



VETERANS' LOAN PROGRAM ANNUAL FINANCIAL REPORT

ENTERPRISE FUND FOR THE FISCAL YEAR ENDING JUNE 30, 2022

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, 2022



Kelly Fitzpatrick
Director

Donna Haole-Valenzuela
Chief Financial Officer

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Oregon

Tina Kotek, Governor

Department of Veterans' Affairs

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February 10, 2023

To the Honorable Tina Kotek 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, 2022.

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, 2022. 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 2022 Oregon Economic and Revenue Forecast from the Oregon Office of Economic Analysis (*OEA*):

Economic Summary

Economists are on recession watch. The combination of slower economic growth, high inflation, and rising interest rates has historically been problematic. That said, despite the crosscurrents in the economic data so far this year, the U.S. economy is unlikely to have entered into a recession. Employment and industrial production continue to grow. Personal income and consumer spending are rising quickly, but struggling to outpace the fastest inflation the U.S. has experienced since the early 1980s.

Outlook

The potential recession would weigh heavily on revenues over the next several years. However, even if the economic expansion persists, General Fund revenues are due for a hangover in 2023-25. General Fund resources have continued to expand in recent years despite large kicker credits being issued. This growth is expected to pause in the near term, as nonwage forms of income return to earth and gains in the labor market slow.

Recent gains in reported taxable income have been driven by taxpayer behavior as well as underlying economic growth. Investment and business income are not always realized for tax purposes as the same time they are earned in the market. Late 2021 was a great time to cash in assets, with equity prices and business valuations high, and potential federal tax increases on the horizon. Income reported on tax returns last year grew at more than double the rate of economic measures of income. After so much income was pulled into tax years 2020 and 2021, less will be realized in the near term. And with recessionary risks rising, profits and gains could turn into losses, and a smaller share of filers could be subject to the top rate.

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, 2022, this Program had approximately 1,376 mortgage loans and contracts outstanding, with a principal balance of approximately \$299 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, 2022, the Veterans' Loan Program had approximately \$489 million in assets (*primarily consisting of cash and cash equivalents and loan and contract receivables*) and approximately \$347 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, 2022, 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, 2022, the Department had approximately \$325 million (*par value*) in outstanding bonds. During fiscal year 2022, approximately \$46 million in new bonds were issued and approximately \$54 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, 2022, the Department's Loan Program cash, cash equivalents (*excluding securities lending collateral*), and investments totaled approximately \$170 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.

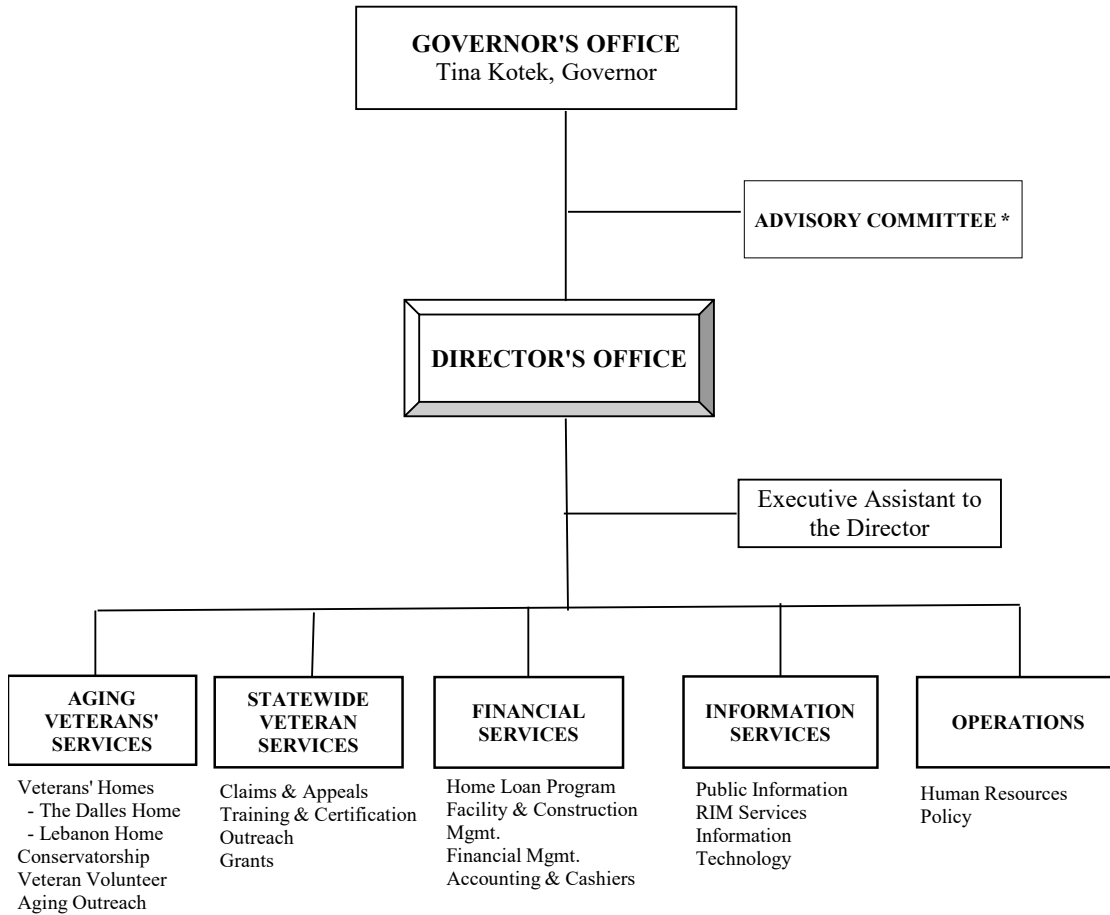
Respectfully submitted,



Kelly Fitzpatrick
Director



Donna Haole-Valenzuela
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.

<u>Advisory Committee Members</u>	<u>Term Expires</u>	<u>Advisory Committee Members</u>	<u>Term Expires</u>
James A Gardner	November 30, 2024	Bob Van Voorhis	April 30, 2023
Christine Gittins	September 30, 2023	Christina V Wood	November 17, 2024
John F Howard	March 15, 2024	Micah J Ashby	November 17, 2024
Reynold L Leno	March 15, 2024	Mayme D Cawvey	November 18, 2024
Nell Stamper	November 30, 2023		



FINANCIAL SECTION

Independent Auditor's Report

The Honorable Tina Kotek
Governor of Oregon

Kelly Fitzpatrick, Director
Oregon Department of Veterans' Affairs

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs (department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Veterans' Loan Program, as of June 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 State of Oregon or Oregon Department of Veterans' Affairs, as of June 30, 2022, the changes in its financial position or 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.

