OREGON DEPARTMENT *of* VETERANS' AFFAIRS

VETERANS' LOAN PROGRAM ANNUAL FINANCIAL REPORT

ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 Year Ended
June 30, 2017

Cameron Smith
Director

Bruce Shriver, CPA
Chief Financial Officer

Report Prepared By
Carol Clevenberg
Lindsay Lott
Aaron Hunter, CPA

With the assistance of the Financial Services Division

Cover Design: Nicole Hoeft, Public Information Section

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

STATISTICAL SECTION

OTHER REPORTS

INTRODUCTORY SECTION

Oregon
Kate Brown, Governor

Department of Veterans' Affairs
700 Summer St NE
Salem, OR 97301
800-828-8801 | 503-373-2085
www.oregon.gov/odva

October 16, 2017

To the Honorable Kate Brown 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 year ended June 30, 2017.

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 Oregon Secretary of State Audits Division audited the Department's Loan Program Enterprise Fund for the year ended June 30, 2017. 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 excerpts from the September 2017 Oregon Economic and Revenue Forecast from the Oregon Office of Economic Analysis *(OEA)*:

> ***Economic Summary***
> The economic expansion continues and the outlook remains bright. For the first time since the financial crisis, the U.S. economy lacks a major headwind. Expectations are not for a substantial pick-up in growth rates themselves, but for the expansion to endure, possibly becoming the nation's longest on record. If anything, the current macroeconomy is a conundrum for the Federal Reserve given low unemployment and low inflation. Even so, there do remain significant risks to the outlook, particularly the uncertainty of federal policy.

Oregon's economy is largely tracking expectations of slower growth in a mature expansion. The state continues to see healthy job gains that are enough to keep pace with a growing population and hold down the unemployment rate. However recent, preliminary employment reports, and stabilizing growth in withholdings out of Oregonian paychecks indicate that risks may be tilted toward the upside over the next year.

To maintain stronger labor market gains Oregon will need to see either stronger population growth overall or higher labor force participation rates among current residents. To date Oregon has experienced a very strong, and needed labor force response. Participation rates have increased considerably in recent years as more Oregonians have come back to the workforce in search of the more-plentiful and better-paying jobs. Further participation gains, particularly among the prime-age population is not unreasonable to expect in a strong economy. Oregon continues to hit the sweet spot as the economy approaches full employment.

Outlook

As always, Oregon's expansion is outperforming the typical state due to our industrial structure and ability to attract and retain young, working-age households. Today is no different. While job growth here in Oregon has slowed since the full-throttle rates seen in 2014 and 2015, Oregon is still outpacing the nation overall. The state's labor market is relatively tight. The number of available Oregonians per job opening is nearly all the way back down to levels not seen since the 1990s. Businesses across the state are reporting more positions are difficult to fill today than a few years ago. As the Oregon Employment Department reports, many are hard to fill for job-specific reasons like low wages, odd hours, geographic location and so forth, however some are hard to fill due to a lack of applicants in general.

Oregon's relatively tight labor market is now driving a virtuous cycle of stronger wage gains, businesses hiring candidates with a gap in their resume or an incomplete skill set, and pulling more Oregonians back into the workforce in search of the more-plentiful and better-paying jobs. Furthermore the tight market is leading to slower growth as the economy transitions down to a more sustainable rate. An economy digging out from a recession behaves considerably different than once approaching full employment.

That said, there still remains upside risk to the Oregon outlook in the near-term. Job growth has picked up in recent months, at least in the unrevised data, and withholdings out of Oregonian paychecks have stabilized at relatively strong rates of growth. While it remains unlikely Oregon will grow at full-throttle rates at this point in a mature expansion, job and income gains can certainly be better than expected. In order to see such gains, the labor force will need to continue to increase.

Forecast Risks

The economic and revenue outlook is never certain. Our office will continue to monitor and recognize the potential impacts of risk factors on the Oregon economy. Although far from comprehensive, we have identified several major risks now facing the Oregon economy in the list below:

- U.S. Economy. While Oregon is more volatile than the nation overall, the state has never missed a U.S. recession or a U.S. expansion. In fact, Oregon's business cycle is perfectly aligned with the nation's, at least when measuring peak and trough dates for total nonfarm employment. If anything, Oregon actually leads the U.S. by a month or two. The fact that there are a few worrisome trends at the U.S. level and the slowdown has hit Oregon means there should be some concerns about the outlook. Should the U.S. fall into recession, Oregon will too. That said, should the U.S. economy accelerate following the lifting of headwinds, Oregon's economy should receive a similar boost as well.

- Housing affordability. Even as the housing market recovers, new supply entering the market has not kept up with demand (both from new households and investor activity). This applies to both the rental and ownership sides of the market. As such, prices have risen considerably and housing (in)affordability is becoming a larger risk to the outlook. Expectations are that new construction will pick up in the next year or three, to match the increase in demand, which will alleviate price pressures. However to the extent that supply does not match demand, home prices and rents increasing significantly faster than income or wages for the typical household is a major concern. While not included in the baseline outlook, significantly worse housing affordability may dampen future growth given Oregon's reliance on net in-migration.

- Global Spillovers Both Up and Down. The international list of risks seems to change by the day: sovereign debt problems in Europe, equity and property bubbles in places like Canada, South America and Asia, political unrest in the Middle East and Ukraine, and commodity price spikes and inflationary pressures in emerging markets. In particular, with China now a top destination for Oregon exports, the state of the Chinese economy – and its real estate market, or public debt burden – has spillover effects to the Oregon economy. Any economic slowing in Asia is a potential threat to the Pacific Northwest.

- Federal fiscal policy. The uncertainty regarding federal fiscal policy remains a risk. Some policies are likely to impact Oregon than the typical state, while others maybe not as much. The good news for Oregon is that outside of outright land ownership, the federal government has a relatively small physical presence in the state. This means that direct spending reductions are less likely to hurt Oregon. Of course, it also limits the local benefit from any potential increases in federal spending. In terms of federal grants as a share of state revenue, Oregon ranks 29th highest. For federal procurement as a share of the economy, Oregon ranks 48th highest. Oregon ranks below average in terms of military-dependent industries as well. The one area that Oregon ranks above average is in terms of direct federal employment, ranking 19th highest among all states. Oregon also is exposed to an above-average share of federal transfer payments to households. Transportation funding is also a major local concern. Overall, the direct impact may be less than in other states but the impact will be felt nevertheless, particularly as our closest neighboring states have large federal and military workforces.

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 (ORS) 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, 2017, this Program had approximately 1,870 mortgage loans and contracts outstanding, with a principal balance of approximately $296 million.

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, 2017, the Veterans' Loan Program had approximately $457 million in assets *(primarily consisting of cash and cash equivalents and loan and contract receivables)* and approximately $338 million in liabilities *(primarily consisting of general obligation bonds)*. Revenues from the Department's home loan program are primarily generated through interest on loans originated and investment income. These revenues are used to pay interest expense on outstanding debt and related program and administrative expenses.

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. As of June 30, 2017, the Department's long-term general obligation bonds were rated as follows:

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

As of June 30, 2017, the Department had approximately $304 million *(par value)* in outstanding bonds. During fiscal year 2017, approximately $40 million in bonds were issued and approximately $36 million in bonds were retired.

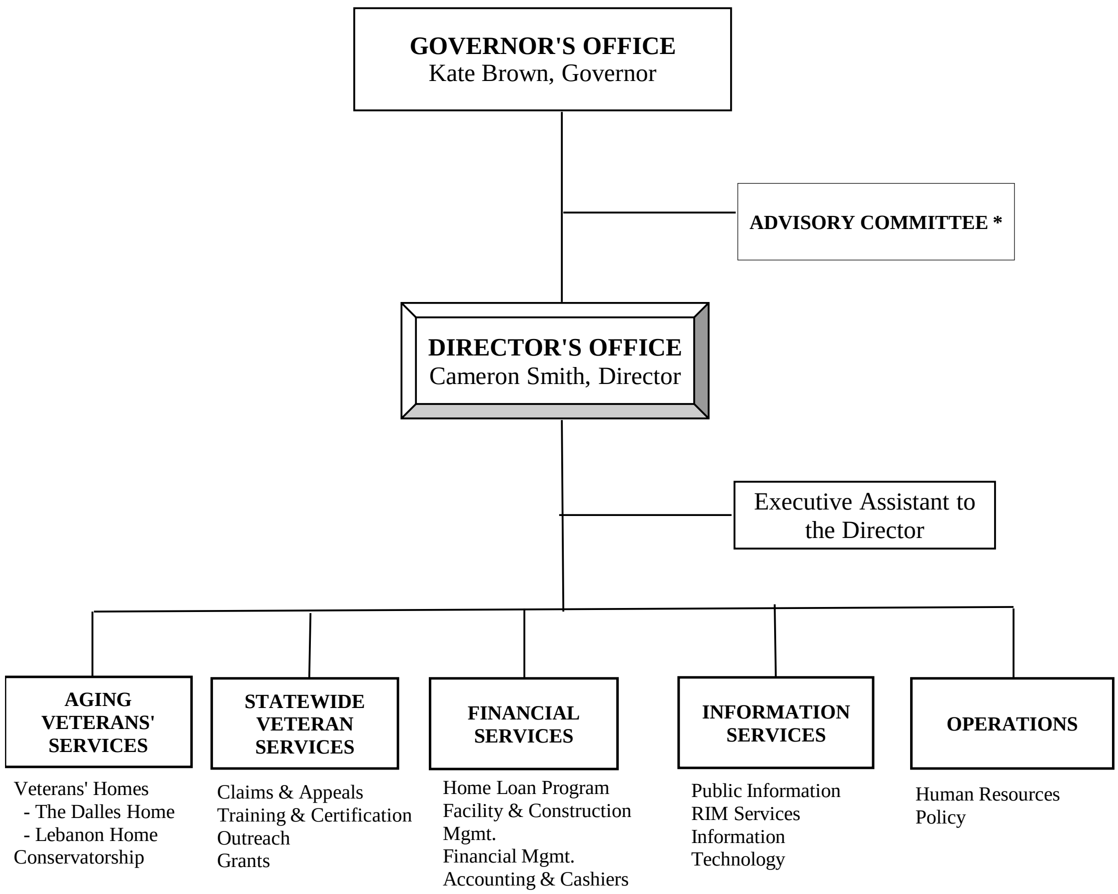
Cash Management - All monies collected by the Department are turned over to the State Treasurer, who is responsible for the control of cash and the investment of State funds (excluding funds held by the loan cancellation life insurance carrier). On June 30, 2017, the Department's Loan Program cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $152 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 financial 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,

