VETERANS' LOAN PROGRAM ANNUAL FINANCIAL REPORT

ENTERPRISE FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

OREGON DEPARTMENT OF VETERANS' AFFAIRS

An Agency of the State of Oregon

Annual Financial Report

Veterans' Loan Program

Enterprise Fund of the
Oregon Department of Veterans' Affairs

An Agency of the State of Oregon

For The Fiscal Years Ended
June 30, 2013 and June 30, 2012

Cameron Smith
Director

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Chief Financial Officer

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With the assistance of the
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INTRODUCTORY SECTION

Oregon
John A. Kitzhaber, MD, Governor

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October 24, 2013

To the Honorable Governor John A. Kitzhaber, M.D. and Citizens of the State of Oregon:

We are pleased to provide you with the Annual Financial Report of the Oregon Department of Veterans' Affairs *(the "Department")* Loan Program Enterprise fund, for the fiscal years ended June 30, 2013, and June 30, 2012.

This report is organized and presented in four 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 **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 contracted with Merina and Company for the audit of the Department's Loan Program Enterprise Fund for the year ended June 30, 2012. The Secretary of State Audits Division audited the Department's Loan Program Enterprise Fund for the year ended June 30, 2013. Their unmodified 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 2013 Oregon Economic and Revenue Forecast from the Oregon Office of Economic Analysis *(OEA)*:

> First, the good news: the economic recovery persists, with recent upward revisions to both output and job growth suggesting that the domestic economy remains on solid footing. Now, the bad news: growth continues to be lackluster, below historical averages and just strong enough to keep the economy moving in the right direction.
>
> Much like the nation, Oregon's economy continues to improve, however, unlike the U.S., Oregon's private sector employment has accelerated in recent months. Since the labor market recovery began, Oregon's private sector jobs have been expanding at a rate just under 2 percent. Since the end of 2012, private employment growth has improved to approximately 2.5 percent. This increase is largely due to improving economies in regions of the state outside of the Portland metropolitan area. Portland's employment growth has remained steady, while the rest of the state, in particular the hardest hit areas of Bend and Medford, have stabilized and even begun adding jobs in the past year.
>
> The recent acceleration in employment is expected to hold steady over the next two years before longer-run demographic trends weigh on growth. There is the potential for a temporary slowdown this fall as the tax law changes and sequester cuts impact underlying economic activity with a delay. However expectations overall are solidifying and our baseline economic outlook remains effectively unchanged. Furthermore, many forecasters are turning their attention more toward the quality of the recovery and the types of jobs being added and focusing less on probability of recession, which is considered lower today than a year ago.

Outlook

The improvement in the labor market largely matches the timing of our office's economic forecasts in the past year. Expectations were that at the end of 2012 or in early 2013 the employment picture would brighten as the two main economic drags in the recovery lessen and even turn to positives. These two drags being the housing market and state and local governments. New construction and housing activity continues to grow briskly, as discussed previously, while state and local governments have stabilized their employment in the past year. The outlook remains positive for both of these industries in Oregon.

Permits for new construction in Oregon are currently growing at double-digit rates for both single family and multi-family projects, and home prices in all of the metropolitan areas in the state are increasing above the rate of inflation on a year-over-year basis according to the FHFA estimates for the second quarter. Bend is once again the leader in the housing market with 16 percent appreciation, however prices in Central Oregon still remain 36 percent below peak levels, or the same as in 2004.

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.

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, 2013, this Program had approximately 2,050 mortgage loans and contracts outstanding, with a principal balance of approximately $201 million.

The 2013 Oregon Legislature recently passed legislation which should help broaden veteran participation in the Home Loan program. Senate Bill 34 was passed which will now allow a veteran to receive up to four home loans during his or her lifetime, although only one loan may be outstanding at any one time. The previous lifetime loan limit was up to two loans. This change was made primarily to help accommodate those veterans that had to relocate a number of times during their career due to employment changes and also for those veterans whose lifestyle needs may have changed. In addition, Senate Bill 35 was also passed which facilitates the Department being able to offer Federal VA loans. On this type of home loan, the Federal VA "guarantees" a portion of the loan made to a veteran similar to how mortgage insurance works. The Department is still studying whether to initiate making Federal VA loans and the timing of implementation. However, without the aforementioned legislative change, the Department would not be in a position to consider offering Federal VA loans to Oregon's veterans.

FINANCIAL INFORMATION

Enterprise Fund - The Veterans' Loan Program is an enterprise fund which is used to account for the Department's business-type activities.

At June 30, 2013, the Veterans' Loan Program had approximately $458 million in assets and deferred outflows *(primarily consisting of cash and cash equivalents, securities lending cash collateral, and loan and contract receivables)* and approximately $330 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.

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, 2013, the Department had approximately $291.8 million *(par value)* in outstanding bonds. During fiscal year 2013, no bonds were issued and approximately $20.5 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, 2013, the Department's Loan Program cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $234.8 million.

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

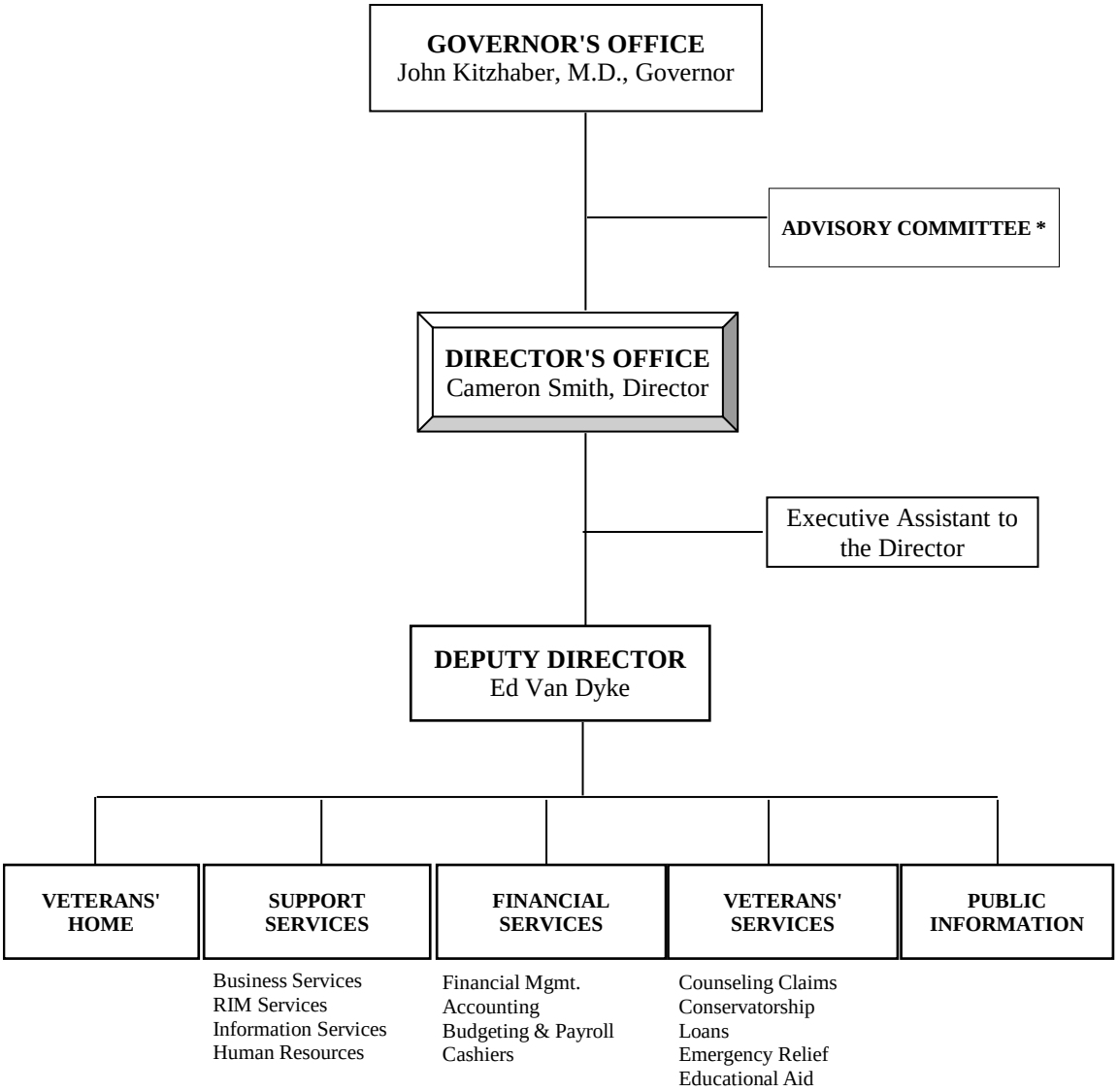
Acknowledgements - The preparation of this report reflects the combined efforts of the Department's staff. The professionalism, commitment, and effort of the individuals involved are very much appreciated.