Responsibilities of Management 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, and for 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 for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and the disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Oregon Department of Veterans' Affairs' internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If,

based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2023, 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 the Oregon Department of Veterans' Affairs' internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
February 9, 2023

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, 2022. The selected financial data presented was derived primarily from the financial statements of the Veterans' Loan Program, which have been audited.

FINANCIAL HIGHLIGHTS

	<i>(In Millions)</i>		<u>Change</u>	
	2022	2021	<i>(In Millions)</i>	Percentage
Net Position	\$ 134.9	\$ 135.3	\$ (0.40)	-0.30%
Revenues	\$ 16.3	\$ 15.9	\$ 0.40	2.52%
Expenses	\$ 17.1	\$ 16.5	\$ 0.60	3.64%
General Obligation Bond				
Debt (<i>par value</i>)	\$ 330.5	\$ 332.6	\$ (2.10)	-0.63%
Mortgage Loan Originations	\$ 85.1	\$ 46.6	\$ 38.50	82.62%

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 Annual Comprehensive Financial Report. 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, 2022 were approximately \$489.0 million, a decrease of \$5.0 million from June 30, 2021. The change in assets consists primarily of a \$35.8 million

decrease in -cash and equivalents offset by a \$23.2 million increase in mortgage loans receivable.

Liabilities

Total liabilities at June 30, 2022, were \$346.5 million, a decrease of \$12.2 million from June 30, 2021. The change in liabilities consists primarily of a decrease of \$7.8 million in net 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**

	<u>Business Type Activity</u>		Change	%Change
	2022	2021		
Assets:				
Current and Other Assets	\$ 483,375,989	\$ 488,251,379	\$ (4,875,390)	-1.00%
Capital Assets	5,624,437	5,757,427	(132,990)	-2.31%
Total Assets	\$ 489,000,426	\$ 494,008,806	(5,008,380)	-1.01%
Deferred Outflow of Resources	\$ 1,599,450	\$ 1,630,460	\$ (31,010)	-1.90%
Liabilities:				
Long Term Liabilities	\$ 325,844,059	\$ 339,447,451	\$ (13,603,392)	-4.01%
Other Liabilities	20,677,742	19,277,347	1,400,395	7.26%
Total Liabilities	\$ 346,521,801	\$ 358,724,798	\$ (12,202,997)	-3.40%
Deferred Inflow of Resources	\$ 9,171,799	\$ 1,620,212	\$ 7,551,587	466.09%
Net Position:				
Net Investment in Capital Assets	\$ 5,624,437	\$ 5,757,427	\$ (132,990)	-2.31%
Restricted for OPEB	152,991	23,011	129,980	564.86%
Unrestricted	129,128,848	129,513,818	(384,970)	-0.30%
Total Net Position	\$ 134,906,276	\$ 135,294,256	\$ (387,980)	-0.29%

Loans Receivable

Total mortgages and other loans receivable increased by \$23.2 million in fiscal year 2022. This increase was primarily due to an increase in loan origination volume.

Bonds Payable

Bonds Payable decreased by \$7.8 million (*par value*) from June 30, 2021 to June 30, 2022. During fiscal year 2022, the Department issued approximately 46.2 million and retired approximately \$54.2 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 decreased by approximately \$0.4 million in fiscal year 2022. Expenses exceeded revenues resulting in a decrease 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		Change	% Change
	2022	2021		
Revenues:				
Interest Income:				
Mortgage Loans	\$ 11,844,958	\$ 10,092,947	\$ 1,752,011	17.36%
Contracts	-	208	(208)	-100.00%
Investment Income:	455,117	2,119,590	(1,664,473)	-78.53%
LCLI Premium Revenue	136,895	161,434	(24,539)	-15.20%
LCLI Processing Fee	66,000	72,000	(6,000)	-8.33%
Other Fees and Charges	3,419,054	2,985,887	433,167	14.51%
Conservatorship Fees	418,607	432,285	(13,678)	-3.16%
Total Revenues	\$ 16,340,631	\$ 15,864,351	\$ 476,280	3.00%
Expenses:				
Bond Interest	\$ 7,901,444	\$ 8,957,712	\$ (1,056,268)	-11.79%
Salaries and Other Payroll	4,314,746	5,048,660	(733,914)	-14.54%
Bond Costs	814,254	(381,644)	1,195,898	-313.35%
Securities Lending Investment Expense	2,498	1,191	1,307	109.74%
Real Estate Owned Expense	1,685	-	1,685	100.00%
Services and Supplies	2,015,755	1,532,279	483,476	31.55%
LCLI Claims & Admin. Expense	300,770	273,555	27,215	9.95%
Depreciation	211,187	192,919	18,268	9.47%
Bad Debt	31,428	(20,124)	51,552	-256.17%
Other	1,551,028	870,861	680,167	78.10%
Total Expenses	\$ 17,144,795	\$ 16,475,409	\$ 669,386	4.06%
Operating Income (Loss)	\$ (804,164)	\$ (611,058)	\$ (193,106)	31.60%
Non-Operating Revenues (Expenses)				
Gain/(Loss) on Extinguishment of Debt	612,893		612,893	100.00%
Interest Expense - Pension Related Debt	\$ (24,416)	\$ (38,750)	\$ 14,334	-36.99%
Total Non-Operating Revenues (Expenses)	\$ 588,477	\$ (38,750)	\$ 627,227	-1618.65%
Income (Loss) before Transfers & Contributions	\$ (215,687)	\$ (649,808)	\$ 434,121	-66.81%
Transfers & Contributions				
Net Transfers from Lottery	\$ -	\$ -	-	
Net Transfers from CRF Fund	-	85,817	(85,817)	100.00%
Net Transfers to Dept. of Admin Services	(172,293)	(178,371)	6,078	-3.41%
Capital Contributions	-	1,142	(1,142)	-100.00%
Total Transfers & Contributions	\$ (172,293)	\$ (91,412)	\$ (80,881)	88.48%
Increase (Decrease) in Net Position	\$ (387,980)	\$ (741,220)	\$ 353,240	-47.66%
Net Position – Beginning	\$ 135,294,256	\$ 136,035,476	\$ (741,220)	-0.54%
Net Position – Ending	\$ 134,906,276	\$ 135,294,256	\$ (387,980)	-0.29%

Revenues and Expenses

The Veterans' Loan Program's revenue is generated principally from interest earned on mortgage loans and investment income. In fiscal year 2022, revenue generated through the Veterans' Loan Program totaled approximately \$16.3 million, of which approximately \$12.3 million, or 75% 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 \$17.1 million, of which approximately \$7.9 million, or 46% is bond interest expense and \$4.3 million, or 25%, is salaries and other payroll expenses.