Cameron Smith	Bruce Shriver
Director	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
Kim Douthit	November 30, 2019	Reynold Leno	March 15, 2020
Tony Garcia	December 31, 2018	Rosa Macias	March 31, 2020
Dennis Guthrie	June 30, 2020	Jon Mangis	September 30, 2019
John Howard	March 15, 2020	Val Valfre	March 15, 2020
Michael Jones	November 30, 2020		

FINANCIAL SECTION

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State

Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

Independent Auditor's Report

The Honorable Kate Brown, 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, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the tables 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 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, 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, 2017, and the respective changes in financial position, and cash flows thereof for the year 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 present only the Veterans' Loan Program and do not purport to, and do not, present fairly the financial position of the Oregon Department of Veterans' Affairs or the State of Oregon as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 8 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 Veterans' Loan Program'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 it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017 on our consideration of the Oregon Department of Veterans' Affairs' 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Oregon Department of Veterans' Affairs' 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 Oregon Department of Veterans' Affairs' internal control over financial reporting and compliance

Office of the Secretary of State, Audits Division

State of Oregon
October 13, 2017

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, 2017. The selected financial data presented was derived primarily from the financial statements of the Veterans' Loan Program, which have been audited.

FINANCIAL HIGHLIGHTS

	(In Millions)		Change	
	2017	2016	*(In Millions)*	Percentage
Net Position	$ 121.3	$ 120.9	$ 0.40	0.33%
Revenues	$ 18.2	$ 14.7	$ 3.50	23.81%
Expenses	$ 17.5	$ 18.1	$ (0.60)	-3.31%
General Obligation Bond Debt *(par value)*	$ 303.6	$ 300.2	$ 3.40	1.13%
Mortgage Loan Originations	$ 73.1	$ 62.7	$ 10.40	16.59%

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 an audited Annual Financial Report on the Veterans' Home Program and that proprietary fund and a minimal portion of governmental funds that are included in the State of Oregon Comprehensive Annual Financial Report located at. Those reports are located respectively at:

- http://www.oregon.gov/odva/INFO/Pages/AnnualReports.aspx
- http://www.oregon.gov/das/Financial/Acctng/Pages/Pub.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

Assets

Total assets at June 30, 2017 were approximately $457.7 million, a decrease of $3.6 million from June 30, 2016. The change in assets consists primarily of a $32.8 million decrease in cash and cash equivalents, a $6.2 million decrease in securities lending cash collateral, and a $34.3 million increase in net loans and contracts receivable.

Liabilities

Total liabilities at June 30, 2017, were $338.3 million, a decrease of $2.9 million from June 30, 2016. The change in liabilities consists primarily of a decrease of $6.2 million in obligations under securities lending and an increase of $3.1 million in bonds payable.

Statement of Net Position

The Veterans' Loan Program's proprietary fund financial position and operations for the past two 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			
	2017	**2016**	**Change**	**% Change**
Assets:				
Current and Other Assets	$ 453,488,153	$ 457,007,243	$ (3,519,090)	-0.77%
Capital Assets	4,183,139	4,258,097	(74,958)	-1.76%
Total Assets	$ 457,671,292	$ 461,265,340	(3,594,048)	-0.78%
Deferred Outflow of Resources	$ 2,246,768	$ 1,159,640	$ 1,087,128	93.75%
Liabilities:				
Long Term Liabilities	$ 324,683,672	$ 323,283,684	$ 1,399,988	0.43%
Other Liabilities	13,612,232	17,871,530	(4,259,298)	-23.83%
Total Liabilities	$ 338,295,904	$ 341,155,214	$ (2,859,310)	-0.84%
Deferred Inflow of Resources	$ 285,923	$ 374,548	$ (88,625)	-23.66%
Net Position:				
Net Investment in Capital Assets	$ 4,183,139	$ 4,258,097	$ (74,958)	-1.76%
Unrestricted	117,153,094	116,637,121	515,973	0.44%
Total Net Position	$ 121,336,233	$ 120,895,218	$ 441,015	0.36%

Loans Receivable

Total mortgages and other loans receivable increased by $34.3 million in fiscal year 2017. This increase was primarily due to the continued rebound in the housing market and competitive loan interest rates for borrowers.

Bonds Payable

Bonds Payable increased by $3.4 million *(par value)* from June 30, 2016 to June 30, 2017. During fiscal year 2017, the Department issued approximately $39.8 million and retired approximately $36.4 million in general obligation bonds. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Position

Total Net Position increased by approximately $440 thousand in fiscal year 2017. Revenues exceeded expenses resulting in an increase of net position.

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 Activity			
	2017	**2016**	**Change**	**% Change**
Revenues:				
Interest Income:				
Mortgage Loans	$ 13,302,684	$ 9,926,312	$ 3,376,372	34.01%
Contracts	11,033	23,118	(12,085)	-52.28%
Investment Income:	2,017,506	1,744,597	272,909	15.64%
LCLI Premium Revenue	304,246	351,809	(47,563)	-13.52%
LCLI Processing Fee	72,000	72,000	-	0.00%
Other Fees and Charges	1,979,856	2,080,470	(100,614)	-4.84%
Conservatorship Fees	534,731	489,585	45,146	9.22%
Gain on Sale of Foreclosed Property	7,143	44,415	(37,272)	-83.92%
Total Revenues	$ 18,229,199	$ 14,732,306	$ 3,496,893	23.74%
Expenses:				
Bond Interest	$ 8,299,193	$ 7,009,347	$ 1,289,846	18.40%
Salaries and Other Payroll	5,391,885	6,033,621	(641,736)	-10.64%
Bond Costs	1,009,223	1,184,177	(174,954)	-14.77%
Securities Lending Investment Expense	7,675	31,957	(24,282)	-75.98%
Real Estate Owned Expense	44,121	17,833	26,288	147.41%
Services and Supplies	1,379,273	1,541,746	(162,473)	-10.54%
LCLI Claims & Admin. Expense	450,938	1,247,875	(796,937)	-63.86%
Depreciation	115,289	108,783	6,506	5.98%
Bad Debt	(539,102)	(244,749)	(294,353)	120.27%
Other	1,370,564	1,139,726	230,838	20.25%
Total Expenses	$ 17,529,059	$ 18,070,316	$ (541,257)	-3.00%
Operating Income (Loss)	$ 700,140	$ (3,338,010)	$ 4,038,150	-120.97%
Non-Operating Revenues (Expenses)				
Interest Expense - Pension Related Debt	$ (50,496)	$ (50,122)	$ (374)	0.75%
Total Non-Operating Revenues (Expenses)	$ (50,496)	$ (50,122)	$ (374)	0.75%
Income (Loss) before Transfers	$ 649,644	$ (3,388,132)	$ 4,037,776	-119.17%
Net Transfers to Dept. of Admin Services	(208,629)	(194,350)	(14,279)	7.35%
Increase (Decrease) in Net Position	$ 441,015	$ (3,582,482)	$ 4,023,497	-112.31%
Net Position – Beginning	$ 120,895,218	$ 124,477,700	$ (3,582,482)	-2.88%
Net Position – Ending	$ 121,336,233	$ 120,895,218	$ 441,015	0.36%

Revenues and Expenses

The Veterans' Loan Program's revenue is generated principally from interest earned on mortgage loans and investment income. In fiscal year 2017, revenue generated through the Veterans' Loan Program totaled approximately $18.2 million, of which approximately $15.3 million, or 84% is from interest 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 $17.5 million, of which approximately $8.3 million, or 47% is bond interest expense and $5.4 million, or 31%, is salaries and other payroll expenses.

Change in Net Position

The change in net position for the year ended June 30, 2017 resulted in an increase of approximately $440 thousand. The primary factor contributing to this change was the approximately $3.4 million increase to interest income on mortgage loans and contracts.

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.

The Department had approximately $303.6 million *(par value)* in outstanding general obligation bonds as of June 30, 2017. During fiscal year 2017, approximately $39.8 million in general obligation bonds were issued and $36.4 million in bonds were retired.

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.