Respectfully submitted,

C. Smith

Cameron Smith
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	Trisa Kelly	April 17, 2016
Dennis Guthrie	June 30, 2016	Gerard Lorang	March 7, 2016
Al Herrera	November 30, 2015	Mary Mayer	September 14, 2015
Ryan Howell	March 7, 2016	Kevin Owens	March 7, 2016
Michael Jones	November 30, 2016		

FINANCIAL SECTION

Office of the Secretary of State

Kate Brown
Secretary of State

Audits Division

Gary Blackmer
Director

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Independent Auditor's Report

The Honorable John Kitzhaber
Governor of Oregon

Cameron Smith, Director
Oregon Department of Veterans' Affairs

Report on the Financial Statements

We have audited the accompanying financial statements of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs, as of and for the year ended June 30, 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the year ended June 30, 2012, is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2013 and June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Veterans' Loan Program are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the Department of Veterans' Affairs that is attributable to the transactions of the Veterans' Loan Program. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Period Financial Statements

The financial statements of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs, as of and for the year ended June 30, 2012 were audited by a predecessor auditor. In that report, dated October 29, 2012, the auditors expressed an opinion that the financial statements presented fairly, in all material respects, the respective financial position of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs, as of and for the year ended June 30, 2012. The financial statements of the Veterans' Loan Program are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the Department of Veterans' Affairs that is attributable to the transactions of the Veterans' Loan Program. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the

required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

October 23, 2013

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

This section of the Oregon Department of Veterans' Affairs' *(the "Department")* Loan Program Annual Financial Report presents our discussion and analysis of financial performance for the Veterans' Loan Program Proprietary Fund during the fiscal year ended June 30, 2013. The selected financial data presented was derived primarily from the financial statements of the Veterans' Loan Program, which have been audited.

FINANCIAL HIGHLIGHTS

- Net position decreased from approximately $130.7 million at June 30, 2012, to approximately $128.1 million at June 30, 2013, a decrease of $2.6 million, or 1.98%.

- Revenues decreased from approximately $15.8 million at June 30, 2012, to approximately $13.7 million at June 30, 2013, a decrease of $2.1 million, or 13.29%.

- Expenses decreased from approximately $18.7 million at June 30, 2012, to approximately $15.3 million at June 30, 2013, a decrease of $3.4 million or 18.18%.

- Outstanding general obligation bond debt decreased from approximately $312.3 million *(par value)* on June 30, 2012, to approximately $291.8 million *(par value)* on June 30, 2013, a decrease of $20.5 million.

- Mortgage loan originations increased from approximately $15.6 million for fiscal year 2012, to approximately $27.2 million for fiscal year 2013, which was an increase of $11.6 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Veterans' Loan Program's basic financial statements. The basic financial statements include proprietary fund financial statements and notes to the financial statements. The Veterans' Loan Program's basic financial statements do not include department-wide financial statements since only the Veterans' Loan Program proprietary fund is audited within this Annual Financial Report. The Department does have a Veterans' Home Program proprietary fund and 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 audited Annual Financial Report on the Department's Veterans' Home Program can be located at: http://www.oregon.gov/odva/INFO/Pages/AnnualReports.aspx.

- The Veterans' Loan Program's proprietary fund financial statements include a major enterprise fund, which operates 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 Veterans' Loan Program's proprietary fund financial statements.

OVERVIEW OF THE PROPRIETARY FUND FINANCIAL POSITION & OPERATIONS

Total assets at June 30, 2013 were approximately $455.6 million, a decrease of $28.8 million from June 30, 2012. The change in assets consists primarily of $15.0 million increase in cash and cash equivalents, a $14.5 million decrease in investments, a $8.9 million decrease in securities lending cash collateral, and a $19.7 million decrease in net loans and contracts receivable.

Total liabilities at June 30, 2013, were $329.7 million, a decrease of $27.0 million from June 30, 2012. The change in liabilities consists primarily of a decrease of $20.5 million in bonds payable, a decrease of $8.9 million in obligations under securities lending, and an increase of $2.5 million in excess mortgage interest and arbitrage rebate liability.

The Veterans' Loan Program'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.

Veterans' Loan Program - Proprietary Fund
Statement of Net Position

	Business Type Activity		
	2013	**2012**	**2011**
Assets:			
Current and Other Assets	$ 451,192,072	$ 479,983,156	$ 414,020,461
Capital Assets	4,423,663	4,463,616	4,030,574
Total Assets	$ 455,615,735	$ 484,446,772	$ 418,051,035
Deferred Outflow of Resources	$ 2,250,525	$ 3,047,423	$ 1,808,678
Liabilities:			
Long Term Liabilities	$ 309,745,555	$ 327,820,013	$ 386,259,487
Other Liabilities	19,972,521	28,939,645	75,607,344
Total Liabilities	$ 329,718,076	$ 356,759,658	$ 461,866,831
Net Position:			
Invested in Capital Assets	$ 4,423,663	$ 4,463,616	$ 4,030,574
Unrestricted	123,724,521	126,270,921	129,260,929
Total Net Position	$ 128,148,184	$ 130,734,537	$ 133,291,503

Loans Receivable

Total mortgages and other loans receivable decreased by $19.7 million in fiscal year 2013. This decrease was primarily due to prepayments on outstanding mortgage loans.

Bonds Payable

Bonds Payable decreased by $20.5 million *(par value)* from June 30, 2012 to June 30, 2013. During fiscal years 2012 and 2013, the Department did not issue any general obligation bonds. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Position

Total Net Position decreased by approximately $2.6 million in fiscal year 2013. The Veterans' Loan Program continued to use available cash from loan repayments to reduce the amount of bonds payable. The results of operations for the Veterans' Loan Program's proprietary fund is presented below:

Veterans' Loan Program - Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Position

	Business Type Activities		
	2013	**2012**	**2011**
Operating Revenues:			
Interest Income:			
Mortgage Loans	$ 8,827,619	$ 10,494,442	$ 11,797,640
Contracts	69,347	108,784	139,828
Investment Income:			
Interest and Income	2,141,849	2,240,221	3,292,342
Change in Fair Value of Investments	20,790	86,837	750,707
LCLI Premium Revenue	605,167	715,356	822,503
LCLI Processing Fee	102,000	102,000	102,000
Other Fees and Charges	1,636,638	1,689,093	1,516,602
Conservatorship Fees	264,161	298,380	289,939
Gain on Sale of Foreclosed Property	53,635	76,034	295,954
Total Operating Revenue	$ 13,721,206	$ 15,811,147	$ 19,007,515
Operating Expenses:			
Bond Interest	$ 6,119,393	$ 7,498,587	$ 8,520,503
Salaries and Other Payroll	4,802,451	5,653,694	5,717,843
Bond Costs	1,020,215	1,858,820	1,378,103
Securities Lending Investment Expense	41,639	57,794	232,258
Real Estate Owned Expense	300,065	491,313	259,411
Services and Supplies	1,253,702	1,340,540	1,744,035
LCLI Claims & Admin. Expense	1,294,691	1,091,934	1,155,382
Interest	54,142	-	-
Depreciation	98,754	108,809	117,160
Bad Debt	(177,874)	336,329	360,478
Other	467,545	242,959	117,585
Total Operating Expenses	$ 15,274,723	$ 18,680,779	$ 19,602,758
Net Transfers from Military Department	$ 14,124	$ -	$ -
Net Transfers to Dept. of Admin Services	(209,608)	(229,185)	(225,977)
Total Transfers	$ (195,484)	$ (229,185)	$ (225,977)
Change in Net Position	$ (1,749,001)	$ (3,098,817)	$ (821,220)
Net Position – Beginning	130,734,537	133,291,503	134,201,334
Prior Period Adjustment	(837,352)	541,851	(88,611)
Net Position - Beginning Restated	129,897,185	133,833,354	134,112,723
Net Position – Ending	$ 128,148,184	$ 130,734,537	$ 133,291,503

The Veterans' Loan Program's revenue is generated principally from interest earned on mortgage loans and investment income. In fiscal year 2013, revenue generated through the Veterans' Loan Program totaled approximately $13.7 million, of which approximately

$11.1 million, or 81% is from income earned on loans and investments. Expenses of the Veterans' Loan Program consist primarily of interest expense on debt incurred to fund lending programs and operational expenses. The total expenses for Veterans' Loan Program activities totaled approximately $15.3 million, of which approximately $6.1 million, or 40% is bond interest expense and $4.8 million, or 31.3%, is salaries and other payroll expenses.

The change in net position for the year ended June 30, 2013 resulted in a decrease of approximately $2.6 million compared to a similar $2.6 million decrease for the year ending June 30, 2012. The primary factors contributing to this change for fiscal year 2013 were the reduction in loan interest and investment income arising from the continuing low interest rate environment.

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, 2013, the Department had approximately $291.8 million *(par value)* in outstanding general obligation bonds. During fiscal year 2013, 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.