Change in Net Position

The change in net position for the year ended June 30, 2022 resulted in a decrease of approximately \$0.4 million.

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 \$324.5 million (*par value*) in outstanding general obligation bonds as of June 30, 2022. During fiscal year 2022, approximately 46.2 million in new general obligation bonds were issued and \$54.2 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 Oregon 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, 2022

	Business-Type Activity - Enterprise Fund
	<i>Veterans' Loan Program</i>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 83,502,956
Cash and Cash Equivalents - Restricted	3,320,998
Securities Lending Cash Collateral	857,459
Investments	11,488,929
Receivables:	
Mortgage Loans Receivable (Net)	8,983,021
Accrued Interest	1,078,327
Loan Cancellation Life Insurance Premiums	6,338
Other	128,089
Due from Other Funds	307,543
Prepaid Expenses	7,641
Total Current Assets	109,681,301
Noncurrent Assets	
Cash and Cash Equivalents - Restricted	71,825,874
Mortgage Loans Receivable (Net)	289,655,634
Other Receivable	5,028,903
Derivative Instrument - Interest Rate Swap	7,031,286
Net OPEB Asset - RHIA Plan - Restricted	152,991
Capital Assets:	
Building, Property and Equipment	11,208,451
Works of Art and Historical Treasures	627,021
Accumulated Depreciation	(6,211,035)
Total Noncurrent Assets	379,319,125
Total Assets	489,000,426
Deferred Outflows of Resources	
Pension Related	1,580,223
OPEB Related	19,227
Total Deferred Outflows of Resources	1,599,450
Liabilities	
Current Liabilities	
Accounts Payable	\$ 35,720
Lease Obligations	21,021
Loan Cancellation Life Insurance Payable	10,767
Due to Other Funds	
Deposit Liabilities	3,310,231
Accrued Interest on Bonds	670,120
Obligations under Securities Lending	857,459
Pension-Related Debt	65,035
Compensated Absences Payable	232,827
Bonds Payable-Maturing Within One Year (Net)	15,474,562
Total Current Liabilities	20,677,742
Noncurrent Liabilities	
Bonds Payable-Maturing After One Year (Net)	315,057,910
Pension-Related Debt	353,980
Net Pension Liability	2,599,289
Compensated Absences Payable	130,965
Excess Interest and Arbitrage Rebate Payable	7,611,316
Net OPEB Liability - RHIPA Plan	
Total OPEB Liability - PEBB Plan	71,633
Lease Obligations	18,966
Total Noncurrent Liabilities	325,844,059
Total Liabilities	346,521,801
Deferred Inflows of Resources	
Hedging Derivative	7,031,286
Pension Related	2,029,349
OPEB Related	111,164
Total Deferred Inflows of Resources	9,171,799
Net Position	
Net Investment in Capital Assets	5,624,437
Restricted for OPEB	152,991
Unrestricted	129,128,848
Total Net Position	\$ 134,906,276

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, 2022

	Business-Type Activity - Enterprise Fund
	<u>Veterans' Loan Program</u>
Operating Revenues	
Interest Income:	
Mortgage Loans	\$ 11,844,958
Contracts	
Investment Income	455,117
Loan Cancellation Life Insurance Premiums	136,895
Loan Cancellation Life Insurance Processing Fee	66,000
Other Fees and Charges	3,419,054
Conservatorship Fees	418,607
Total Operating Revenues	<u>16,340,631</u>
Operating Expenses	
Bond Interest	7,901,444
Salaries and Other Payroll	4,314,746
Bond Expenses	814,254
Securities Lending Investment Expense	2,498
Real Estate Owned Expense	1,685
Services and Supplies	2,015,755
Claims Expense - Loan Cancellation Life Insurance	300,770
Depreciation	211,187
Bad Debt	31,428
Other	1,551,028
Total Operating Expenses	<u>17,144,795</u>
Operating Income (Loss)	<u>(804,164)</u>
Non-operating Revenues (Expenses)	
Gain/(Loss) on Extinguishment of Debt	612,893
Interest Expense - Pension Related Debt	(24,416)
Total Non-operating Revenues (Expenses)	<u>588,477</u>
Income (Loss) before Transfers & Contributions	(215,687)
Transfers & Contributions	
Transfers to Dept. of Administrative Services	(172,293)
Capital Contributions	
Total Transfers & Contributions	<u>(172,293)</u>
Increase (Decrease) in Net Position	<u>(387,980)</u>
Net Position - Beginning	<u>135,294,256</u>
Net Position - Ending	<u>\$ 134,906,276</u>

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, 2022

	Business-Type Activity - Enterprise Fund
	<u>Veterans' Loan Program</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 3,128,764
Receipts from Other Funds for Services	890,558
Loan Principal Repayments	62,857,402
Loan Interest Received	9,631,265
Payments to Employees for Services	(4,833,623)
Payments to Suppliers	(444,617)
Payments to Other Funds for Services	(3,206,414)
Loans Made	(88,806,937)
<i>Net Cash Provided (Used) in Operating Activities</i>	<u>(20,783,602)</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from Bond Sales	47,496,246
Principal Payments on Bonds	(54,190,000)
Interest Payments on Bonds	(8,407,325)
Bond Issuance Costs	(814,689)
Lease Payments	(14,355)
Interest - Leased Assets	(685)
Principal Payments on Pension-Related Debt	(74,174)
Interest Payments on Pension-Related Debt	(24,416)
<i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	<u>(16,029,398)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(72,784)
<i>Net Cash Provided (Used) in Capital and Related Financing Activities</i>	<u>(72,784)</u>
Cash Flows from Investing Activities:	
Interest on Investments and Cash Balances	1,065,162
Investment Income from Securities Lending	2,498
Investment Expense from Securities Lending	(2,498)
<i>Net Cash Provided (Used) in Investing Activities</i>	<u>1,065,162</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(35,820,622)
Cash and Cash Equivalents - Beginning	<u>194,470,450</u>
Cash and Cash Equivalents - Ending	<u>\$ 158,649,828</u>
Reconciled to Statement of Net Position:	
<i>Cash and Cash Equivalents - Current</i>	\$ 83,766,956
<i>Cash and Cash Equivalents - Current, Restricted</i>	3,320,998
<i>Cash and Cash Equivalents - Noncurrent, Restricted</i>	71,561,874
<i>Cash and Cash Equivalents - Ending (shown above)</i>	<u>\$ 158,649,828</u>