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Statement of Net Position
Proprietary Fund
June 30, 2017

		Business-Type Activity - Enterprise Fund
Assets		*Veterans' Loan Program*
Current Assets		
Cash and Cash Equivalents	$	86,895,236
Cash and Cash Equivalents - Restricted		3,107,741
Securities Lending Cash Collateral		1,017,020
Investments		10,709,272
Receivables:		
Accrued Interest		1,167,666
Loan Cancellation Life Insurance Premiums		16,442
Other		23,440
Due from Other Funds		87,272
Real Estate Owned		259,586
Prepaid Expenses		8,575
Total Current Assets		103,292,250
Noncurrent Assets		
Cash and Cash Equivalents - Restricted		52,093,642
Mortgage Loans and Contracts Receivable (Net)		295,521,511
Other Receivable		2,335,640
Derivative Instrument - Interest Rate Swap		245,110
Capital Assets:		
Building, Property and Equipment		9,004,597
Works of Art and Historical Treasures		627,021
Accumulated Depreciation		(5,448,479)
Total Noncurrent Assets		354,379,042
Total Assets		457,671,292
Deferred Outflows of Resources		
Pension Related		2,246,768
Total Deferred Outflows of Resources		2,246,768
Liabilities		
Current Liabilities		
Accounts Payable	$	114,532
Loan Cancellation Life Insurance Payable		27,227
Loan Cancellation Life Insurance Claims Payable		45,708
Deposit Liabilities		3,080,514
Accrued Interest on Bonds		667,278
Obligations under Securities Lending		1,017,020
Pension-Related Debt		33,200
Compensated Absences Payable		239,928
Bonds Payable-Maturing Within One Year (Net)		8,386,825
Total Current Liabilities		13,612,232
Noncurrent Liabilities		
Bonds Payable-Maturing After One Year (Net)		298,811,581
Pension-Related Debt		672,474
Net Pension Liability		4,295,159
Compensated Absences Payable		129,192
Excess Interest and Arbitrage Rebate Payable		20,660,816
Other Postemployment Benefits Obligation (Net)		114,450
Total Noncurrent Liabilities		324,683,672
Total Liabilities		338,295,904
Deferred Inflows of Resources		
Hedging Derivative		245,110
Pension Related		40,813
Total Deferred Inflows of Resources		285,923
Net Position		
Net Investment in Capital Assets		4,183,139
Unrestricted		117,153,094
Total Net Position	$	121,336,233

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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

		Business-Type Activity - Enterprise Fund
		Veterans' Loan Program
Operating Revenues		
Interest Income:		
Mortgage Loans	$	13,302,684
Contracts		11,033
Investment Income		2,017,506
Loan Cancellation Life Insurance Premiums		304,246
Loan Cancellation Life Insurance Processing Fee		72,000
Other Fees and Charges		1,979,856
Conservatorship Fees		534,731
Gain on Sale of Foreclosed Property		7,143
Total Operating Revenues		18,229,199
Operating Expenses		
Bond Interest		8,299,193
Salaries and Other Payroll		5,391,885
Bond Expenses		1,009,223
Securities Lending Investment Expense		7,675
Real Estate Owned Expense		44,121
Services and Supplies		1,379,273
Claims Expense - Loan Cancellation Life Insurance		450,938
Depreciation		115,289
Bad Debt		(539,102)
Other		1,370,564
Total Operating Expenses		17,529,059
Operating Income (Loss)		700,140
Non-operating Revenues (Expenses)		
Interest Expense - Pension Related Debt		(50,496)
Total Non-operating Revenues (Expenses)		(50,496)
Income (Loss) before Transfers		649,644
Transfers to Dept. of Administrative Services		(208,629)
Increase (Decrease) in Net Position		441,015
Net Position - Beginning		120,895,218
Net Position - Ending	$	121,336,233

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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	Business-Type Activity - Enterprise Fund
	Veterans' Loan Program
Cash Flows from Operating Activities:	
Receipts from Customers	$ 1,222,547
Receipts from Other Funds for Services	1,675,708
Loan Principal Repayments	39,778,598
Loan Interest Received	11,078,470
Payments to Employees for Services	(4,810,341)
Payments to Suppliers	(2,514,473)
Payments to Other Funds for Services	(686,469)
Loans Made	(74,731,726)
Other Receipts (Payments)	690,210
Net Cash Provided (Used) in Operating Activities	(28,297,476)
Cash Flows from Noncapital Financing Activities:	
Proceeds from Bond Sales	39,810,000
Principal Payments on Bonds	(36,450,000)
Interest Payments on Bonds	(8,405,819)
Bond Issuance Costs	(1,041,706)
Principal Payments on Pension-Related Debt	(33,165)
Interest Payments on Pension-Related Debt	(50,496)
Transfers to Other Funds	(208,629)
Net Cash Provided (Used) in Noncapital Financing Activities	(6,379,815)
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(40,331)
Net Cash Provided (Used) in Capital and Related Financing Activities	(40,331)
Cash Flows from Investing Activities:	
Interest on Investments and Cash Balances	1,914,311
Investment Income from Securities Lending	7,675
Investment Expense from Securities Lending	(7,675)
Net Cash Provided (Used) in Investing Activities	1,914,311
Net Increase (Decrease) in Cash and Cash Equivalents	(32,803,311)
Cash and Cash Equivalents - Beginning	174,899,930
Cash and Cash Equivalents - Ending	$ 142,096,619
Reconciled to Statement of Net Position:	
Cash and Cash Equivalents - Current	$ 86,895,236
Cash and Cash Equivalents - Current, Restricted	3,107,741
Cash and Cash Equivalents - Noncurrent, Restricted	52,093,642
Cash and Cash Equivalents - Ending (shown above)	$ 142,096,619

(Continued on next page)

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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

(Continued from prior page)

	Business-Type Activity - Enterprise Fund *Veterans' Loan Program*
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	$ 700,140
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation/Amortization	(79,354)
Investment Income Reported as Operating Revenue	(2,017,506)
Investment Expense	7,675
Interest Expense Reported as Operating Expense	8,405,819
Bond Costs Reported as Operating Expense	1,010,708
Net Changes in Assets and Liabilities:	
Accounts and Interest Receivable	(33,989)
Due from Other Funds	18,267
Prepaid Items	5,558
Loans, Contracts and Other Receivable	(35,255,601)
Foreclosed and Deeded Property	165,134
Accounts Payable	129,858
Deposit Liabilities	259,210
Arbitrage Payable	(2,184,732)
Compensated Absences Payable	(3,961)
Post Employment Benefits	2,363
Net Pension Liability (Asset)	2,756,842
Deferred Outflow of Resources	
Difference between Expected and Actual Economic Experience	(59,149)
Change in Assumptions	(916,054)
Investment Earnings Difference	(848,543)
Change in Employer Contribution and Proportion	(70,454)
Contributions Subsequent to Measurement Date	44,029
Deferred Inflow of Resources	
Investment Earnings Difference	(322,466)
Change in Employer Contribution and Proportion	(11,270)
Total Adjustments	(28,997,616)
Net Cash Provided (Used) by Operating Activities	$ (28,297,476)
Noncash Investing and Capital and Related Financing Activities:	
Net Change in Fair Value of Investments	$ 95,520
Foreclosed Property	259,586
Total Noncash Investing and Capital and Related Financing Activities	$ 355,106

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)*.

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 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.

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 cost. 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
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 unpaid accumulated sick leave benefits as the State does not pay any amounts when employees separate from state service.

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.

Net Investment 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. 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.

2. Deposits and Investments

Deposits

Cash and cash equivalents for the Veterans' Loan Program as of June 30, 2017 are included in the table below:

	Total June 30, 2017
Book Balance - Cash and Cash Equivalents	
Current unrestricted	$ 86,895,236
Current restricted	3,107,741
Noncurrent restricted	52,093,642
Combined Book Balance	$ 142,096,619
Bank Balance - Cash and Cash Equivalents	$ 142,966,213

As of June 30, 2017, the Veterans' Loan Program had a combined total of $131,868,488 held in demand accounts with the State Treasurer and invested in the Oregon Short-Term Fund ("OSTF"). The Oregon State Treasury ("OST") manages the OSTF, which is an external cash and investment pool that is available for use by all state funds (involuntary participation) and eligible local governments. The State does not have a formal policy regarding custodial credit risk for cash deposits. However, banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

Additional information about the OSTF, including its audited financial statements, 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 $11,097,725 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, 2017 the Department estimated that required balance to be $648,000. 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.

Investments

The Department's investment policy allows investment in the Oregon Intermediate Term Pool ("OITP") as well as other investments. However, the Department has chosen to only invest in OITP, an external investment pool managed by OST. OITP is "not rated" as an investment and not registered with the U.S. Securities and Exchange Commission as an investment company. Additional information about OITP, including its audited financial statements, can be found at: http://www.oregon.gov/treasury/Divisions/Investment/Pages/OITP.aspx.

The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (the "Council"). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to OST. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in OITP are further governed by guidelines approved by the Council, establishing diversification percentages and specifying the types and maturities of investments.

OITP measures its investments at fair value in accordance with standards, the Department reports its share based on the fair value provided by OITP.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. OST Investment staff manages this risk by limiting the duration of investments held by OITP. The portfolio guidelines require that the portfolio's modified duration, a measure of interest rate risk, shall not exceed three years. The duration for OITP at June 30, 2017 was 3.02 years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. OITP guidelines require that all investments meet minimum ratings requirements at the time of purchase.

Restricted Assets

Included in Cash and Cash Equivalents are amounts designated as restricted. Restrictions on the Department's cash 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, 2017, the Veterans' Loan Program had restricted assets of $55,201,383.

Securities Lending

In accordance with State of Oregon investment policies, state agencies may participate in securities lending. Currently, the Department does not have any of its own securities lending activity. However, the Department received an allocated share related to the OSTF securities lending activity. As of June 30, 2017, there were no securities lending activities to disclose for the OITP.