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STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Fund	
	Veterans' Loan Program	
	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 91,182,217	$ 70,538,060
Cash and Cash Equivalents - Restricted	1,805,833	1,970,398
Securities Lending Cash Collateral	13,766,369	22,652,458
Investments	7,010,850	14,525,830
Receivables:		
Accrued Interest	1,246,755	1,485,707
Loan Cancellation Life Insurance Premiums	59,058	70,243
Other	38,988	24,542
Due from Other Funds	71,798	68,285
Real Estate Owned	1,087,119	1,908,323
Prepaid Expenses	2,405	8,506
Total Current Assets	116,271,392	113,252,352
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	134,842,147	140,316,030
Investments	-	7,005,810
Mortgage Loans and Contracts Receivable (Net)	197,333,478	217,022,740
Other Receivable	1,526,883	1,082,269
Deferred Underwriter's Discount	1,218,172	1,303,955
Capital Assets:		
Building, Property and Equipment	8,984,206	8,925,405
Works of Art and Historical Treasures	627,021	627,021
Accumulated Depreciation	(5,187,564)	(5,088,810)
Total Noncurrent Assets	339,344,343	371,194,420
TOTAL ASSETS	455,615,735	484,446,772
DEFERRED OUTFLOW OF RESOURCES	$ 2,250,525	$ 3,047,423
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 76,910	$ 167,851
Loan Cancellation Life Insurance Premium Payable	35,571	40,635
Loan Cancellation Life Insurance Claims Payable	190,401	19,406
Deposit Liabilities	1,695,262	1,834,763
Accrued Interest on Bonds	425,153	450,338
Obligations under Securities Lending	13,766,369	22,652,458
Pension-Related Debt	18,300	-
Compensated Absences Payable	211,447	301,467
Bonds Payable-Maturing Within One Year (Net)	3,478,108	3,377,727
Matured Bonds Payable	75,000	95,000
Total Current Liabilities	19,972,521	28,939,645
Noncurrent Liabilities		
Bonds Payable-Maturing After One Year (Net)	288,111,038	308,656,156
Pension-Related Debt	800,787	-
Compensated Absences Payable	113,856	155,301
Excess Interest and Arbitrage Rebate Payable	18,357,159	15,860,488
Other Postemployment Benefits Obligation (Net)	112,190	100,645
Derivative Instrument - Interest Rate Swap	2,250,525	3,047,423
Total Noncurrent Liabilities	309,745,555	327,820,013
TOTAL LIABILITIES	329,718,076	356,759,658
NET POSITION		
Invested in Capital Assets	4,423,663	4,463,616
Unrestricted	123,724,521	126,270,921
TOTAL NET POSITION	$ 128,148,184	$ 130,734,537

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

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Fund	
	Veterans' Loan Program	
	June 30, 2013	June 30, 2012
OPERATING REVENUES		
Interest Income:		
Mortgage Loans	$ 8,827,619	$ 10,494,442
Contracts	69,347	108,784
Investment Income	2,162,639	2,327,058
Loan Cancellation Life Insurance Premiums	605,167	715,356
Loan Cancellation Life Insurance Processing Fee	102,000	102,000
Other Fees and Charges	1,636,638	1,689,093
Conservatorship Fees	264,161	298,380
Gain on Sale of Foreclosed Property	53,635	76,034
TOTAL OPERATING REVENUES	13,721,206	15,811,147
OPERATING EXPENSES		
Bond Interest	6,119,393	7,498,587
Salaries and Other Payroll	4,802,451	5,653,694
Bond Expenses	1,020,215	1,858,820
Securities Lending Investment Expense	41,639	57,794
Real Estate Owned Expense	300,065	491,313
Services and Supplies	1,253,702	1,340,540
Claims Expense - Loan Cancellation Life Insurance	1,294,691	1,091,934
Interest	54,142	-
Depreciation	98,754	108,809
Bad Debt	(177,874)	336,329
Other	467,545	242,959
TOTAL OPERATING EXPENSES	15,274,723	18,680,779
OPERATING INCOME (LOSS)	(1,553,517)	(2,869,632)
TRANSFERS:		
Net Transfers from Military Dept.	14,124	-
Net Transfers to Dept. of Administrative Services	(209,608)	(229,185)
TOTAL TRANSFERS	(195,484)	(229,185)
CHANGE IN NET POSITION	(1,749,001)	(3,098,817)
NET POSITION		
NET POSITION - Beginning	130,734,537	133,291,503
Prior Period Adjustment	(837,352)	541,851
NET POSITION - Beginning - As Restated	129,897,185	133,833,354
NET POSITION - Ending	$ 128,148,184	$ 130,734,537

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

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Fund	
	Veterans' Loan Program	
	June 30, 2013	June 30, 2012
Cash Flows from Operating Activities:		
Receipts from Customers	$ 1,085,117	$ 1,250,679
Receipts from Other Funds for Services	1,504,214	1,492,454
Loan Principal Repayments	47,971,931	44,950,547
Loan Interest Received	11,509,721	13,251,305
Payments to Employees for Services	(4,969,190)	(5,636,456)
Payments to Suppliers	(2,598,177)	(2,551,110)
Payments to Other Funds for Services	(656,291)	(731,240)
Loans Made	(29,957,268)	(19,396,427)
Other Receipts (Payments)	2,176,141	3,220,488
Net Cash Provided (Used) in Operating Activities	26,066,198	35,850,240
Cash Flows from Noncapital Financing Activities:		
Principal Payments on Bonds	(20,515,000)	(63,442,780)
Interest Payments on Bonds	(6,127,734)	(7,988,148)
Bond Issuance Costs	(904,230)	(1,116,674)
Principal Payments on Pension-Related Debt	(18,265)	-
Transfers to Other Funds	(195,484)	(229,185)
Net Cash Provided (Used) in Noncapital Financing Activities	(27,760,713)	(72,776,787)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(58,801)	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(58,801)	-
Cash Flows from Investing Activities:		
Proceeds from Sales or Maturities of Investments	14,500,000	12,153,586
Interest on Investments and Cash Balances	2,259,025	2,347,160
Investment Income from Securities Lending	41,639	57,794
Investment Expense from Securities Lending	(41,639)	(57,794)
Net Cash Provided (Used) in Investing Activities	16,759,025	14,500,746
Net Increase (Decrease) in Cash and Cash Equivalents	15,005,709	(22,425,801)
Cash and Cash Equivalents - Beginning	212,824,488	235,250,289
Cash and Cash Equivalents - Ending	$ 227,830,197	$ 212,824,488
Reconciled to Statement of Net Position:		
Cash and Cash Equivalents - Current	$ 91,182,217	$ 70,538,060
Cash and Cash Equivalents - Current, Restricted	1,805,833	1,970,398
Cash and Cash Equivalents - Noncurrent, Restricted	134,842,147	140,316,030
Cash and Cash Equivalents - Ending (shown above)	$ 227,830,197	$ 212,824,488

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

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Fund	
	Veterans' Loan Program	
	June 30, 2013	June 30, 2012
(Continued from prior page)		
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ (1,553,517)	$ (2,869,632)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	98,754	108,809
Amortization of Bond Premium, Discount and Underwriter's Discount on Called Bonds	85,783	633,050
	50,263	156,923
Interest Received on Investments Reported as Operating Revenue	(2,279,876)	(2,491,790)
Investment Expense	41,639	57,794
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	6,127,734	7,988,148
Bond Costs	904,230	1,116,674
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	235,693	157,365
Due from Other Funds	(3,513)	(2,138)
Prepaid Items	6,100	(1,559)
Loans and Contracts Receivable	19,244,648	29,437,486
Foreclosed and Deeded Property	821,204	(337,858)
Accounts Payable	54,870	(654,612)
Deposit Liabilities	(144,565)	(159,223)
Deferred Revenue	2,496,672	2,689,563
Compensated Absences Payable	(131,466)	8,250
Post Employment Benefits	11,545	12,989
Total Adjustments	27,619,715	38,719,871
Net Cash Provided (Used) by Operating Activities	$ 26,066,198	$ 35,850,239
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	$ (20,790)	$ 86,837
Foreclosed Property	1,807,119	1,908,323
Total Noncash Investing and Capital and Related Financing Activities	$ 1,786,329	$ 1,995,160

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

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.

The Veterans' Loan Program is classified as a proprietary fund activity. The basic financial statements and notes presented herein include only the proprietary fund activities of the Veterans' Loan Program.

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 is accounted for as a Proprietary fund. The focus of Proprietary fund measurement is upon determination of operating income, changes in net position, 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)*. During the year, the Department implemented GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The implementation of these statements had no change in position on the Department's position, requiring only terminology changes in financial statement presentation.

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

The Department's investments are stated at fair value. Quoted market values were used to value investments except for non-participating interest-earning investments.

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 Position 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, 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 is depreciated over its useful life *(50 years)*. 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 accrued hours over 350. Employees with more than 350 hours of accrued vacation leave on January 1, 2010, had 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 Position *(equity)* net of accumulated depreciation.

Operating Revenues and Expenses
Operating revenues include interest and fees on program loans, as well as earnings on cash and investments. 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 non-operating 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. Current year presentation includes a Prior Period Adjustment *(see Note 14)*, which is not reflected in the prior year.

2. DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents for the Veterans' Loan Program as of June 30, 2013 and June 30, 2012 are included in the table below:

	Total June 30, 2013	Total June 30, 2012
Book Balance - Cash and Cash Equivalents		
Current unrestricted	$ 91,182,217	$ 70,538,060
Current restricted	1,805,833	1,970,398
Noncurrent restricted	134,842,147	140,316,030
Combined Book Balance	$ 227,830,197	$ 212,824,488
Bank Balance - Cash and Cash Equivalents	$ 228,669,773	$ 213,648,973

As of June 30, 2013, the Veterans' Loan Program had a combined total of $208,002,526 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)*. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Statement of Net Position 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. Additional information about the OSTF can be found at http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx or by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held $20,592,247 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, 2013 the Department estimated that required balance to be $1,152,000. 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, 2013, the Department held $75,000 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, 2012, the matured bonds payable balance was $95,000.

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, 2013, the State Treasurer invested the Department's funds in corporate bonds.

The schedule below presents the schedule of interest rate risk and credit quality disclosures as of June 30, 2013:

Investment Type	S&P Credit Rating	Investment Maturities (in years) < 1 year	1-5 Years	6-10 Years	More than 10 years	Total Market Value
Corporate Bonds	AA	$ 7,010,850	-	-	-	$ 7,010,850
Total Investments		$ 7,010,850	-	-	-	$ 7,010,850

Interest Rate and Credit Risk:
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)*.

Concentration of Credit Risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2013, 100% of the Department's total investments were in Westpac Banking Corp.

Restricted Assets
Included in Cash and Cash Equivalents and Investments are amounts designated as restricted. Restrictions on the Department's cash and investments can arise from Oregon's constitutional provision or enabling legislation, federal tax law relating to bond proceeds, bond covenants, deposit liabilities and from certain other contractual arrangements. The primary purpose of the restricted assets will be to meet upcoming debt service requirements and other restricted purposes. As of June 30, 2013 and 2012, the Veterans' Loan Program had restricted assets of $136,647,980 and $142,286,428 respectively.

Securities Lending
In accordance with State of Oregon investment policies, state agencies may participate in securities lending. The Department is currently involved in securities lending only with cash balances invested in the Oregon Short-Term Fund (OSTF). As of June 30, 2013, the amount of the fair value of all securities on loan from OSTF allocated to the Department's Loan Program was $19,234,424. OSTF securities on loan in total included U.S. Agency securities (81.06%), U.S. Treasury securities (4.08%) and domestic fixed income securities (14.86%). The amount allocated to the Department's Loan Program of the fair value of all investments made with the cash collateral received for those securities on loan was $13,766,397. The amount of total collateral received for the securities on loan from OSTF allocated to the Department's Loan Program was $13,766,369. Additional information about the OSTF and securities lending can be found in the OSTF financial statements at: http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-%28OSTF%29.aspx#stat.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2013 and June 30, 2012:

	June 30, 2013	June 30, 2012
Investment Income: Accrual Basis	$ 1,712,516	$ 2,182,427
Securities Lending Revenue	41,639	57,794
Increase/(Decrease) in Fair Value of Investments	(20,790)	86,837
Investment Income	$ 1,733,365	$ 2,327,058

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, 2013 is approximately $201 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 collectability of the mortgage loans and contracts. In 2013 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, 2013, is approximately $3.3 million. The balance of the allowance account represents approximately 1.6 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the Statement of Net Position for June 30, 2013 and June 30, 2012.

	June 30, 2013	June 30, 2012
Loans Receivable	$ 199,896,911	$ 220,055,144
Contracts Receivable	736,567	967,596
Total Loans and Contracts Receivable	$ 200,633,478	$ 221,022,740
Less: Allowance for Principal Losses	(3,300,000)	(4,000,000)
Net Loans and Contracts Receivable	$ 197,333,478	$ 217,022,740

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, 2013, there were 83 non-amortizing accounts with an aggregate principal balance of approximately $8.8 million. This represents approximately 4.5 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, 2013, the Department made no new home loans to an eligible veteran employee. At June 30, 2013, the Department had no employees with a home loan. At June 30, 2012 the balance of existing home loans was $369,163 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, 2013, the Department provided this relief to two borrowers and deferred loan interest income of $5,630. This interest amount was subsequently capitalized on these loans. In total, $487,675 in loans were restructured in this fashion. From these restructured loans the Department received $21,531 in mortgage interest income during the fiscal year. For the year ended June 30, 2012, the Department deferred loan interest income to borrowers of $29,918.

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, 2013, the Department had 194 insured accounts with seven private mortgage insurers totaling approximately $40.7 million. The majority of insured accounts are with Mortgage Guaranty Insurance Corporation (MGIC) with *48%* and Triad Guaranty Insurance (Triad) with *34%*. As of June 30, 2013, the Moody's ratings for MGIC and Triad were "B2" and "Not Rated" respectively.

Deferred Payment Obligations

Deferred Payment Obligations (DPOs) have been established through regulatory action for certain Mortgage Insurers to settle current mortgage insurance claims with a combination of cash and withholding a portion of each claim (DPO). The intent of DPOs is to ensure the Mortgage Insurer has sufficient ability to pay all current and future claims.

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, 2013, the Department had $449,358 as a deferred payment obligation from Triad. As of June 30, 2012, the Department had $414,143 as a deferred payment obligation.

The North Carolina Department of Insurance has required that all valid claims under Republic Mortgage Insurance Company's (RMIC) 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 RMIC permits, the North Carolina Department of Insurance will allow RMIC to increase the amount of cash paid on each claim. As of June 30, 2013, the Department had $28,440 as a deferred payment obligation from RMIC. As of June 30, 2012, the Department had no deferred payment obligations.

Real Estate Owned

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

	June 30, 2013	June 30, 2012
Number of Properties	7	10
Lower of Cost or Fair Market Value	1,087,119	$1,908,323

4. CAPITAL ASSETS

The following table provides detail on the balances and activities of the Veterans' Loan Program capital assets for the year ended June 30, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Works of Art & Historical Treasures	$ 627,021	$ -	$ -	$ 627,021
Total Capital Assets Not Being Depreciated	627,021	-	-	627,021
Capital Assets Being Depreciated:				
Buildings, Property & Equipment	8,925,405	58,801	-	8,984,206
Total Capital Assets Being Depreciated	8,925,405	58,801	-	8,984,206
Less Accumulated Depreciation:				
Buildings, Property & Equipment	(5,088,810)	(98,754)	-	(5,187,564)
Total Accumulated Depreciation	(5,088,810)	(98,754)	-	(5,187,564)
Total Capital Assets Being Depreciated, Net	3,836,595	(39,953)	-	3,796,642
Total Capital Assets, Net	$ 4,463,616	$ (39,953)	$ -	$ 4,423,663

Depreciation expense at June 30, 2013 and 2012 was $98,754 and $108,809 respectively.

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, 2013 and June 30, 2012:

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
Bonds Issued		-
Bonds Retired		(20,495,000)
Bonds Payable *(Par)* at June 30, 2013	$	291,770,000

Shown below are the components of net bonds payable as disclosed on the Statement of Net Position for June 30, 2013:

	Current	Noncurrent	Total
Bonds Payable *(Par)*	$ 3,490,000	$ 288,280,000	$ 291,770,000
Discount on Bonds Sold	(11,892)	(168,962)	(180,854)
Net Bonds Payable	$ 3,478,108	$ 288,111,038	$ 291,589,146

The following schedule summarizes future debt service requirements to maturity as of June 30, 2013:

Fiscal Year	***Principal***	***Interest***	***Total***
2014	$ 3,490,000	$ 5,061,234	$ 8,551,234
2015	3,645,000	4,981,496	8,626,496
2016	4,300,000	4,889,017	9,189,017
2017	5,025,000	4,782,930	9,807,930
2018	6,295,000	4,648,567	10,943,567
2019-2023	41,255,000	20,450,358	61,705,358
2024-2028	45,870,000	14,765,366	60,635,366
2029-2033	57,480,000	10,654,126	68,134,126
2034-2038	65,970,000	6,587,790	72,557,790
2039-2043	51,535,000	1,255,581	52,790,581
2044-2046	6,905,000	6,320	6,911,320
TOTAL	$ 291,770,000	$ 78,082,785	$ 369,852,785

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2013:

Series	Dated	Original Coupon Rates From	Original Coupon Rates To	Issued	Outstanding	Final Maturity
73	December 19, 1985	**		$ 740,000,000	$ 4,800,000	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	6,740,000	2020
90A	June 24, 2008	1.750	4.400%	11,115,000	8,710,000	2024
90B	June 24, 2008	**		38,885,000	38,885,000	2046
91	November 16, 2010	0.300	4.700%	53,090,000	50,255,000	2041
92A	November 16, 2010	0.300	4.250%	20,060,000	17,995,000	2031
92B	November 16, 2010	4.625	4.625%	10,000,000	10,000,000	2039
Total Bonds Outstanding as of June 30, 2013:					$ 291,770,000	

** 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 0.09% for Series 73H, 0.06% 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 0.06% for Series 85, Series 86, Series 87C and Series 88B.