(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, 2022

**Business-Type
 Activity -
 Enterprise Fund**
Veterans' Loan
 Program

(Continued from prior page)

**Reconciliation of Operating Income to Net Cash Provided (Used)
 by Operating Activities:**

Operating Income (804,164)

Adjustments to Reconcile Operating Income to Net Cash Provided (Used)

by Operating Activities:

Depreciation/Amortization 187,564
 Amortization of Bond Premium, Discount and Underwriter's
 Discount on Called Bonds (479,796)
 Bad Debt Expense 31,428
 Investment Income Reported as Operating Revenue (235,986)
 Interest Expense Reported as Operating Expense 8,381,240
 Bond Costs Reported as Operating Expense 814,254
 Net Changes in Assets and Liabilities:
 Accounts and Interest Receivable 53,080
 Loans, Contracts and Other Receivable (26,394,177)
 Other Receivable (74,303)
 Net OPEB Asset - RHIA Plan (150,623)
 Accounts Payable 671,422
 Amortization of Leased Assets 23,623
 Lease Payments (9,268)
 Lease Interest 685
 Arbitrage Payable (2,430,326)
 Compensated Absences Payable (41,073)
 Net Pension Liability (2,155,216)
 Net OPEB Liability - RHIPA Plan (120)
 Total OPEB Liability (254,076)
 Deferred Outflow of Resources
 Related to Pensions 65,839
 Related to OPEB 7,878
 Deferred Inflow of Resources
 Related to Pensions 1,922,300
 Related to OPEB 86,213

Total Adjustments (19,979,437)

Net Cash Provided (Used) by Operating Activities \$ (20,783,602)

Noncash Investing and Capital and Related Financing Activities:

Net Change in Fair Value of Investments \$ 844,698

Total Noncash Investing and Capital and Related Financing Activities \$ 844,698

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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Proprietary Fund
Notes to the Financial Statements
June 30, 2022

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, 2022, are included in the table below:

	Total <u>June 30, 2022</u>
Book Balance - Cash and Cash Equivalents	
Current unrestricted	\$ 83,502,956
Current restricted	3,320,998
Noncurrent restricted	<u>71,825,874</u>
Combined Book Balance	<u>\$ 158,649,828</u>
Bank Balance - Cash and Cash Equivalents	<u>\$ 161,870,562</u>

As of June 30, 2022, the Veterans' Loan Program had a combined total of \$150,755,779 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](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx) or by writing to the Oregon State Treasury, 867 Hawthorne Ave SE, Salem, OR 97301-5241.

In addition, the Department held \$11,114,783 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, 2022, the Department estimated that required balance to be \$264,000. 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 see Note 1 "Loan Cancellation Life Insurance."

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: <https://www.oregon.gov/treasury/invested-for-oregon/Pages/Oregon-Intermediate-Term-Investments.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, 2022, was 3.66 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, 2022, the Veterans' Loan Program had restricted assets of \$75,146,872.

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, 2022, 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
Securities Lending Cash and Noncash Collateral	\$ 1,070,923
Securities on Loan	\$ 1,050,306
Investments Purchased with Cash Collateral	\$ 857,195
<u>Securities on Loan:</u>	
U.S. Agency	26.17%
U.S. Treasury	0.95%
Domestic Fixed Income	72.88%
	<u>100.00%</u>

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

3. Mortgage Loans Receivable

Mortgage loans receivable are secured by real property, which is repossessed if the receivable becomes uncollectible. Most loan 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 receivable portfolio at June 30, 2022, is approximately \$299 million. All mortgaged property is located within Oregon. The Department uses the allowance method to estimate uncollectible mortgage loans 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. In 2022 the Department determined the balance of the allowance account to be in line with potential losses for the remaining loan portfolio. Accordingly, the account balance at June 30, 2022, is approximately \$72 thousand. The balance of the allowance account represents approximately 0.02 percent of gross loans receivable.

The following table details the mortgage loans receivable and allowance accounts as disclosed on the Statement of Net Position for June 30, 2022.

	June 30, 2022		
	Current	Noncurrent	Total
Loans Receivable	\$ 8,985,193	\$ 289,725,658	\$ 298,710,851
Less: Allowance for Principal Losses	(2,172)	(70,024)	(72,196)
Net Loans Receivable	\$ 8,983,021	\$ 289,655,634	\$ 298,638,655

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, 2022, there were 28 non-amortizing accounts with an aggregate principal balance of approximately \$3.26 million. This represents approximately 1.1 percent of the total net loans receivable.

Troubled Debt Restructurings

The Department makes every reasonable attempt to keep a borrower in the home purchased under the Veterans' Loan Program. ODVA did have an emergency Forbearance plan as established by HB2009. This bill had a final expiration date of 12/31/2021 for the "emergency" bill requiring all loan servicers with loans in Oregon, to offer their borrowers opportunity to enroll in a Forbearance plan due to COVID. For future debt restructuring, the process will be covered by ORS 407.095

For the Fiscal year from 07/01/2021 – 06/30/2022, ODVA did not have any borrowers that were under such a forbearance plan.

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, 2022, the Department had 133 insured accounts with six private mortgage insurers totaling approximately \$47.6 million. The majority of insured accounts are with Mortgage Guaranty Insurance Corporation (MGIC) with 86%. As of June 30, 2022, the Moody's ratings for MGIC was "A3".

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, 2022, the Department had \$305,496 as a deferred payment obligation from Triad.

Real Estate Owned

The Department has no properties acquired through foreclosure or acceptance of deeds in lieu of foreclosure as of June 30, 2022.

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, 2022:

	<u>Beginning Balance</u>	<u>- Increases</u>	<u>- Decreases</u>	<u>Ending Balance</u>
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	11,130,254	78,198	-	11,208,452
Total Capital Assets Being Depreciated	11,130,254	78,198	-	11,208,452
Less Accumulated Depreciation:				
Buildings, Property & Equipment	(5,999,848)	(211,187)	-	(6,211,035)
Total Accumulated Depreciation	(5,999,848)	(211,187)	-	(6,211,035)
Total Capital Assets Being Depreciated, Net	5,130,406	(132,989)	-	4,997,417
Total Capital Assets, Net	<u>\$5,757,427</u>	<u>\$(132,989)</u>	<u>\$ -</u>	<u>\$ 5,624,438</u>

Depreciation expense at June 30, 2022 was \$211,187.

