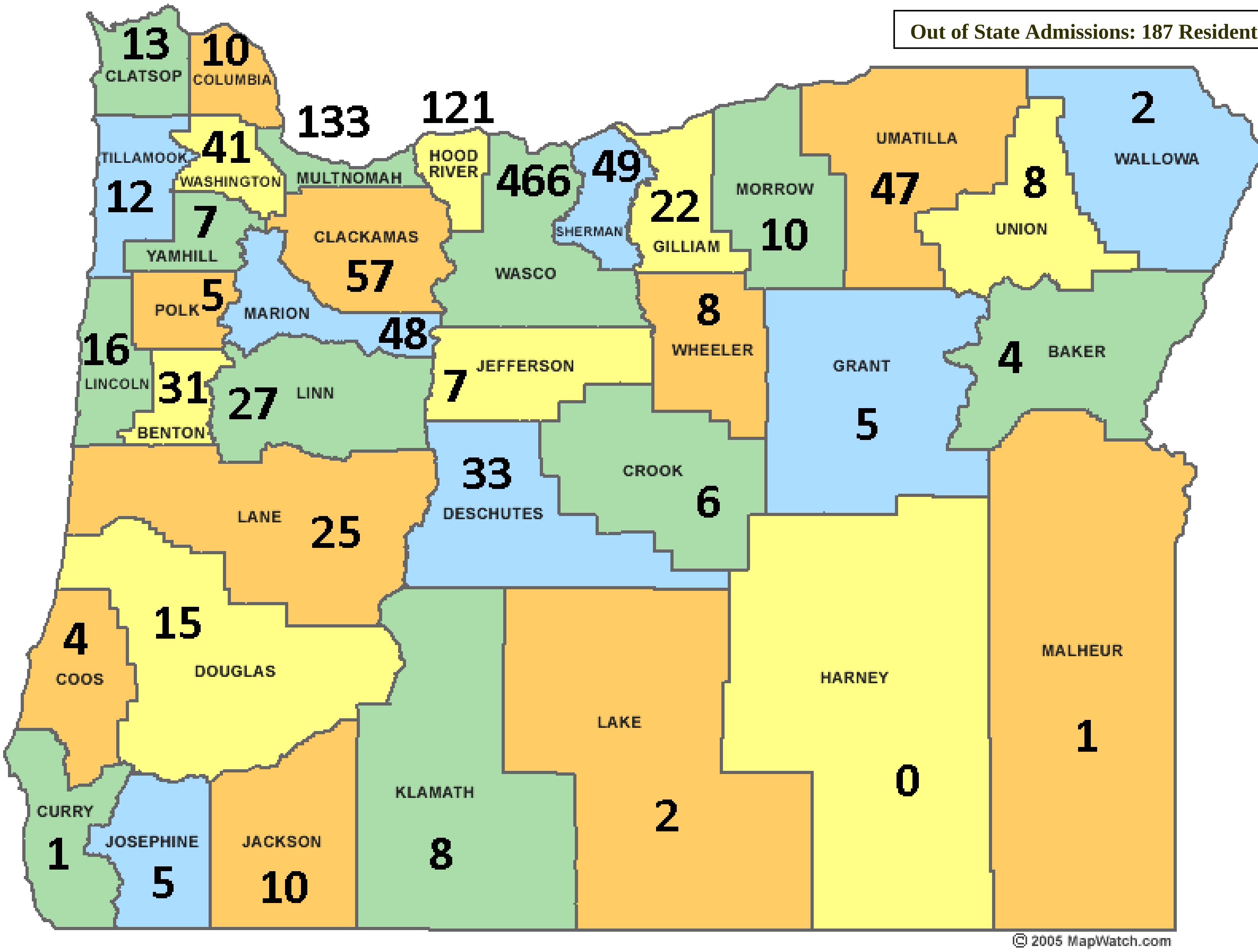


Source: Genworth Financial Reports and Statistical Reports of the Oregon Department of Veterans' Affairs.
Note: Prior to 2005, data for the National and Oregon average is not available.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

CUMULATIVE RESIDENT ADMISSIONS BY COUNTY
NOVEMBER 1, 1997 THROUGH JUNE 30, 2012

Out of State Admissions: 187 Residents



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

OTHER REPORTS

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 John Kitzhaber
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, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *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 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.

<u>Compliance and Other Matters</u>

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, Veterans' Affairs Advisory Committee, the Governor of the State of Oregon, and the Oregon Legislative Assembly, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
October 29, 2012

OREGON DEPARTMENT
OF VETERANS' AFFAIRS
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