6. DEMAND BONDS

Included in long-term debt at June 30, 2013 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	$ 4,800,000	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 25, 2014.

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	$ 4,800,000	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 2013 and 2012. Therefore, no tender advances or draws were outstanding as of June 30, 2013 or 2012.

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 2013 and 2012. Therefore, no tender advances or draws were outstanding as of June 30, 2013 or 2012.

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 2013, 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 Position. Changes to the year-end fair value balance are presented below:

Description	Notional Amount	Fair Value Balance June 30, 2012	Fair Value Increase / (Decrease)	Fair Value Balance June 30, 2013
Series 84	$25,000,000	$ (3,047,423)	$ 796,898	$ (2,250,525)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2013 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, 2013, the Department has the following derivative instruments outstanding:

Type	Objective	Notional Amount	Effective Date	Termination Date	Terms	Fair Value
Pay – fixed interest rate swap	Hedge of changes in cash flows on the Series 84 bonds, specifically related to changes in municipal tax-exempt interest rates	$25,000,000	3/1/2008	6/1/2040	Pay 3.665%; Receive 62.6% of 1-month LIBOR* + .265%	$ (2,250,525)

* 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, 2013, 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, 2013, the interest rate on the Department's variable-rate hedged debt is 0.06%, while the 62.6% of one-month LIBOR plus 0.265% is 0.386306%.

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, 2013, 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*
2014	$ -	$ 15,000	$ 820,996	$ 835,996
2015	-	15,000	820,996	835,996
2016	410,000	14,940	811,108	1,236,048
2017	445,000	14,647	796,822	1,256,469
2018	480,000	14,393	781,178	1,275,571
2019-2023	2,895,000	67,180	3,637,412	6,599,592
2024-2028	3,980,000	57,075	3,068,686	7,105,761
2029-2033	5,490,000	43,119	2,285,538	7,818,657
2034-2038	7,535,000	23,945	1,207,755	8,766,700
2039-2040	3,765,000	2,688	95,318	3,863,006
TOTAL	$ 25,000,000	$ 267,987	$ 14,325,809	$ 39,593,796

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, 2013:

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	$ 312,265,000	$ -	$ (20,495,000)	$ 291,770,000	$ 3,490,000
Bond Discount	(231,118)	-	50,264	(180,854)	(11,892)
Total Bonds Payable	312,033,882	-	(20,444,736)	291,589,146	3,478,108
Pension-Related Debt	837,352	-	(18,265)	819,087	18,300
Compensated Absences Payable	456,768	-	(131,465)	325,303	211,447
Excess Mortgage Interest & Arbitrage Rebate Payable	15,860,488	2,496,671	-	18,357,159	-
OPEB Obligation (Net)	100,645	11,545	-	112,190	-
Total Long-Term Liabilities	$ 329,289,135	$ 2,508,216	$ (20,594,466)	$ 311,202,885	$ 3,707,855

*Restated, includes prior period adjustment for Pension-Related Debt.

9. INTERFUND TRANSACTIONS

At June 30, 2013 and 2012, the Veterans' Loan Program had outstanding interfund receivables of $71,798 and $68,285 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" on the Statement of Net Position.

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, 2013, 2012, and 2011 were approximately $302,400, $337,000, and $105,200 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2013, 2012, and 2011 were approximately $197,900, $222,000, and $230,500 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, 2013 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, 2013, 2012, and 2011 were approximately $18,500, $20,800 and $10,000 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, 2013 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, 2013 and 2012 were approximately $4,800 and $5,400 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, 2013, the total rental income received from tenants was $710,202.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	July 1, 2013	June 30, 2015	$ 328,494
Tenant 2	July 1, 2013	June 30, 2015	713,584
Tenant 3	July 1, 2013	June 30, 2015	120,350
Tenant 4	July 1, 2013	June 30, 2015	295,110
Tenant 5	August 1, 2013	June 30, 2015	188,819
Total			$ 1,646,357

The approximate historical cost of this office space is $2,739,145 with a carrying value of $1,385,375 *(historical cost less accumulated depreciation of $1,353,770).*

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, 2013 and June 30, 2012 there has been no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years *(July 1, 2003 through June 30, 2013)* there have been no claims that exceeded the Department's property or liability coverage.

14. PRIOR PERIOD ADJUSTMENTS

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002. The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately from the SLGRP and is reduced by contributions and increased for interest charges at the assumed interest rate. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The pension-related debt liability balance as of June 30, 2012, was $837,352, which was recorded as a prior period adjustment effective June 30, 2013. A current and non-current liability is also recorded on the Statement of Net Position, effective June 30, 2013.

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 capital assets, primarily veterans' memorials on the grounds of the Department.

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STATISTICAL SECTION

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

ASSETS, LIABILITIES AND NET POSITION

PROPRIETARY FUND - VETERANS' LOAN PROGRAM

FOR THE FISCAL YEARS ENDED 2004 - 2013

ASSETS & DEFERRED OUTFLOWS	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Current Assets				
Cash and Cash Equivalents *(1)*	$ 91,182,217	$ 70,538,060	$ 92,654,442	$ 89,880,157
Cash and Cash Equivalents - Restricted	1,805,833	1,970,398	3,107,401	4,601,059
Securities Lending Cash Collateral	13,766,369	22,652,458	67,609,488	91,912,913
Investments	7,010,850	14,525,830	3,540,625	10,903,602
Investments - Restricted	-	-	5,005,250	15,004,650
Receivables:				
Accrued Interest	1,246,755	1,485,707	1,641,564	1,957,271
LCLI Premiums *(2)*	59,058	70,243	71,655	87,229
Other	38,988	24,542	24,638	24,407
Due from Other Funds	71,798	68,285	66,147	67,428
Real Estate Owned	1,087,119	1,908,323	1,570,465	1,429,235
Prepaid Expenses	2,405	8,506	6,946	7,970
Total Current Assets	$ 116,271,392	$ 113,252,352	$ 175,298,621	$ 215,875,921
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	$ 134,842,147	$ 140,316,030	$ 139,488,446	$ 166,349,089
Investments	-	7,005,810	21,783,303	7,845,319
Investments - Restricted	-	-	3,269,211	13,127,161
Mortgage Loans and Contracts Receivable (Net)	197,333,478	217,022,740	247,018,965	274,950,313
Notes Receivable	-	-	-	-
Other Receivable	1,526,883	1,082,269	523,531	449,742
Deferred Underwriter's Discount	1,218,172	1,303,955	1,937,005	1,914,482
Capital Assets:				
Building, Property and Equipment	8,984,206	8,925,405	8,954,357	8,911,904
Works of Art and Historical Treasures	627,021	627,021	85,170	85,170
Accumulated Depreciation	(5,187,564)	(5,088,810)	(5,008,953)	(4,891,793)
Total Noncurrent Assets	$ 339,344,343	$ 371,194,420	$ 418,051,035	$ 468,741,387
Deferred Outflow of Resources *(3)*	$ 2,250,525	$ 3,047,423	$ 1,808,678	$ 2,249,775
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 457,866,260	$ 487,494,195	$ 595,158,334	$ 686,867,083
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 76,910	$ 167,851	$ 237,200	$ 228,675
Line of Credit Payable	-	-	-	-
LCLI Premium Payable	35,571	40,635	58,000	67,779
LCLI Claims Payable *(2)*	190,401	19,406	90,094	243,351
Deposit Liabilities	1,695,262	1,834,763	1,976,620	2,107,611
Accrued Interest on Bonds	425,153	450,338	964,913	1,046,013
Obligations Under Securities Lending	13,766,369	22,652,458	67,609,488	91,912,913
Claims and Judgements Payable	-	-	-	-
Pension-Related Debt *(4)*	18,300	-	-	-
Compensated Absences Payable	211,447	301,467	296,022	289,901
Excess Interest and Arbitrage Rebate Payable	-	-	-	487,548
Bonds Payable - Maturing Within One Year (Net)	3,478,108	3,377,727	3,302,227	2,006,453
Matured Bonds Payable	75,000	95,000	1,072,780	2,425,669
Total Current Liabilities	$ 19,972,521	$ 28,939,645	$ 75,607,344	$ 100,815,913
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	$ 288,111,038	$ 308,656,156	$ 371,039,732	$ 438,887,949
Claims and Judgements Payable	-	-	-	-
Pension-Related Debt *(4)*	800,787	-	-	-
Compensated Absences Payable	113,856	155,301	152,496	149,343
Excess Interest and Arbitrage Rebate Payable	18,357,159	15,860,488	13,170,925	10,486,694
Other Postemployment Benefits Obligation (Net)	112,190	100,645	87,656	76,075
Derivative Instrument - Interest Rate Swap *(3)*	2,250,525	3,047,423	1,808,678	2,249,775
Total Noncurrent Liabilities	$ 309,745,555	$ 327,820,013	$ 386,259,487	$ 451,849,836
TOTAL LIABILITIES	$ 329,718,076	$ 356,759,658	$ 461,866,831	$ 552,665,749
NET POSITION				
Invested in Capital Assets	$ 4,423,663	$ 4,463,616	$ 4,030,574	$ 4,105,281
Net Assets, Unrestricted	123,724,521	126,270,921	129,260,929	130,096,053
TOTAL NET POSITION	$ 128,148,184	$ 130,734,537	$ 133,291,503	$ 134,201,334
TOTAL LIABILITIES AND NET POSITION	$ 457,866,260	$ 487,494,195	$ 595,158,334	$ 686,867,083

(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.