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, 2022:

Bonds Payable (<i>Par</i>) at June 30, 2021	\$	332,580,000
Bonds Issued		46,175,000
Bonds Retired		<u>(54,190,000)</u>
Bonds Payable (<i>Par</i>) at June 30, 2022	\$	<u>324,565,000</u>

Shown below are the components of net bonds payable as disclosed on the Statement of Net Position for June 30, 2022:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Bonds Payable (<i>Par</i>)	\$ 15,030,000	\$ 309,535,000	\$ 324,565,000
Premium on Bonds Sold	444,562	5,522,909	5,967,471
Net Bonds Payable	<u>\$ 15,474,562</u>	<u>\$ 315,057,909</u>	<u>\$ 330,532,471</u>

The following schedule summarizes future debt service requirements to maturity as of June 30, 2022:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 15,030,000	\$ 7,895,363	\$ 22,925,363
2024	14,330,000	7,612,507	21,942,507
2025	14,925,000	7,331,708	22,256,708
2026	15,120,000	7,059,115	22,179,115
2027	15,060,000	6,760,261	21,820,261
2028-2032	63,160,000	28,583,425	91,743,425
2033-2037	68,965,000	21,432,864	90,397,864
2038-2042	59,945,000	13,556,299	73,501,299
2043-2047	41,560,000	6,214,694	47,774,694
2048-2052	16,470,000	1,045,800	17,515,800
TOTAL	<u>\$ 324,565,000</u>	<u>\$ 107,492,036</u>	<u>\$ 432,057,036</u>

Shown below are the outstanding bond issues and their final maturities (in fiscal years) as of June 30, 2022:

<u>Series</u>	<u>Dated</u>	<u>Original Coupon Rates</u>		<u>Issued</u>	<u>Outstanding</u>	<u>Final Maturity</u>
		<u>From</u>	<u>To</u>			
93 (2014 G)	December 3, 2014	0.700	3.900%	\$ 25,965,000	\$ 21,730,000	2040
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	9,275,000	2046
97A (2016 J)	December 7, 2016	0.850	3.550%	22,310,000	13,350,000	2031
97B (2016 K)	December 7, 2016	3.900	4.050%	17,500,000	3,060,000	2037
98A (2017 N)	October 11, 2017	1.350	5.000%	15,275,000	12,935,000	2030
98B (2017 O)	October 11, 2017	##		23,300,000	15,800,000	2041
99B (2017 Q)	October 11, 2017	0.950	3.500%	33,955,000	9,480,000	2048
100 (2017 U)	December 20, 2017	1.300	3.700%	73,885,000	62,990,000	2045
101 (2017 V)	December 20, 2017	1.200	4.000%	29,235,000	13,515,000	2049
102 (2018 E)	November 28, 2018	2.100	2.550%	4,435,000	1,525,000	2023
103 (2018 F)	November 28, 2018	1.950	4.250%	39,195,000	7,070,000	2049
104 (2019 R)	November 13, 2019	1.100	3.500%	28,990,000	19,685,000	2050
105A (2020 I)	June 24, 2020	0.650	2.150%	30,165,000	30,165,000	2035
105B (2020 J)	June 24, 2020	##		11,565,000	11,565,000	2039
106B (2020 L)	June 24, 2020	0.500	3.500%	11,650,000	10,255,000	2051
106C (2020 M)	June 24, 2020	##		11,435,000	11,435,000	2045
107 (2021 N)	November 18, 2021	2.375	2.600%	7,500,000	7,500,000	2043
108 (2021 O)	November 18, 2021	0.150	3.000%	38,675,000	38,090,000	2052
Total Bonds Outstanding as of June 30, 2022					<u>\$ 324,565,000</u>	

** 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 0.86% for 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 0.65% for Series 98B, Series 105B and Series 106C.

Debt Refunding

On November 18, 2021, the Department issued \$46,175,000 (par value) of fixed rate General Obligation Bonds, of which \$7,500,000 in bond proceeds were used to refund a portion of previously issued unhedged variable rate General Obligation Bonds. The current refunding of these bonds increases the total debt service over the next 15.884 years by approximately \$718,699 and results in an economic loss of approximately \$1,097,105.

6. Demand Bonds

Included in long-term debt at June 30, 2022 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 95 (2015 Series P)	\$ 25,140,000	U.S. Bank National Association	5/17/2027	34 days/12%	0.310%
Series 98B (2017 Series O)	\$ 15,800,000	U.S. Bank National Association	4/7/2025	34 days/12%	0.320%
Series 105B (2020 Series J)	\$ 11,565,000	U.S. Bank National Association	5/17/2027	34 days/12%	0.310%
Series 106C (2020 Series M)	\$ 11,435,000	U.S. Bank National Association	5/17/2027	34 days/12%	0.310%

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

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

Series	Outstanding Bond Principal Amount	Designated Remarketing Agent	Remarketing Mode	Remarketing Fee
Series 95 (2015 Series P)	\$ 25,140,000	U.S. Bank National Association	Weekly	0.050%
Series 98B (2017 Series O)	\$ 15,800,000	U.S. Bank National Association	Daily	0.050%
Series 105B (2020 Series J)	\$ 11,565,000	U.S. Bank National Association	Daily	0.050%
Series 106C (2020 Series M)	\$ 11,435,000	U.S. Bank National Association	Daily	0.050%

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPAs for Series 95, 98B, 105B and 106C ("*Series 95, 98B, 105B & 106C SBPAs*"), U.S. Bank National Association, will commit to purchase any Series 95, 98B, 105B or 106C unremarketed bonds, subject to certain conditions set forth in the SBPAs.

If a tender advance did occur under the Series 95, 98B, 105B & 106C SBPAs, 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 95, 98B, 105B & 106C SBPAs, a default would have occurred.

No tender advances or draws have been necessary to purchase unremarketed bonds under the Series 95, 98B, 105B & 106C SBPAs for fiscal year 2022. Therefore, no tender advances or draws were outstanding as of June 30, 2022.

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

7. Derivative Instruments – Interest Rate Swaps

The Department has interest rate swaps in connection with its Loan Program General Obligation Bonds, 2015 Series P (Veterans' Welfare Bonds Series 95) (the "Series 95 swap") and its Loan Program General Obligation Bonds, 2020 Series J (Veterans' Welfare Bonds Series 105B) and 2020 Series M (Veterans' Welfare Bonds Series 106C) (the "Series 105B & 106C swap"). The swaps and underlying floating-rate bonds together create "synthetic" fixed-rate debt.

The Department did not have any maturities of derivatives during fiscal year 2022. During the fiscal year the fair value of the Series 95 swap increased by \$2,550,596. The fair value of the Series 105B & 106C swap increased by \$2,992,477.