Securities lending information related to the Department's Loan Program is provided in the following table:

	OSTF	Total June 30, 2017
Securities Lending Cash Collateral	$ 1,017,020	$ 1,017,020
Fair Value of Securities on Loan	$ 3,698,415	$ 3,698,415
Investments Purchased with Cash Collateral	$ 1,017,280	$ 1,017,280
Securities on Loan:		
U.S. Agency	10.09%	
U.S. Treasury	60.01%	
Domestic Fixed Income	29.90%	
	100.00%	

Additional information about OSTF and OITP securities lending can be found in the audited financial statements. See links previously provided above.

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, 2017 is approximately $296 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 2017 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, 2017, is approximately $600 thousand. The balance of the allowance account represents approximately 0.20 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, 2017.

	June 30, 2017
Loans Receivable	$ 296,027,225
Contracts Receivable	88,064
Total Loans and Contracts Receivable	296,115,289
Less: Allowance for Principal Losses	(593,778)
Net Loans and Contracts Receivable	$ 295,521,511

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, 2017, there were 58 non-amortizing accounts with an aggregate principal balance of approximately $6.0 million. This represents approximately 2.0 percent of the total net loans and contracts receivable.

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, 2017, the Department provided this relief to one borrower and deferred loan interest income of $10,878. This interest amount was subsequently capitalized for this loan. In total, $397,644 was restructured in this fashion. From this restructured loan the Department received $22,022 in mortgage interest income during the fiscal year.

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, 2017, the Department had 188 insured accounts with eight private mortgage insurers totaling approximately $44.4 million. The majority of insured accounts are with Mortgage Guaranty Insurance Corporation (MGIC) with 83%. As of June 30, 2017, the Standard and Poor's ratings for MGIC was "BBB+".

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. The intent of DPOs is to ensure the Mortgage Insurer has sufficient ability to pay all current and future claims.

Effective March 31, 2009, the Illinois Department of Insurance 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. As of December 31, 2013, the court supervising the rehabilitation of Triad approved a plan to increase the percentage of cash paid on valid settlements from 60% to 75%. If the financial position of Triad permits, the Illinois Department of Insurance will allow Triad to continue to increase the amount of cash paid on each claim. As of June 30, 2017, the Department had $305,496 as a deferred payment obligation from Triad.

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

	June 30, 2017
Number of Properties	2
Recorded at Cost	$ 259,586

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, 2017:

	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	9,132,222	40,331	(167,956)	9,004,597
Total Capital Assets Being Depreciated	9,132,222	40,331	(167,956)	9,004,597
Less Accumulated Depreciation:				
Buildings, Property & Equipment	(5,501,146)	(115,289)	167,956	(5,448,479)
Total Accumulated Depreciation	(5,501,146)	(115,289)	167,956	(5,448,479)
Total Capital Assets Being Depreciated, Net	3,631,076	(74,958)	-	3,556,118
Total Capital Assets, Net	$ 4,258,097	$ (74,958)	$ -	$ 4,183,139

Depreciation expense at June 30, 2017 was $115,289.

5. Bonds Payable and Debt Service

The table below provides a summary of general obligation bond transactions of the Department for the fiscal year ended June 30, 2017:

Bonds Payable *(Par)* at June 30, 2016	$	300,250,000
Bonds Issued		39,810,000
Bonds Retired		(36,450,000)
Bonds Payable *(Par)* at June 30, 2017	$	303,610,000

Shown below are the components of net bonds payable as disclosed on the Statement of Net Position for June 30, 2017:

	Current	Noncurrent	Total
Bonds Payable *(Par)*	$ 8,200,000	$ 295,410,000	$ 303,610,000
Discount on Bonds Sold	(9,441)	(121,791)	(131,232)
Premium on Bonds Sold	196,266	3,523,372	3,719,638
Net Bonds Payable	$ 8,386,825	$ 298,811,581	$ 307,198,406

The following schedule summarizes future debt service requirements to maturity as of June 30, 2017:

Fiscal Year	***Principal***	***Interest***	***Total***
2018	$ 8,200,000	$ 7,689,363	$ 15,889,363
2019	8,480,000	7,483,907	15,963,907
2020	7,790,000	7,271,777	15,061,777
2021	8,960,000	7,033,891	15,993,891
2022	9,175,000	6,750,311	15,925,311
2023-2027	49,245,000	29,047,400	78,292,400
2028-2032	61,380,000	22,586,663	83,966,663
2033-2037	69,750,000	15,803,585	85,553,585
2038-2042	63,105,000	7,313,608	70,418,608
2043-2047	17,525,000	1,120,238	18,645,238
TOTAL	$ 303,610,000	$ 112,100,741	$ 415,710,741

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2017:

Series	Dated	Original Coupon Rates From	To	Issued	Outstanding	Final Maturity
84	June 29, 2005	**		30,000,000	28,960,000	2040
86	December 19, 2006	##		31,320,000	31,320,000	2040
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	2,135,000	2020
90A	June 24, 2008	1.750	4.400%	11,115,000	5,965,000	2024
90B	June 24, 2008	**		38,885,000	13,885,000	2046
91	November 16, 2010	0.300	4.700%	53,090,000	45,540,000	2041
92A	November 16, 2010	0.300	4.250%	20,060,000	9,875,000	2031
93 (2014 G)	December 3, 2014	0.700	3.900%	25,965,000	25,965,000	2040
94 (2014 H)	December 3, 2014	0.350	4.000%	10,000,000	6,110,000	2045
95 (2015 P)	November 19, 2015	**		25,140,000	25,140,000	2037
96 (2015 Q)	November 19, 2015	2.000	5.000%	34,215,000	29,885,000	2046
97A (2016 J)	December 7, 2016	0.850	3.550%	22,310,000	21,680,000	2031
97B (2016 K)	December 7, 2016	3.900	4.050%	17,500,000	17,500,000	2047
Total Bonds Outstanding as of June 30, 2017:					$ 303,610,000	

** Interest rates are adjusted weekly based on the weekly rate determined by the Remarketing Agent, not to exceed 12%. The interest rate at the end of the fiscal year was 0.90% for Series 84, Series 90B and Series 95.

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 0.89% for Series 86 and Series 88B.

Debt Refunding

On December 7, 2016, the Department issued $39,810,000 of General Obligation Bonds, of which $22,310,000 was used to refund previously issued General Obligation Bonds. The current refunding of these bonds decreases the total debt service over the next 7.3 years by approximately $2,449,573 and results in an economic gain of approximately $671,365.

6. Demand Bonds

Included in long-term debt at June 30, 2017 are the following State of Oregon, General Obligation, Veterans' Welfare Bonds (Variable Rate), 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 84	$ 28,960,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	9/27/2019	34 days/12%	0.3300%
Series 86	$ 31,320,000	U.S. Bank National Association	5/18/2018*	34 days/12%	0.3000%
Series 88B	$ 30,000,000	U.S. Bank National Association	5/18/2018*	34 days/12%	0.3000%
Series 90B	$ 13,885,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	9/27/2019	34 days/12%	0.3300%
Series 95 (2015 Series P)	$ 25,140,000	U.S. Bank National Association	5/18/2018*	34 days/12%	0.3000%

*On October 11, 2017, the Department executed an extension of its Standby Bond Purchase Agreements with U.S. Bank National Association. The expiration date of the extensions are April 9, 2021.

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

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

Series	Outstanding Bond Principal Amount	Designated Remarketing Agent	Remarketing Mode	Remarketing Fee
Series 84	$ 28,960,000	JPMorgan Securities Inc	Weekly	0.050%
Series 86	$ 31,320,000	JPMorgan Securities Inc	Daily	0.070%
Series 88B	$ 30,000,000	JPMorgan Securities Inc	Daily	0.070%
Series 90B	$ 13,885,000	JPMorgan Securities Inc	Weekly	0.070%
Series 95 (2015 Series P)	$ 25,140,000	U.S. Bank National Association	Weekly	0.050%

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPA for Series 84 and 90B *("Series 84 & 90B SBPA"),* The Bank of Tokyo-Mitsubishi UFJ, Ltd. *(BTMU)* will commit to purchase any Series 84 or 90B unremarketed bonds, subject to certain conditions set forth in the SBPA. Under the Amended and Restated SBPA for Series 86 and 88B *("Series 86 & 88B SBPA")* and the SBPA for Series 95 *("Series 95 SBPA"),* U.S. Bank National Association *(USB)*, will commit to purchase any Series 86, 88B or 95 unremarketed bonds, subject to certain conditions set forth in the SBPAs.

If a tender advance did occur under the Series 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 84 & 90B SBPA, a default would have occurred.

If a tender advance did occur under the Series 86 & 88B SBPA or the Series 95 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 86 & 88B SBPA or the Series 95 SBPA, a default would have occurred.

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 84 & 90B SBPA, the Series 86 & 88B SBPA or the Series 95 SBPA for fiscal year 2017. Therefore, no tender advances or draws were outstanding as of June 30, 2017.

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

During fiscal year 2017, the Department terminated the interest rate swap in connection with a portion of its Loan Program General Obligation Veterans' Welfare Bonds, Series 84 (the "Series 84 swap"). The Series 84 swap was terminated at par, in its entirety, effective June 1, 2017.

The Department has an interest rate swap in connection with its Loan Program General Obligation Bonds, 2015 Series P (Veterans' Welfare Bonds Series 95). The swap and underlying floating-rate bonds together create "synthetic" fixed-rate debt.