(4) Starting in fiscal year 2013, pension-related debt reported separately as required by GASB Statement 27.

June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
$ 63,666,685	$ 87,234,247	$ 80,795,986	$ 68,536,698	$ 73,133,598	$ 108,065,770
5,454,658	6,685,594	6,308,466	5,775,565	6,211,795	7,753,427
209,834,541	220,256,145	171,313,426	56,088,643	84,522,242	263,145,877
22,126,185	2,511,661	-	-	-	-
25,537,018	56,189,591	95,073,362	100,656,772	-	-
2,157,552	2,945,247	2,753,190	3,240,750	3,876,695	5,545,325
92,070	107,214	147,259	170,762	185,655	217,577
13,256	10,817	10,875	34,301	11,731	23,533
72,172	63,499	73,850	138,755	494,164	5,269
591,530	9,842	-	-	96,048	171,189
5,379	16,145	39,796	27,271	8,115	19,449
$ 329,551,046	$ 376,030,002	$ 356,516,210	$ 234,669,517	$ 168,540,043	$ 384,947,416
$ 413,146,725	$ 372,930,995	$ 402,707,726	$ 419,260,547	$ 428,157,516	$ 405,536,924
15,815,890	-	2,544,843	2,564,209	-	-
25,520,715	84,613,906	30,074,187	26,342,808	134,928,764	155,641,016
298,087,844	306,408,188	283,736,757	266,034,069	284,220,290	339,922,044
-	-	123,428	176,040	360,000	360,000
270,279	2,391,606	1,712,187	1,931,151	481,294	-
2,025,039	2,158,705	1,847,213	1,991,927	1,929,928	1,913,369
8,911,904	9,484,489	9,563,859	9,949,641	9,945,155	9,945,155
85,170	85,170	85,170	85,170	85,170	85,170
(4,774,826)	(5,226,182)	(5,269,006)	(5,647,415)	(5,391,789)	(5,032,348)
$ 759,088,740	$ 772,846,877	$ 727,126,364	$ 722,688,147	$ 854,716,328	$ 908,371,330
$ -	$ -	$ -	$ -	$ -	$ -
$ 1,088,639,786	$ 1,148,876,879	$ 1,083,642,574	$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746
$ 240,559	$ 358,119	$ 292,260	$ 301,996	$ 361,717	$ 566,738
-	1,000,000	30,835,000	1,000,000	-	-
86,853	99,208	103,602	135,470	171,010	347,345
108,999	108,164	254,704	13,762	137,379	-
2,200,352	2,187,904	2,005,195	1,637,899	1,503,156	1,495,581
1,249,984	3,201,652	6,144,051	8,234,121	9,891,835	12,368,445
209,834,541	220,256,145	171,313,426	56,088,643	84,522,242	263,145,877
-	-	875	-	-	-
-	-	-	-	-	-
283,340	279,685	287,513	294,236	252,202	417,495
452,944	268,193	105,259	212,771	-	-
2,041,454	41,454,365	61,353,153	62,250,115	62,727,149	83,314,364
3,167,453	4,398,482	4,199,669	4,002,196	4,537,629	6,257,846
$ 219,666,479	$ 273,611,917	$ 276,894,707	$ 134,171,209	$ 164,104,319	$ 367,913,691
$ 730,324,401	$ 735,100,855	$ 677,075,220	$ 701,016,462	$ 738,766,577	$ 798,269,848
-	-	-	15,518	-	-
-	-	-	-	-	-
139,556	137,755	141,611	98,079	108,087	-
5,766,794	3,180,198	1,561,754	891,286	402,055	385,380
63,679	33,247	-	-	-	-
-	-	-	-	-	-
$ 736,294,430	$ 738,452,055	$ 678,778,585	$ 702,021,345	$ 739,276,719	$ 798,655,228
$ 955,960,909	$ 1,012,063,972	$ 955,673,292	$ 836,192,554	$ 903,381,038	$ 1,166,568,919
$ 4,222,248	$ 4,343,477	$ 4,380,023	$ 4,387,396	$ 4,638,536	$ 4,997,977
128,456,629	132,469,430	123,589,259	116,777,714	115,236,797	121,751,850
$ 132,678,877	$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827
$ 1,088,639,786	$ 1,148,876,879	$ 1,083,642,574	$ 957,357,664	$ 1,023,256,371	$ 1,293,318,746

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUND - VETERANS' LOAN PROGRAM