The fair value balance of the interest rate swaps is reported as a derivative instrument and deferred inflow of resources on the Statement of Net Position. The fair value of the swaps as of June 30, 2022 are positive. The fair value of the interest rate swaps is estimated using the zero-coupon method. This method calculates the future payments required by the swaps, using the

forward interest rates implied by the yield curve for the floating leg of the swaps and the fixed rate of the swaps for the fixed leg of the swaps. 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 swaps. 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.

Hedging Instruments

On June 30, 2022, 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	12/1/2020	12/1/2036	Pay 1.0115%; Receive 100% USD-SIFMA* Municipal Swap Index	\$ 3,138,307
Pay – fixed interest rate swap	Hedge of changes in cash flows on the Series 105B & 106C bonds, specifically related to changes in municipal tax-exempt interest rates	\$23,000,000	6/1/2021	12/1/2044	Pay 1.165%; Receive 100% USD-SIFMA* Municipal Swap Index**	\$ 3,892,979

* Securities Industry and Financial Markets Association (resets weekly)

** Receive 100% SIFMA from July 1, 2021 until June 1, 2029 then 70% of 1-month LIBOR (London Interbank Offered Rate) from July 1, 2029 until the termination date.

The Series 95 swap was structured with the option where the Department has the right to “cancel” or terminate the swap at par on the first day of each June and December, in whole or in part commencing June 1, 2025. The Department may also terminate the Series 105B & 106C swap on the first day of each June and December commencing on June 1, 2029. These options enhance asset/liability matching and provide flexibility to adjust the outstanding notional amounts of the swaps 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 Series 95 swap is with Bank of America, N.A. (the “Series 95 swap counterparty”), which is rated A+ and Aa2 by S&P and Moody’s respectively. The Series 105B & 106C swap is with The Bank of New York Mellon (the “Series 105B & 106C swap counterparty”), which is rated AA- and Aa1 by S&P and Moody’s respectively.

If the Series 95 swap counterparty's credit rating falls below certain levels, the Series 95 swap 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	\$ 1,000,000
A+	A1	\$ 10,000,000	\$ 1,000,000
A	A2	\$ 5,000,000	\$ 1,000,000
A-	A3	\$ 2,500,000	\$ 1,000,000
BBB+ or below or not rated	Baa1 or below or not rated	\$ -	\$100,000*

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

If the Series 105B & 106C swap counterparty's credit rating falls below certain levels, the Series 105B & 106C swap 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	\$ -
A+	A1	\$ 10,000,000	\$ 1,000,000
A	A2	\$ 5,000,000	\$ 1,000,000
A-	A3	\$ 2,500,000	\$ 1,000,000
BBB+ or below or not rated	Baa1 or below or not rated	\$ -	\$100,000*

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

Since the fair value of the swaps as of June 30, 2022, are positive, but the threshold applicable to the ratings by S&P and Moody's has not been exceeded, the Series 95 swap counterparty and the Series 105B & 106C swap counterparty are 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 swaps. As the SIFMA Municipal Swap Index rate decreases, the Department's net payments on the swaps 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 swaps are variable-rate demand obligation ("VRDO") bonds. The Series 95 VRDO bonds are remarketed weekly. The Series 105B and Series 106C VRDO bonds

are remarketed daily. The Department is exposed to basis risk on its pay-fixed interest rate swaps that are 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, 2022, the interest rate on the Department's Series 95 VRDO bonds is 0.86% and the interest rate on the Series 105B and Series 106C VRDO bonds is 0.65%, while the SIFMA Municipal Swap Index rate is 0.91%.

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 respective 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 counterparties and the variable rate paid to the Department. Using interest rates as of June 30, 2022, debt service requirements of the variable rate debt (on the notional amount of the swaps) and net swap payments are as follows:

<i>Fiscal Year</i>	<i>Principal</i>	<i>Interest</i>	<i>Interest Rate Swap (Net)</i>	<i>Total</i>
2023	-	292,749	90,168	382,917
2024	-	293,152	90,168	383,320
2025	1,730,000	287,500	90,857	2,108,357
2026	1,800,000	272,761	87,686	2,160,447
2027	1,855,000	257,135	85,621	2,197,756
2028-2032	9,955,000	1,037,186	396,196	11,388,382
2033-2037	16,590,000	533,302	316,643	17,439,945
2038-2042	11,635,000	41,478	145,368	11,821,846
2043-2045	4,575,000	717	16,984	4,592,701
TOTAL	\$ 48,140,000	\$ 3,015,980	\$ 1,319,691	\$ 52,475,671

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 (Series 95)	Minimum Transfer Amount (Series 105B & 106C)
A- or higher	A3 or higher	Infinite	\$100,000	\$ -
BBB+ or below	Baa1 or below	\$ -	\$100,000*	\$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, 2022:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bond Principal	\$ 332,580,000	\$ 46,175,000	\$ (54,190,000)	\$ 324,565,000	
Bond Premium	5,738,915	1,321,246	(1,092,689)	5,967,472	
Bond Discount	-	-	-	-	
Total Bonds Payable	338,318,915	47,496,246	(55,282,689)	330,532,472	15,474,562
Pension-Related Debt	493,189		(74,174)	419,015	65,035
Net Pension Liability	4,711,809	803,311	(2,915,831)	2,599,289	-
Compensated Absences Payable	404,865	322,761	(363,834)	363,792	232,827
GASB 87 Leases	-	63,610	(23,623)	39,987	21,021
Excess Interest & Arbitrage Rebate Payable	10,041,642	7,611,316	(10,041,642)	7,611,316	-
Net OPEB Liability - RHIPA Plan	8,599	156,347	(164,946)	(0)	-
Total OPEB Liability	96,576		(24,943)	71,633	-
Derivative Instrument - Interest Rate Swap		-		-	-
Total Long-Term Liabilities	\$ 354,075,596	\$ 56,453,591	\$ (68,891,683)	\$ 341,637,504	\$ 15,793,445

9. Interfund Transactions

At June 30, 2022, the Veterans' Loan Program had outstanding interfund receivables of \$307,543 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 Annual Comprehensive Financial Report (ACFR) 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, 2022, for state agencies general service members were 21.03% for Tier One/Tier Two and 17.12% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by the employee.

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

At June 30, 2022, the State of Oregon reported a liability of \$2.9 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. 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, 2021, the State's proportion was 24.2%, which increased from the 23% proportion measured as of June 30, 2020.