The fair value balance of the interest rate swap is reported as a derivative instrument and deferred inflow of resources on the Statement of Net Position. Because of interest rate increases after the swap was executed, the fair value as of June 30, 2017 is positive. 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. The fair value is categorized as Level 2 within the fair value hierarchy – which includes quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

<u>Hedging Instruments</u>

On June 30, 2017, 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 95 bonds, specifically related to changes in municipal tax-exempt interest rates	$25,140,000	8/1/2016	12/1/2036	Pay 2.267%; Receive 66.3% of 1-month LIBOR* + .09%	$ 245,110

* London Interbank Offered Rate

The Series 95 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 December 1, 2020. 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 Royal Bank of Canada *("counterparty")*, which is rated AA- and Aa3 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	$ 100,000
A+	A1	$ 20,000,000	$ 100,000
A	A2	$ 10,000,000	$ 100,000
A-	A3	$ 5,000,000	$ 100,000
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 Royal Bank of Canada.

Since the fair value of the swap as of June 30, 2017 is positive, but the threshold applicable to the ratings by S&P and Moody's has not been exceeded, 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, 2017, the interest rate on the Department's variable-rate hedged debt is 0.90%, while the 66.3% of one-month LIBOR plus 0.09% is 0.786482%.

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, 2017, 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***
2018	$ -	$ 226,260	$ 374,911	$ 601,171
2019	-	226,260	374,911	601,171
2020	-	226,572	374,911	601,483
2021	-	225,948	375,444	601,392
2022	-	226,260	374,911	601,171
2023-2027	5,385,000	1,068,041	1,776,802	8,229,843
2028-2032	9,955,000	684,792	1,146,911	11,786,703
2033-2037	9,800,000	212,242	364,044	10,376,286
TOTAL	$ 25,140,000	$ 3,096,375	$ 5,162,845	$ 33,399,220

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	$100,000
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, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	$ 300,250,000	$ 39,810,000	$ (36,450,000)	$ 303,610,000	
Bond Premium	3,954,974	-	(235,336)	3,719,638	
Bond Discount	(140,928)	-	9,696	(131,232)	
Total Bonds Payable	304,064,046	39,810,000	(36,675,640)	307,198,406	8,386,825
Pension-Related Debt	738,839	-	(33,165)	705,674	33,200
Net Pension Liability	1,538,316	2,756,843	-	4,295,159	-
Compensated Absences Payable	373,082	-	(3,962)	369,120	239,928
Excess Interest & Arbitrage Rebate Payable	22,845,548	-	(2,184,732)	20,660,816	-
OPEB Obligation (Net)	112,087	2,363	-	114,450	-
Derivative Instrument - Interest Rate Swap	763,043	-	(763,043)	-	-
Total Long-Term Liabilities	$ 330,434,961	$ 42,569,206	$ (39,660,542)	$ 333,343,625	$ 8,659,953

9. Interfund Transactions

At June 30, 2017, the Veterans' Loan Program had outstanding interfund receivables of $87,272 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

Plan Description

As part of the State of Oregon, the Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans to Loan Program employees. PERS is a cost-sharing multiple-employer defined benefit pension plan. All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the members IAP account. The pension plans provide pension benefits, death benefits and disability benefits.

PERS issues a publicly available Comprehensive Annual Financial Report (CAFR) that can be obtained at http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2017 for state agencies general service members were 12.31% for Tier One/Tier Two and 6.51% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by state agencies.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the State of Oregon reported a liability of $4.07 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the State's proportion was 27.1%, which increased from the 25.6% proportion measured as of June 30, 2015.

As part of the State of Oregon, the Loan Program was allocated a percentage (.0286%) of the State's proportionate share in the plan as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 142,103	$ -
Changes in assumptions	916,054	-
Net difference between projected and actual earnings on investments	848,543	-
Changes in proportion and differences between contributions and proportionate share of contributions	109,832	40,813
Subtotal	2,016,532	40,813
Net deferred Outflow (Inflow) of Resources before contributions subsequent to measurement date		1,975,719
Contributions subsequent to measurement date	230,236	
Net Deferred Outflow (Inflow) of Resources		2,205,955

For the year ended June 30, 2017, the Department recognized pension expense of $803,172.

Pension-Related Debt

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.

11. 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, 2017, the total rental income received from tenants was $440,702.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	June 1, 2016	May 31, 2018	$ 78,261
Tenant 2	June 6, 2017	December 31, 2027	$ 3,873,244
Total			$ 3,951,505

12. 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 year ended June 30, 2017 there were no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years *(July 1, 2007 through June 30, 2017)* there have been no claims that exceeded the Department's property or liability coverage.

13. Subsequent Events

On September 1, 2017, the Department called the following bonds:

	Amount Called
Series 94 (2014 H)	$360,000
Series 96 (2015 Q)	$700,000

On September 13, 2017, conditional redemption notices to call the following bonds on October 13, 2017, were issued to the affected bondholders:

	Amount Called
Series 88A	$ 9,650,000
Series 88B	$ 30,000,000
Series 89A	$ 2,135,000

On October 11, 2017, the Department issued the following bonds:

	Amount Issued
Series 98A (2017 N)	$15,275,000
Series 98B (2017 O)	$23,300,000
Series 99A (2017 P)	$ 2,135,000
Series 99B (2017 Q)	$33,955,000

This page intentionally left blank

STATISTICAL SECTION

Oregon Department of Veterans' Affairs
Assets, Liabilities and Net Position - *Unaudited*
Veterans' Loan Program
For the Fiscal Years Ended 2008 - 2017

ASSETS & DEFERRED OUTFLOWS	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Current Assets				
Cash and Cash Equivalents *(1)*	$ 86,895,236	$ 102,196,365	$ 88,290,771	$ 81,418,994
Cash and Cash Equivalents - Restricted	3,107,741	2,848,532	2,532,900	2,019,125
Securities Lending Cash Collateral	1,017,020	7,174,060	10,291,763	12,366,201
Investments	10,709,272	10,613,753	10,296,884	10,145,257
Investments - Restricted	-	-	-	-
Receivables:				
Accrued Interest	1,167,666	1,131,097	1,101,323	1,117,525
LCLI Premiums	16,442	32,899	53,734	47,253
Other	23,440	9,563	50,777	80,456
Due from Other Funds	87,272	105,539	110,081	134,588
Real Estate Owned	259,586	424,720	196,585	680,635
Prepaid Expenses	8,575	14,133	5,241	6,080
Total Current Assets	$ 103,292,250	$ 124,550,661	$ 112,930,059	$ 108,016,114
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	$ 52,093,642	$ 69,855,033	$ 85,073,503	$ 107,661,208
Investments	-	-	-	-
Investments - Restricted	-	-	-	-
Mortgage Loans and Contracts Receivable (Net)	295,521,511	261,187,668	236,597,114	212,809,406
Other Receivable	2,335,640	1,413,881	2,637,961	4,148,543
Derivative Instrument - Interest Rate Swap	245,110	-	-	-
Deferred Underwriter's Discount	-	-	-	-
Net Pension Asset	-	-	507,702	-
Capital Assets:				
Building, Property and Equipment	9,004,597	9,132,222	9,107,786	8,995,981
Works of Art and Historical Treasures	627,021	627,021	627,021	627,021
Accumulated Depreciation	(5,448,479)	(5,501,146)	(5,392,363)	(5,288,119)
Total Noncurrent Assets	$ 354,379,042	$ 336,714,679	$ 329,158,724	$ 328,954,040
Deferred Outflow of Resources				
Hedging Derivative	$ -	$ 763,043	$ 1,391,681	$ 1,895,225
Pension Related	2,246,768	396,597	187,905	-
Total Deferred Outflow of Resources	2,246,768	1,159,640	1,579,586	1,895,225
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 459,918,060	$ 462,424,980	$ 443,668,369	$ 438,865,379
LIABILITIES & DEFERRED INFLOWS				
Current Liabilities				
Accounts Payable	$ 114,532	$ 118,401	$ 49,112	$ 144,124
Line of Credit Payable	-	-	-	-
LCLI Premium Payable	27,227	18,059	26,024	34,124
LCLI Claims Payable	45,708	-	25,166	42,245
Deposit Liabilities	3,080,514	2,830,472	2,506,875	1,920,002
Accrued Interest on Bonds	667,278	579,261	467,235	380,999
Obligations Under Securities Lending	1,017,020	7,174,060	10,291,763	12,366,201
Pension-Related Debt	33,200	25,300	29,900	21,100
Compensated Absences Payable	239,928	242,503	231,008	208,479
Excess Interest and Arbitrage Rebate Payable	-	-	111,793	9,024
Bonds Payable - Maturing Within One Year (Net)	8,386,825	6,883,474	4,621,160	3,634,808
Matured Bonds Payable	-	-	-	65,000
Total Current Liabilities	$ 13,612,232	$ 17,871,530	$ 18,360,036	$ 18,826,106
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	$ 298,811,581	$ 297,180,572	$ 275,544,308	$ 270,369,127
Pension-Related Debt	672,474	713,539	734,282	776,914
Net Pension Liability	4,295,159	1,538,316	-	-
Compensated Absences Payable	129,192	130,579	119,004	107,398
Excess Interest and Arbitrage Rebate Payable	20,660,816	22,845,548	21,941,769	21,063,255
Other Postemployment Benefits Obligation (Net)	114,450	112,087	119,930	115,524
Derivative Instrument - Interest Rate Swap	-	763,043	1,391,681	1,895,225
Total Noncurrent Liabilities	$ 324,683,672	$ 323,283,684	$ 299,850,974	$ 294,327,443
TOTAL LIABILITIES	$ 338,295,904	$ 341,155,214	$ 318,211,010	$ 313,153,549
Deferred Inflow of Resources				
Hedging Derivative	$ 245,110	-	-	-
Pension Related	40,813	374,548	979,659	-
Total Deferred Inflow of Resources	285,923	374,548	979,659	-
NET POSITION				
Net Investment in Capital Assets	$ 4,183,139	$ 4,258,097	$ 4,342,444	$ 4,334,883
Net Assets, Unrestricted	117,153,094	116,637,121	120,135,256	121,376,947
TOTAL NET POSITION	$ 121,336,233	$ 120,895,218	$ 124,477,700	$ 125,711,830
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 459,918,060	$ 462,424,980	$ 443,668,369	$ 438,865,379

(1) Current Cash and Cash Equivalents amounts have been adjusted for deposit liabilities.