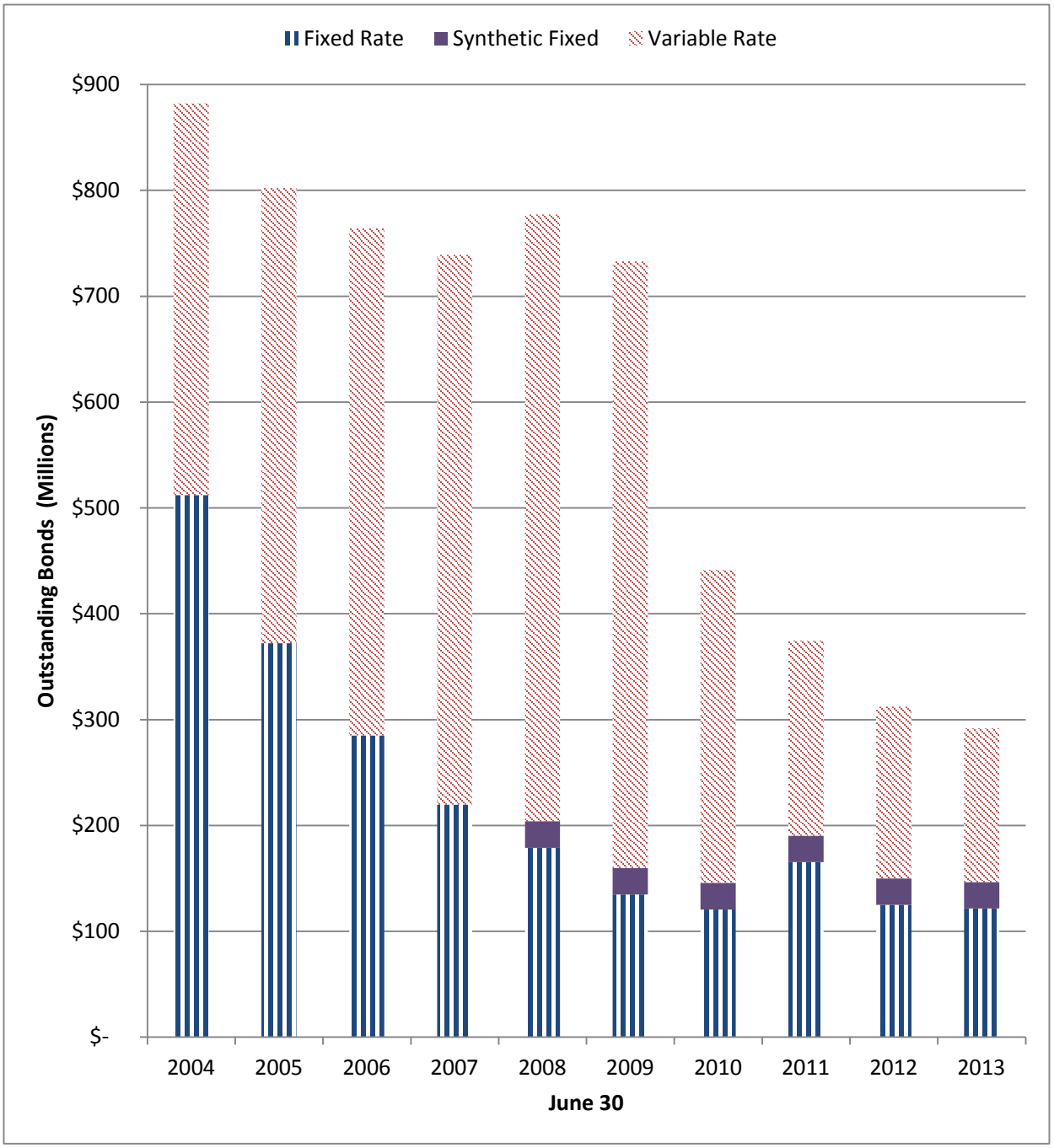
FOR THE FISCAL YEARS ENDED 2004 - 2013

	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 8,827,619	$ 10,494,442	$ 11,797,640	$ 11,445,675
Contract Interest Income	69,347	108,784	139,828	209,608
Other Interest Income	-	-	-	-
Investment Income	2,162,639	2,327,058	4,043,049	6,964,830
Gain on Sale of Foreclosed Property	53,635	76,034	295,954	34,542
Loan Cancellation Life Insurance Premiums	605,167	715,356	822,503	962,230
Loan Cancellation Life Insurance Processing Fees	102,000	102,000	102,000	102,000
Other Fees and Charges	1,636,638	1,689,093	1,516,602	1,733,649
Conservatorship Fees	264,161	298,380	289,939	284,381
TOTAL OPERATING REVENUES	$ 13,721,206	$ 15,811,147	$ 19,007,515	$ 21,736,915
OPERATING EXPENSES				
Bond Interest	$ 6,119,393	$ 7,498,587	$ 8,520,503	$ 8,495,161
Interest on Line of Credit	-	-	-	-
Salaries and Other Payroll	4,802,451	5,653,694	5,717,843	5,642,344
Bond Expenses	1,020,215	1,858,820	1,378,103	1,117,848
Securities Lending Investment Expense	41,639	57,794	232,258	320,983
Real Estate Owned Expense	300,065	491,313	259,411	130,125
Services and Supplies	1,253,702	1,340,540	1,744,035	1,867,440
Claims Expense - Loan Cancellation Life Insurance	1,294,691	1,091,934	1,155,382	1,266,568
Interest	54,142	-	-	-
Depreciation	98,754	108,809	117,160	116,967
Bad Debt	(177,874)	336,329	360,478	936,600
Special Payments	-	-	-	-
Other	467,545	242,959	117,585	94,516
TOTAL OPERATING EXPENSES	$ 15,274,723	$ 18,680,779	$ 19,602,758	$ 19,988,552
OPERATING INCOME (LOSS)	$ (1,553,517)	$ (2,869,632)	$ (595,243)	$ 1,748,363
NONOPERATING INCOME (EXPENSES)				
Net Transfers to Dept. of Administrative Services	$ (209,608)	$ (229,185)	$ (225,977)	$ (225,906)
Net Transfers from Military Dept.	14,124	-	-	-
Net Transfers from/(to) General Fund	-	-	-	-
Gain/(Loss) on Early Extinguishment of Debt	-	-	-	-
	(195,484)	(229,185)	(225,977)	(225,906)
CHANGE IN NET POSITION	$ (1,749,001)	$ (3,098,817)	$ (821,220)	$ 1,522,457
NET POSITION				
Beginning Net Position	$ 130,734,537	$ 133,291,503	$ 134,201,334	$ 132,678,877
Prior Period Adjustment	(837,352)	541,851	(88,611)	-
Beginning Net Position, Restated	$ 129,897,185	$ 133,833,354	$ 134,112,723	$ 132,678,877
Ending Net Position	$ 128,148,184	$ 130,734,537	$ 133,291,503	$ 134,201,334

June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
$ 16,014,046	$ 17,611,704	$ 17,526,662	$ 17,561,219	$ 21,225,116	$ 26,789,783
302,145	434,945	593,760	806,376	1,169,324	1,687,323
-	3,219	7,595	10,953	19,050	11,208
4,673,050	33,154,407	37,675,500	28,198,335	18,013,534	13,338,726
35,160	-	-	7,551	139,199	493,409
1,142,192	1,356,657	1,626,287	1,962,357	2,523,140	2,704,444
102,000	102,000	180,000	180,000	220,834	425,004
1,841,337	2,155,231	2,131,847	1,941,079	947,834	939,950
294,951	313,493	333,974	354,808	334,340	345,750
$ 24,404,881	$ 55,131,656	$ 60,075,625	$ 51,022,678	$ 44,592,371	$ 46,735,597
$ 15,702,350	$ 26,856,570	$ 34,581,972	$ 35,121,631	$ 37,103,554	$ 44,537,191
49,948	721,945	279,906	525,600	159,267	-
5,773,576	5,953,581	5,445,234	5,239,879	4,793,870	5,875,969
1,247,214	1,242,882	1,581,932	1,129,971	1,324,123	1,155,355
1,270,291	6,678,572	6,266,412	2,910,155	2,199,165	1,899,175
29,547	2,324	2,267	9,485	47,490	52,526
1,665,656	1,971,272	2,133,903	2,174,420	1,776,839	2,140,262
1,938,157	2,312,867	2,717,581	2,952,064	4,637,009	4,927,874
-	-	-	-	-	-
113,378	160,174	156,656	255,626	359,441	408,883
-	-	(545,135)	(918,401)	(1,104,080)	(1,656,784)
(1,106)	98,674	-	-	-	-
325,670	687,994	645,158	332,471	170,187	-
$ 28,114,681	$ 46,686,855	$ 53,265,886	$ 49,732,901	$ 51,466,865	$ 59,340,451
$ (3,709,800)	$ 8,444,801	$ 6,809,739	$ 1,289,777	$ (6,874,494)	$ (12,604,854)
$ (230,438)	$ -	$ (5,567)	$ -	$ -	$ -
-	98,824	-	-	-	-
(185,941)	300,000	-	-	-	-
(7,851)	-	-	-	-	-
(424,230)	398,824	(5,567)	-	-	-
$ (4,134,030)	$ 8,843,625	$ 6,804,172	$ 1,289,777	$ (6,874,494)	$ (12,604,854)
$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681
-	-	-	-	-	-
$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681
$ 132,678,877	$ 136,812,907	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM

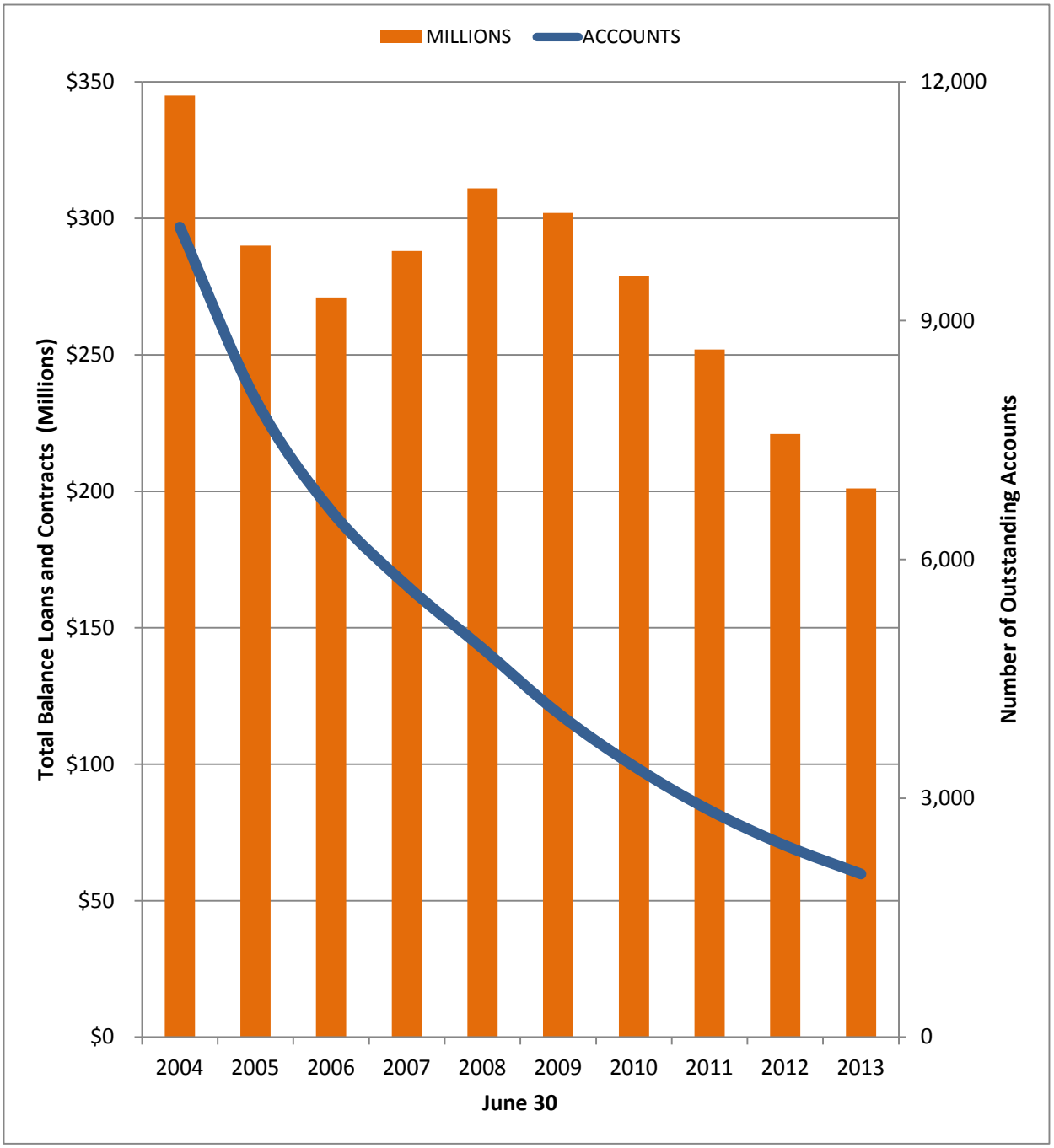
PRINCIPAL BALANCE OF BONDS OUTSTANDING



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' LOAN PROGRAM

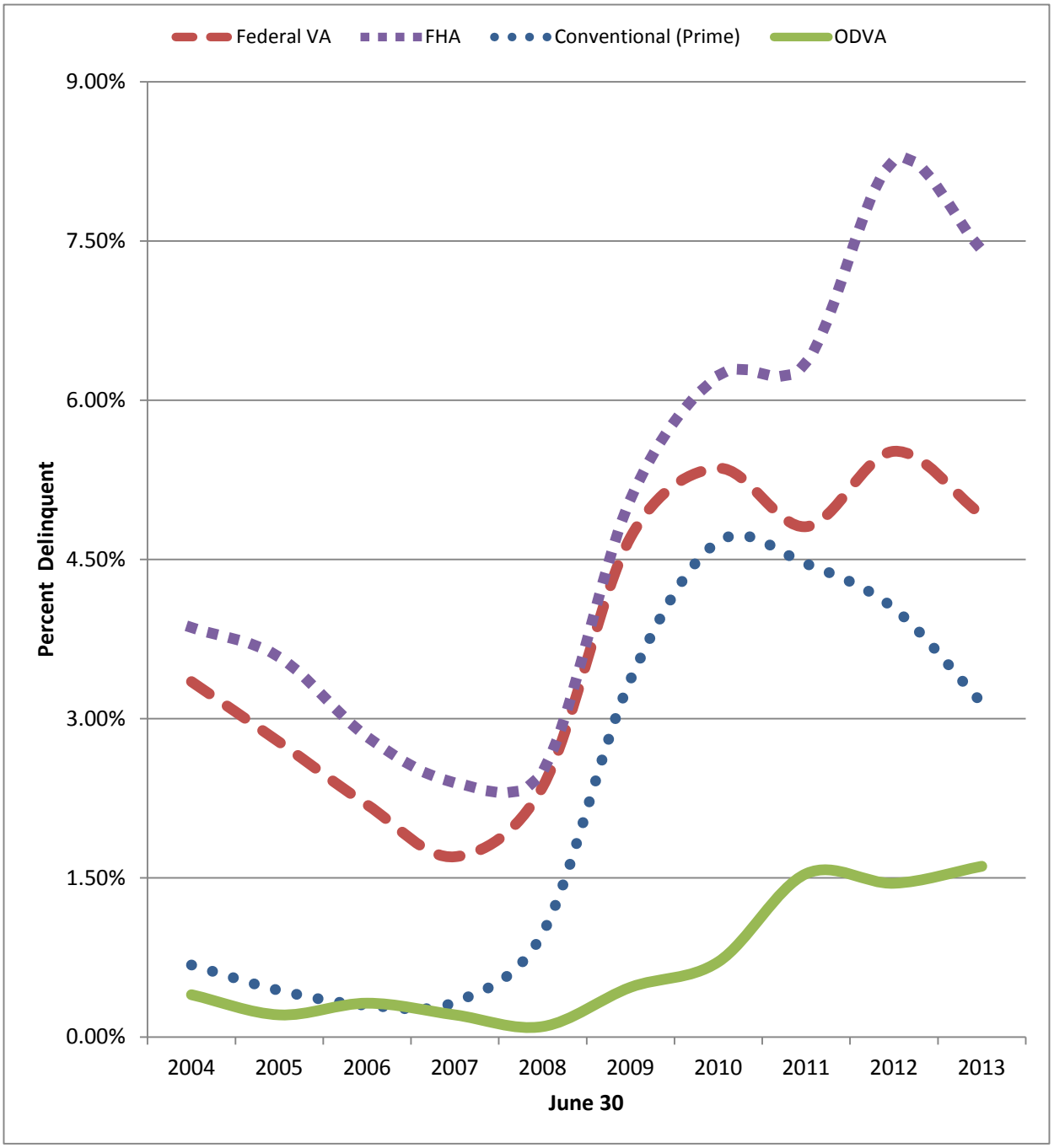
LOANS AND CONTRACTS OUTSTANDING



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

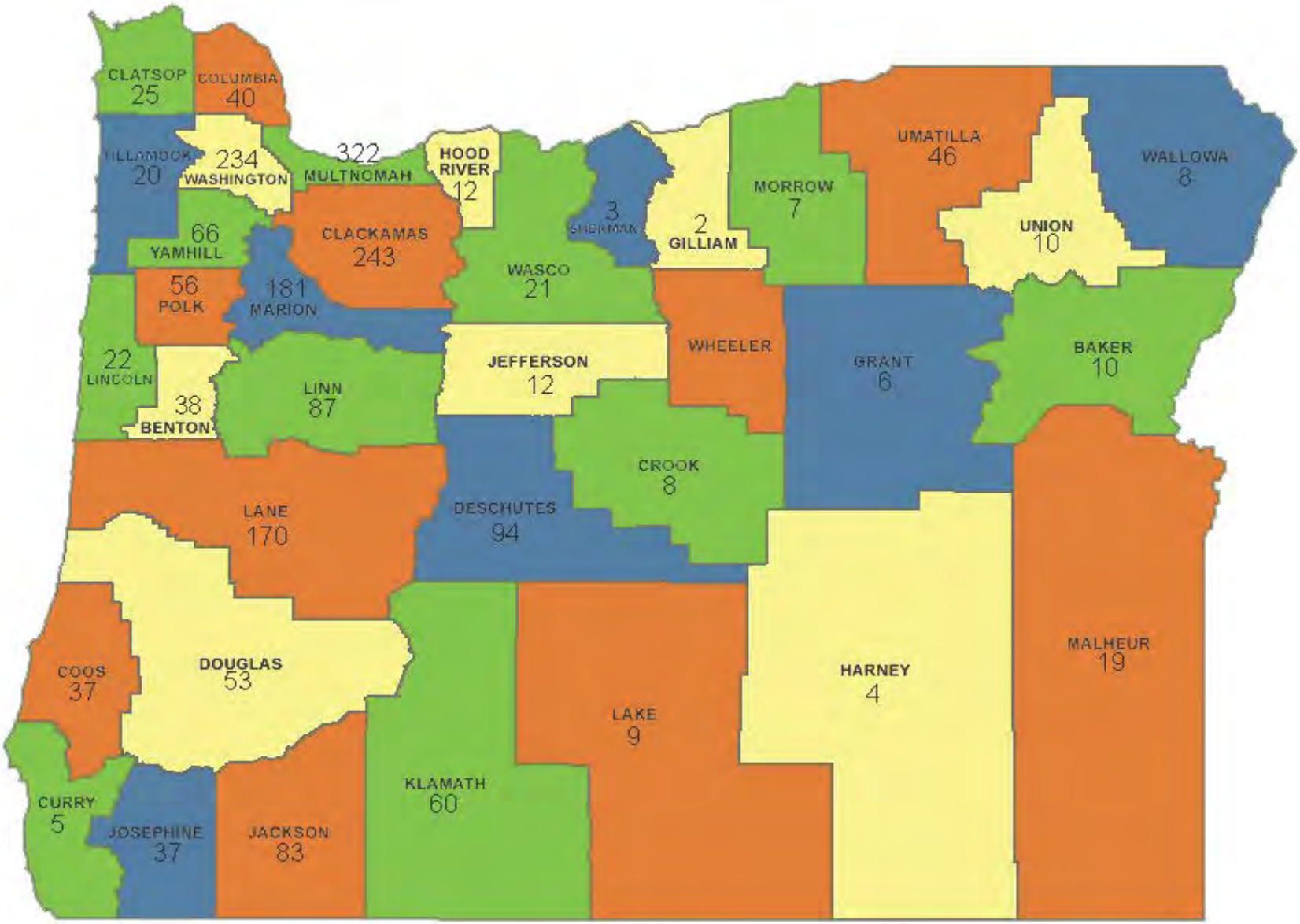


Source: Statistical Reports of the Oregon Department of Veterans' Affairs.

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, 2013



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

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OTHER REPORTS

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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*

Independent Auditor's Report

The Honorable John Kitzhaber
Governor of Oregon

Cameron Smith, Director
Oregon Department of Veterans' Affairs

We have audited, in accordance with the 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, the financial statements of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 23, 2013. Our report includes a reference to other auditors who audited the financial statements of Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2012, as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

October 23, 2013

OREGON DEPARTMENT OF VETERANS' AFFAIRS

700 Summer St. NE, Salem, OR 97301-1285

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The Oregon Department of Veterans' Affairs (ODVA) intends to comply with the Americans with Disabilities Act (The ADA), PL101-336. The ADA provides that no qualified person with a disability shall be kept from participation in (or be denied a benefit of) the services, programs, or activities of ODVA because of that disability. For additional information or how to file a complaint, please contact ODVA's ADA coordinator. ADA Coordinator 503-373-2380

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