As part of the State of Oregon, the Loan Program was allocated a percentage (.0217%) 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	\$ 243,310	\$ -
Changes in assumptions	650,680	6,841
Net difference between projected and actual earnings on investments	-	1,924,233
Changes in proportion and differences between contributions and proportionate share of contributions	206,073	98,275
Subtotal	<u>1,100,064</u>	<u>2,029,349</u>
Net deferred Outflow (Inflow) of Resources before contributions subsequent to measurement date		(929,285)
Contributions subsequent to measurement date	-	
Net Deferred Outflow (Inflow) of Resources		<u>\$ (929,285)</u>

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, 2022, the total rental income received from tenants was \$824,264.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	March 1, 2020	February 28, 2025	\$ 764,353
Tenant 2	November 8, 2019	November 30, 2028	\$ 3,785,504
Total			<u>\$ 4,549,858</u>

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, 2022 there were no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years (*July 1, 2012 through June 30, 2022*) there have been no claims that exceeded the Department's property or liability coverage.

13. Subsequent Events

On September 1, 2022, the Department called the following General Obligation Bonds:

	<u>Amount Called</u>
Series 96 (2015 Q)	\$ 575,000
Series 97B (2016 K)	1,020,000
Series 101 (2017 V)	350,000
Series 103 (2018 F)	950,000
Series 104 (2019 R)	370,000
Series 106B (2020 L)	285,000
Series 108 (2021 O)	180,000

On August 10, 2022, the Department issued the following General Obligation Bonds:

	<u>Amount Issued</u>
Series 109 (2022 D)	\$ 28,145,000
Series 110 (2022 E)	11,000,000

On July 20, 2022, the Department entered into an interest rate swap in connection with its Loan Program General Obligation Bonds, 2022 Series E (Veterans' Welfare Bonds Series 110). The effective date of the swap is August 10, 2022. The notional amount is \$11,000,000.



STATISTICAL SECTION

Oregon Department of Veterans' Affairs

Assets, Liabilities and Net Position - *Unaudited*

Veterans' Loan Program

For the Fiscal Years Ended 2013 - 2022

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
ASSETS & DEFERRED OUTFLOWS				
Current Assets				
Cash and Cash Equivalents (1)	\$ 83,502,956	\$ 107,464,132	\$ 107,937,547	\$ 109,175,030
Cash and Cash Equivalents - Restricted	3,320,998	3,195,707	3,887,427	3,913,498
Securities Lending Cash Collateral	857,459	560,948	2,614,659	4,164,292
Investments	11,488,929	12,333,627	11,985,204	11,333,230
Investments - Restricted	-	-	-	-
Receivables:				
Mortgage Loans and Contracts Receivable	8,983,021	8,567,346	10,053,418	10,433,755
Accrued Interest	1,078,327	1,062,805	1,286,518	1,401,495
LCLI Premiums	6,338	6,928	8,144	10,135
Other	128,089	194,374	140,845	47,605
Due from Other Funds	307,543	343,861	178,075	90,840
Real Estate Owned	-	-	-	-
Prepaid Expenses	7,641	17,738	2,743	5,896
Total Current Assets	\$ 109,681,301	\$ 133,747,466	\$ 138,094,580	\$ 140,575,776
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	\$ 71,825,874	\$ 83,810,611	\$ 74,016,597	\$ 29,011,526
Investments	-	-	-	-
Investments - Restricted	-	-	-	-
Mortgage Loans and Contracts Receivable (Net)	289,655,634	266,820,295	337,869,323	357,506,594
Other Receivable	5,028,903	2,361,783	930,283	683,073
Derivative Instrument - Interest Rate Swap	7,031,286	1,488,213	-	-
Net OPEB Asset - RHIA Plan	152,991	23,011	50,530	29,507
Deferred Underwriter's Discount	-	-	-	-
Net Pension Asset	-	-	-	-
Capital Assets:				
Building, Property and Equipment	11,208,451	11,130,254	11,187,151	10,107,274
Construction in Progress	-	-	-	3,187
Works of Art and Historical Treasures	627,021	627,021	627,021	627,021
Accumulated Depreciation	(6,211,035)	(5,999,848)	(5,872,673)	(5,718,064)
Total Noncurrent Assets	\$ 379,319,125	\$ 360,261,340	\$ 418,808,232	\$ 392,250,118
Deferred Outflow of Resources				
Hedging Derivative	\$ -	\$ -	\$ 497,488	\$ 297,215
Pension Related	1,580,223	1,603,367	1,299,310	1,254,344
OPEB Related	19,227	27,093	13,667	28,738
Total Deferred Outflow of Resources	1,599,450	1,630,460	1,810,465	1,580,297
TOTAL ASSETS & DEFERRED OUTFLOWS	\$ 490,599,876	\$ 495,639,266	\$ 558,713,277	\$ 534,406,191
LIABILITIES & DEFERRED INFLOWS				
Current Liabilities				
Accounts Payable	\$ 35,720	\$ 96,521	\$ 304,272	\$ 139,326
Lease Obligations	21,021	-	-	-
LCLI Premium Payable	10,767	6,358	8,780	22,910
LCLI Claims Payable	-	-	-	-
Due to Other Funds	-	99,822	-	-
Deposit Liabilities	3,310,231	3,189,349	3,878,646	3,890,587
Accrued Interest on Bonds	670,120	696,205	854,351	997,600
Obligations Under Securities Lending	857,459	560,948	2,614,659	4,164,292
Pension-Related Debt	65,035	61,334	58,128	56,018
Compensated Absences Payable	232,827	263,162	231,259	217,763
Excess Interest and Arbitrage Rebate Payable	-	-	-	-
Bonds Payable - Maturing Within One Year (Net)	15,474,562	14,303,648	14,162,679	13,792,285
Matured Bonds Payable	-	-	-	-
Total Current Liabilities	\$ 20,677,742	\$ 19,277,347	\$ 22,112,774	\$ 23,280,781
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	\$ 315,057,910	\$ 324,015,267	\$ 386,439,456	\$ 362,887,787
Pension-Related Debt	353,980	431,855	501,592	560,397
Net Pension Liability	2,599,289	4,711,809	3,852,506	3,275,369
Compensated Absences Payable	130,965	141,703	124,524	112,181
Excess Interest and Arbitrage Rebate Payable	7,611,316	10,041,642	8,811,678	9,638,437
Net OPEB Liability - RHIPA Plan	-	8,599	22,881	32,339
Total OPEB Liability - PEBB Plan	71,633	96,576	103,274	115,666
Lease Obligations	18,966	-	-	-
Other Postemployment Benefits Obligation (Net)	-	-	-	-
Derivative Instrument - Interest Rate Swap	-	-	497,488	297,215
Total Noncurrent Liabilities	\$ 325,844,059	\$ 339,447,451	\$ 400,353,399	\$ 376,919,391
TOTAL LIABILITIES	\$ 346,521,801	\$ 358,724,798	\$ 422,466,173	\$ 400,200,172
Deferred Inflow of Resources				
Hedging Derivative	\$ 7,031,286	\$ 1,488,213	\$ -	\$ -
Pension Related	2,029,349	107,049	183,664	184,094
OPEB Related	111,164	24,950	27,964	13,058
Total Deferred Inflow of Resources	9,171,799	1,620,212	211,628	197,152
NET POSITION				
Net Investment in Capital Assets	\$ 5,624,437	\$ 5,757,427	\$ 5,941,499	\$ 5,019,418
Restricted for OPEB	152,991	23,011	50,530	29,507
Net Assets, Unrestricted	129,128,848	129,513,818	130,043,447	128,959,942
TOTAL NET POSITION	\$ 134,906,276	\$ 135,294,256	\$ 136,035,476	\$ 134,008,867
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 490,599,876	\$ 495,639,266	\$ 558,713,277	\$ 534,406,191