June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
$ 91,182,217	$ 70,538,060	$ 92,654,442	$ 89,880,157	$ 63,666,685	$ 87,234,247
1,805,833	1,970,398	3,107,401	4,601,059	5,454,658	6,685,594
13,766,369	22,652,458	67,609,488	91,912,913	209,834,541	220,256,145
7,010,850	14,525,830	3,540,625	10,903,602	22,126,185	2,511,661
-	-	5,005,250	15,004,650	25,537,018	56,189,591
1,246,755	1,485,707	1,641,564	1,957,271	2,157,552	2,945,247
59,058	70,243	71,655	87,229	92,070	107,214
38,988	24,542	24,638	24,407	13,256	10,817
71,798	68,285	66,147	67,428	72,172	63,499
1,087,119	1,908,323	1,570,465	1,429,235	591,530	9,842
2,405	8,506	6,946	7,970	5,379	16,145
$ 116,271,392	$ 113,252,352	$ 175,298,621	$ 215,875,921	$ 329,551,046	$ 376,030,002
$ 134,842,147	$ 140,316,030	$ 139,488,446	$ 166,349,089	$ 413,146,725	$ 372,930,995
-	7,005,810	21,783,303	7,845,319	15,815,890	-
-	-	3,269,211	13,127,161	25,520,715	84,613,906
197,333,478	217,022,740	247,018,965	274,950,313	298,087,844	306,408,188
1,526,883	1,082,269	523,531	449,742	270,279	2,391,606
-	-	-	-	-	-
1,218,172	1,303,955	1,937,005	1,914,482	2,025,039	2,158,705
-	-	-	-	-	-
8,984,206	8,925,405	8,954,357	8,911,904	8,911,904	9,484,489
627,021	627,021	85,170	85,170	85,170	85,170
(5,187,564)	(5,088,810)	(5,008,953)	(4,891,793)	(4,774,826)	(5,226,182)
$ 339,344,343	$ 371,194,420	$ 418,051,035	$ 468,741,387	$ 759,088,740	$ 772,846,877
$ 2,250,525	$ 3,047,423	$ 1,808,678	$ 2,249,775	$ -	$ -
-	-	-	-	-	-
2,250,525	3,047,423	1,808,678	2,249,775	-	-
$ 457,866,260	$ 487,494,195	$ 595,158,334	$ 686,867,083	$ 1,088,639,786	$ 1,148,876,879
$ 76,910	$ 167,851	$ 237,200	$ 228,675	$ 240,559	$ 358,119
-	-	-	-	-	1,000,000
35,571	40,635	58,000	67,779	86,853	99,208
190,401	19,406	90,094	243,351	108,999	108,164
1,695,262	1,834,763	1,976,620	2,107,611	2,200,352	2,187,904
425,153	450,338	964,913	1,046,013	1,249,984	3,201,652
13,766,369	22,652,458	67,609,488	91,912,913	209,834,541	220,256,145
18,300	-	-	-	-	-
211,447	301,467	296,022	289,901	283,340	279,685
-	-	-	487,548	452,944	268,193
3,478,108	3,377,727	3,302,227	2,006,453	2,041,454	41,454,365
75,000	95,000	1,072,780	2,425,669	3,167,453	4,398,482
$ 19,972,521	$ 28,939,645	$ 75,607,344	$ 100,815,913	$ 219,666,479	$ 273,611,917
$ 288,111,038	$ 308,656,156	$ 371,039,732	$ 438,887,949	$ 730,324,401	$ 735,100,855
800,787	-	-	-	-	-
-	-	-	-	-	-
113,856	155,301	152,496	149,343	139,556	137,755
18,357,159	15,860,488	13,170,925	10,486,694	5,766,794	3,180,198
112,190	100,645	87,656	76,075	63,679	33,247
2,250,525	3,047,423	1,808,678	2,249,775	-	-
$ 309,745,555	$ 327,820,013	$ 386,259,487	$ 451,849,836	$ 736,294,430	$ 738,452,055
$ 329,718,076	$ 356,759,658	$ 461,866,831	$ 552,665,749	$ 955,960,909	$ 1,012,063,972
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
$ 4,423,663	$ 4,463,616	$ 4,030,574	$ 4,105,281	$ 4,222,248	$ 4,343,477
123,724,521	126,270,921	129,260,929	130,096,053	128,456,629	132,469,430
$ 128,148,184	$ 130,734,537	$ 133,291,503	$ 134,201,334	$ 132,678,877	$ 136,812,907
$ 457,866,260	$ 487,494,195	$ 595,158,334	$ 686,867,083	$ 1,088,639,786	$ 1,148,876,879

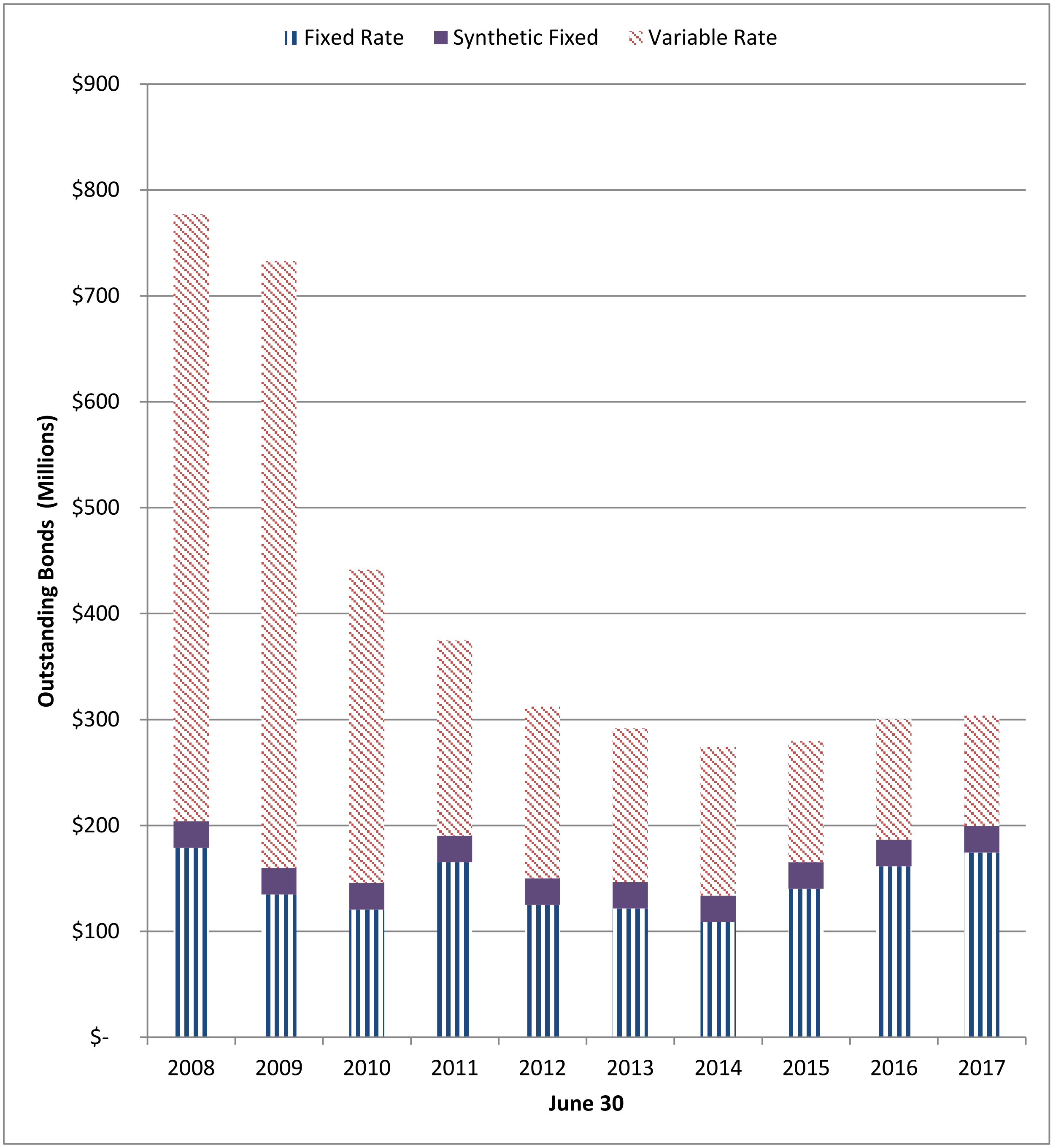
Oregon Department of Veterans' Affairs
Revenues, Expenses and Changes in Net Position - *Unaudited*
Veterans' Loan Program
For the Fiscal Years Ended 2008 - 2017

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 13,302,684	$ 9,926,312	$ 9,573,211	$ 7,441,010
Contract Interest Income	11,033	23,118	36,952	57,000
Other Interest Income	-	-	-	-
Investment Income	2,017,506	1,744,597	1,317,488	1,700,149
Gain on Sale of Foreclosed Property	7,143	44,415	37,528	262,886
Loan Cancellation Life Insurance Premiums	304,246	351,809	418,580	493,942
Loan Cancellation Life Insurance Processing Fees	72,000	72,000	72,000	87,000
Other Fees and Charges	1,979,856	2,080,470	2,349,133	2,324,761
Conservatorship Fees	534,731	489,585	392,206	364,090
TOTAL OPERATING REVENUES	$ 18,229,199	$ 14,732,306	$ 14,197,098	$ 12,730,838
OPERATING EXPENSES				
Bond Interest	$ 8,299,193	$ 7,009,347	$ 5,999,144	$ 5,847,512
Interest on Line of Credit	-	-	-	-
Salaries and Other Payroll	5,391,885	6,033,621	3,966,905	4,052,936
Bond Expenses	1,009,223	1,184,177	1,174,810	866,823
Securities Lending Investment Expense	7,675	31,957	12,050	12,873
Real Estate Owned Expense	44,121	17,833	138,901	328,002
Services and Supplies	1,379,273	1,541,746	1,205,305	1,491,581
Claims Expense - Loan Cancellation Life Insurance	450,938	1,247,875	1,170,815	1,244,045
Depreciation	115,289	108,783	104,244	100,555
Bad Debt	(539,102)	(244,749)	(600,374)	(1,187,213)
Special Payments	-	-	-	-
Other	1,370,564	1,139,726	1,081,046	973,850
TOTAL OPERATING EXPENSES	$ 17,529,059	$ 18,070,316	$ 14,252,846	$ 13,730,964
OPERATING INCOME (LOSS)	$ 700,140	$ (3,338,010)	$ (55,748)	$ (1,000,126)
NONOPERATING INCOME (EXPENSES)				
Interest Expense - Pension Related Debt	(50,496)	(50,122)	(51,837)	(51,735)
Gain/(Loss) on Early Extinguishment of Debt	-	-	-	-
TOTAL NONOPERATING INCOME (EXPENSES)	(50,496)	(50,122)	(51,837)	(51,735)
INCOME (LOSS) BEFORE TRANSFERS	649,644	(3,388,132)	(107,585)	(1,051,861)
TRANSFERS				
Net Transfers to Dept. of Administrative Services	$ (208,629)	$ (194,350)	$ (203,543)	$ (166,321)
Net Transfers from Military Dept.	-	-	-	-
Net Transfers from/(to) General Fund	-	-	-	-
TOTAL TRANSFERS	(208,629)	(194,350)	(203,543)	(166,321)
CHANGE IN NET POSITION	$ 441,015	$ (3,582,482)	$ (311,128)	$ (1,218,182)
NET POSITION				
Beginning Net Position	$ 120,895,218	$ 124,477,700	$ 125,711,830	$ 128,148,184
Prior Period Adjustment	-	-	3,958	-
Cumulative Effect of Change in Accounting Principle	-	-	(926,960)	(1,218,172)
Beginning Net Position, Restated	$ 120,895,218	$ 124,477,700	$ 124,788,828	$ 126,930,012
Ending Net Position	$ 121,336,233	$ 120,895,218	$ 124,477,700	$ 125,711,830

June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
$ 8,827,619	$ 10,494,442	$ 11,797,640	$ 11,445,675	$ 16,014,046	$ 17,611,704
69,347	108,784	139,828	209,608	302,145	434,945
-	-	-	-	-	3,219
2,162,639	2,327,058	4,043,049	6,964,830	4,673,050	33,154,407
53,635	76,034	295,954	34,542	35,160	-
605,167	715,356	822,503	962,230	1,142,192	1,356,657
102,000	102,000	102,000	102,000	102,000	102,000
1,636,638	1,689,093	1,516,602	1,733,649	1,841,337	2,155,231
264,161	298,380	289,939	284,381	294,951	313,493
$ 13,721,206	$ 15,811,147	$ 19,007,515	$ 21,736,915	$ 24,404,881	$ 55,131,656
$ 6,119,393	$ 7,498,587	$ 8,520,503	$ 8,495,161	$ 15,702,350	$ 26,856,570
-	-	-	-	49,948	721,945
4,802,451	5,653,694	5,717,843	5,642,344	5,773,576	5,953,581
1,020,215	1,858,820	1,378,103	1,117,848	1,247,214	1,242,882
41,639	57,794	232,258	320,983	1,270,291	6,678,572
300,065	491,313	259,411	130,125	29,547	2,324
1,253,702	1,340,540	1,744,035	1,867,440	1,665,656	1,971,272
1,294,691	1,091,934	1,155,382	1,266,568	1,938,157	2,312,867
98,754	108,809	117,160	116,967	113,378	160,174
(177,874)	336,329	360,478	936,600	-	-
-	-	-	-	(1,106)	98,674
467,545	242,959	117,585	94,516	325,670	687,994
$ 15,220,581	$ 18,680,779	$ 19,602,758	$ 19,988,552	$ 28,114,681	$ 46,686,855
$ (1,499,375)	$ (2,869,632)	$ (595,243)	$ 1,748,363	$ (3,709,800)	$ 8,444,801
(54,142)	-	-	-	-	-
-	-	-	-	(7,851)	-
(54,142)	-	-	-	(7,851)	-
(1,553,517)	(2,869,632)	(595,243)	1,748,363	(3,717,651)	8,444,801
$ (209,608)	$ (229,185)	$ (225,977)	$ (225,906)	$ (230,438)	$ -
14,124	-	-	-	-	98,824
-	-	-	-	(185,941)	300,000
(195,484)	(229,185)	(225,977)	(225,906)	(416,379)	398,824
$ (1,749,001)	$ (3,098,817)	$ (821,220)	$ 1,522,457	$ (4,134,030)	$ 8,843,625
$ 130,734,537	$ 133,291,503	$ 134,201,334	$ 132,678,877	$ 136,812,907	$ 127,969,282
(837,352)	541,851	(88,611)	-	-	-
-	-	-	-	-	-
$ 129,897,185	$ 133,833,354	$ 134,112,723	$ 132,678,877	$ 136,812,907	$ 127,969,282
$ 128,148,184	$ 130,734,537	$ 133,291,503	$ 134,201,334	$ 132,678,877	$ 136,812,907

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

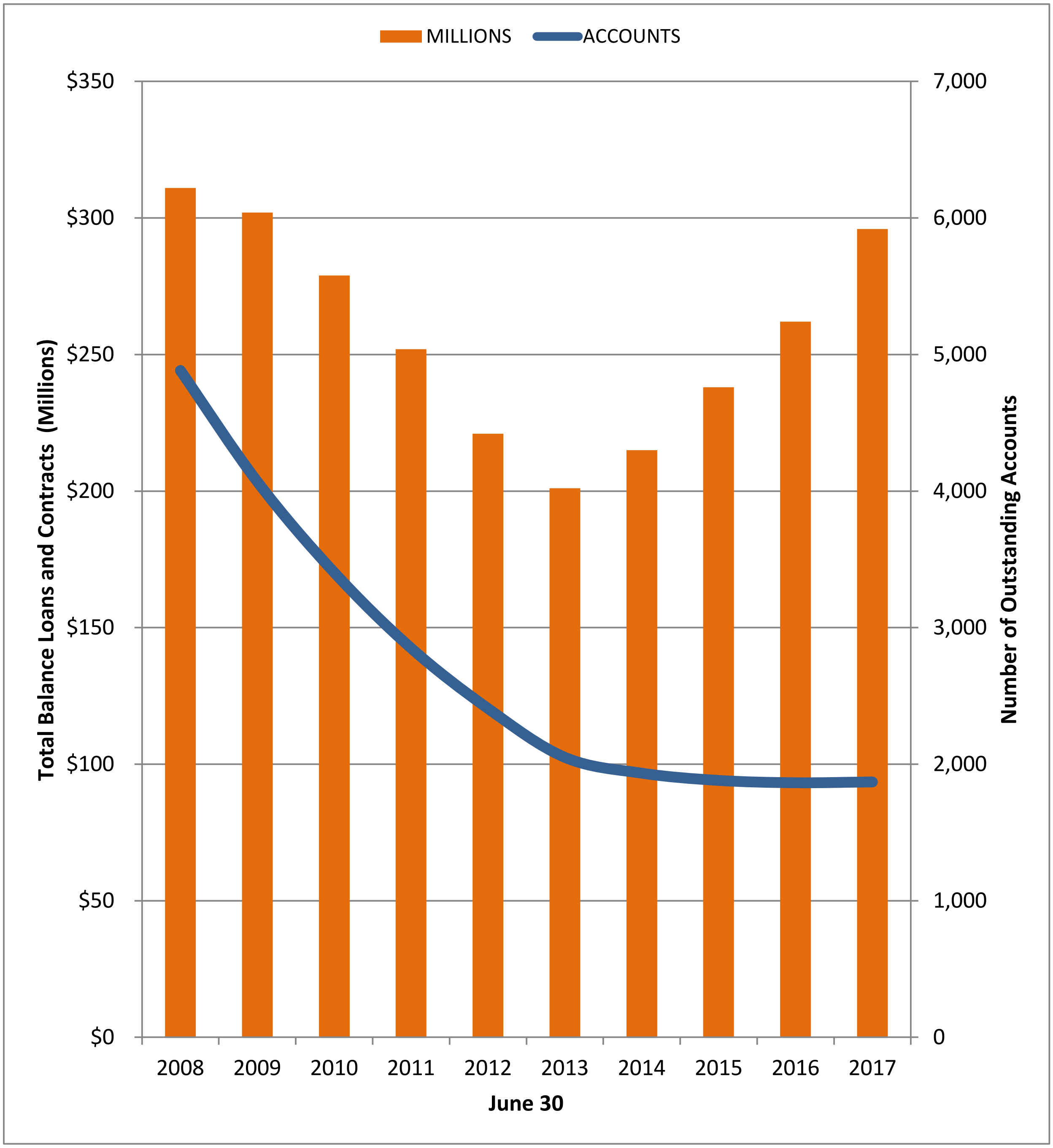
Principal Balance of Bonds Outstanding



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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

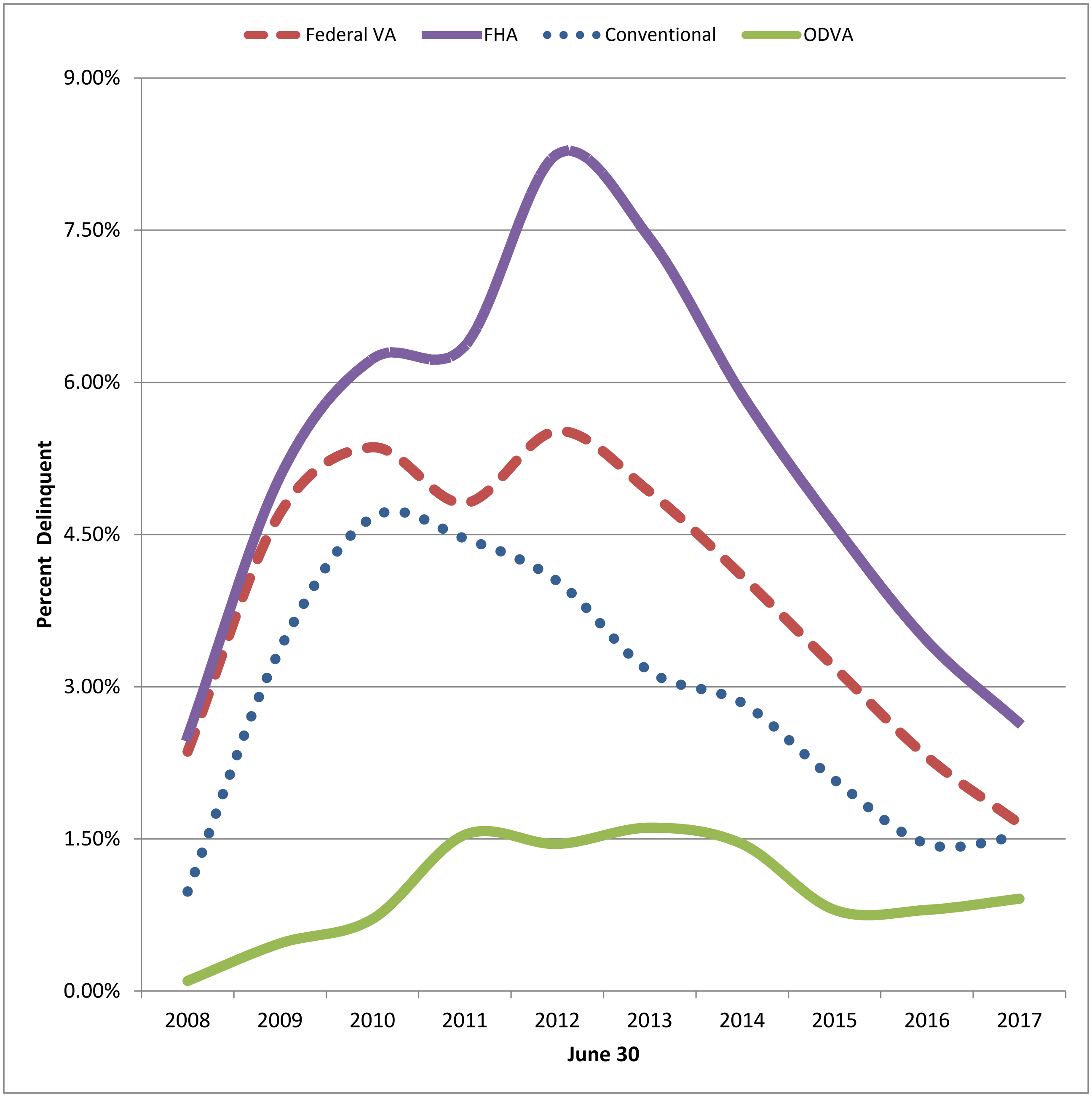
Loans and Contracts Outstanding



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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

Loan and Contract 90+ Day Delinquencies



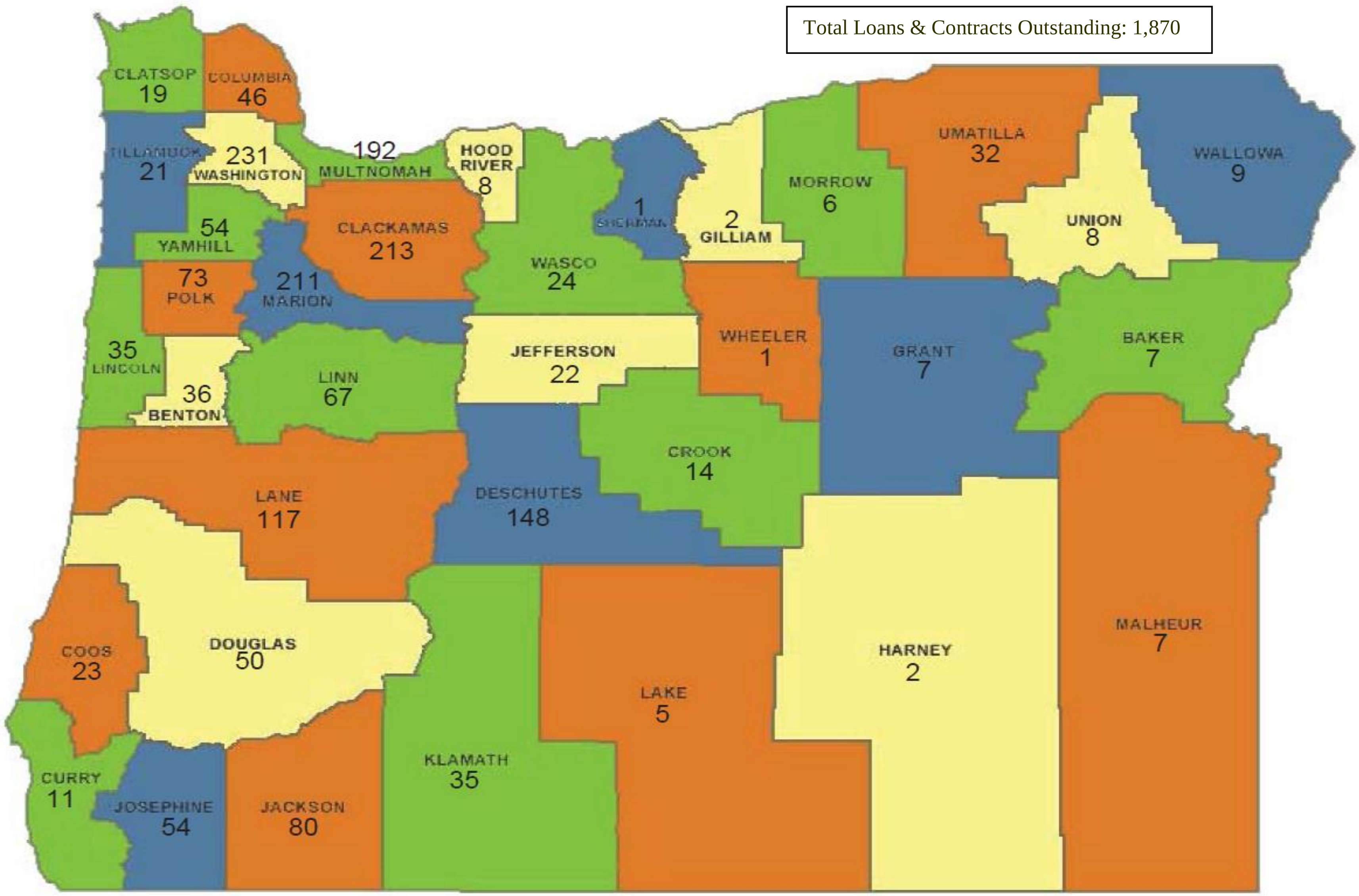
Source: Statistical Reports of the Oregon Department of Veterans' Affairs.

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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

Loans and Contracts Outstanding by County
As of June 30, 2017

Total Loans & Contracts Outstanding: 1,870



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

OTHER REPORTS

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State

Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Kate Brown, 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, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Veterans' Loan Programs' basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oregon Department of Veterans' Affairs' 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 Oregon Department of Veterans' Affairs' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Veterans' Loan Program'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.

Office of the Secretary of State, Audits Division

State of Oregon
October 13, 2017

OREGON DEPARTMENT of VETERANS' AFFAIRS

Serving Oregon Veterans Since 1945 | 700 Summer Street NE | Salem, Oregon 97301 | Headquarters 800 828 8801