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

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
\$	84,384,687	\$ 86,895,236	\$ 102,196,365	\$ 88,290,771	\$ 81,418,994	\$ 91,182,217
	3,445,301	3,107,741	2,848,532	2,532,900	2,019,125	1,805,833
	3,175,631	1,017,020	7,174,060	10,291,763	12,366,201	13,766,369
	10,683,342	10,709,272	10,613,753	10,296,884	10,145,257	7,010,850
	-	-	-	-	-	-
	9,926,645	-	-	-	-	-
	1,247,464	1,167,666	1,131,097	1,101,323	1,117,525	1,246,755
	23,478	16,442	32,899	53,734	47,253	59,058
	243,755	23,440	9,563	50,777	80,456	38,988
	94,707	87,272	105,539	110,081	134,588	71,798
	-	259,586	424,720	196,585	680,635	1,087,119
	4,665	8,575	14,133	5,241	6,080	2,405
\$	<u>113,229,675</u>	<u>103,292,250</u>	<u>124,550,661</u>	<u>112,930,059</u>	<u>108,016,114</u>	<u>116,271,392</u>
\$	64,724,859	\$ 52,093,642	\$ 69,855,033	\$ 85,073,503	\$ 107,661,208	\$ 134,842,147
	-	-	-	-	-	-
	321,510,937	295,521,511	261,187,668	236,597,114	212,809,406	197,333,478
	3,767,345	2,335,640	1,413,881	2,637,961	4,148,543	1,526,883
	403,600	245,110	-	-	-	-
	13,603	-	-	-	-	-
	-	-	-	-	-	1,218,172
	-	-	-	507,702	-	-
	9,891,950	9,004,597	9,132,222	9,107,786	8,995,981	8,984,206
	627,021	627,021	627,021	627,021	627,021	627,021
	(5,568,352)	(5,448,479)	(5,501,146)	(5,392,363)	(5,288,119)	(5,187,564)
\$	<u>395,370,963</u>	<u>354,379,042</u>	<u>336,714,679</u>	<u>329,158,724</u>	<u>328,954,040</u>	<u>339,344,343</u>
\$	-	\$ -	\$ 763,043	\$ 1,391,681	\$ 1,895,225	\$ 2,250,525
	1,359,565	2,246,768	396,597	187,905	-	-
	25,794	-	-	-	-	-
	<u>1,385,359</u>	<u>2,246,768</u>	<u>1,159,640</u>	<u>1,579,586</u>	<u>1,895,225</u>	<u>2,250,525</u>
\$	<u>509,985,997</u>	<u>459,918,060</u>	<u>462,424,980</u>	<u>443,668,369</u>	<u>438,865,379</u>	<u>457,866,260</u>
\$	86,208	\$ 114,532	\$ 118,401	\$ 49,112	\$ 144,124	\$ 76,910
	-	-	-	-	-	-
	14,543	27,227	18,059	26,024	34,124	35,571
	-	45,708	-	25,166	42,245	190,401
	-	-	-	-	-	-
	3,430,757	3,080,514	2,830,472	2,506,875	1,920,002	1,695,262
	916,761	667,278	579,261	467,235	380,999	425,153
	3,175,631	1,017,020	7,174,060	10,291,763	12,366,201	13,766,369
	40,100	33,200	25,300	29,900	21,100	18,300
	235,512	239,928	242,503	231,008	208,479	211,447
	-	-	-	111,793	9,024	-
	13,045,401	8,386,825	6,883,474	4,621,160	3,634,808	3,478,108
	-	-	-	-	65,000	75,000
\$	<u>20,944,913</u>	<u>13,612,232</u>	<u>17,871,530</u>	<u>18,360,036</u>	<u>18,826,106</u>	<u>19,972,521</u>
\$	342,783,322	\$ 298,811,581	\$ 297,180,572	\$ 275,544,308	\$ 270,369,127	\$ 288,111,038
	625,521	672,474	713,539	734,282	776,914	800,787
	3,891,047	4,295,159	1,538,316	-	-	-
	126,814	129,192	130,579	119,004	107,398	113,856
	10,599,876	20,660,816	22,845,548	21,941,769	21,063,255	18,357,159
	49,224	-	-	-	-	-
	107,538	-	-	-	-	-
	-	114,450	112,087	119,930	115,524	112,190
	-	-	763,043	1,391,681	1,895,225	2,250,525
\$	<u>358,183,342</u>	<u>324,683,672</u>	<u>323,283,684</u>	<u>299,850,974</u>	<u>294,327,443</u>	<u>309,745,555</u>
\$	<u>379,128,255</u>	<u>338,295,904</u>	<u>341,155,214</u>	<u>318,211,010</u>	<u>313,153,549</u>	<u>329,718,076</u>
	403,600	245,110	-	-	-	-
	32,509	40,813	374,548	979,659	-	-
	9,180	-	-	-	-	-
	<u>445,289</u>	<u>285,923</u>	<u>374,548</u>	<u>979,659</u>	<u>-</u>	<u>-</u>
\$	4,950,619	\$ 4,183,139	\$ 4,258,097	\$ 4,342,444	\$ 4,334,883	\$ 4,423,663
	13,603	-	-	-	-	-
	<u>125,448,231</u>	<u>117,153,094</u>	<u>116,637,121</u>	<u>120,135,256</u>	<u>121,376,947</u>	<u>123,724,521</u>
\$	<u>130,412,453</u>	<u>121,336,233</u>	<u>120,895,218</u>	<u>124,477,700</u>	<u>125,711,830</u>	<u>128,148,184</u>
\$	<u>509,985,997</u>	<u>459,918,060</u>	<u>462,424,980</u>	<u>443,668,369</u>	<u>438,865,379</u>	<u>457,866,260</u>

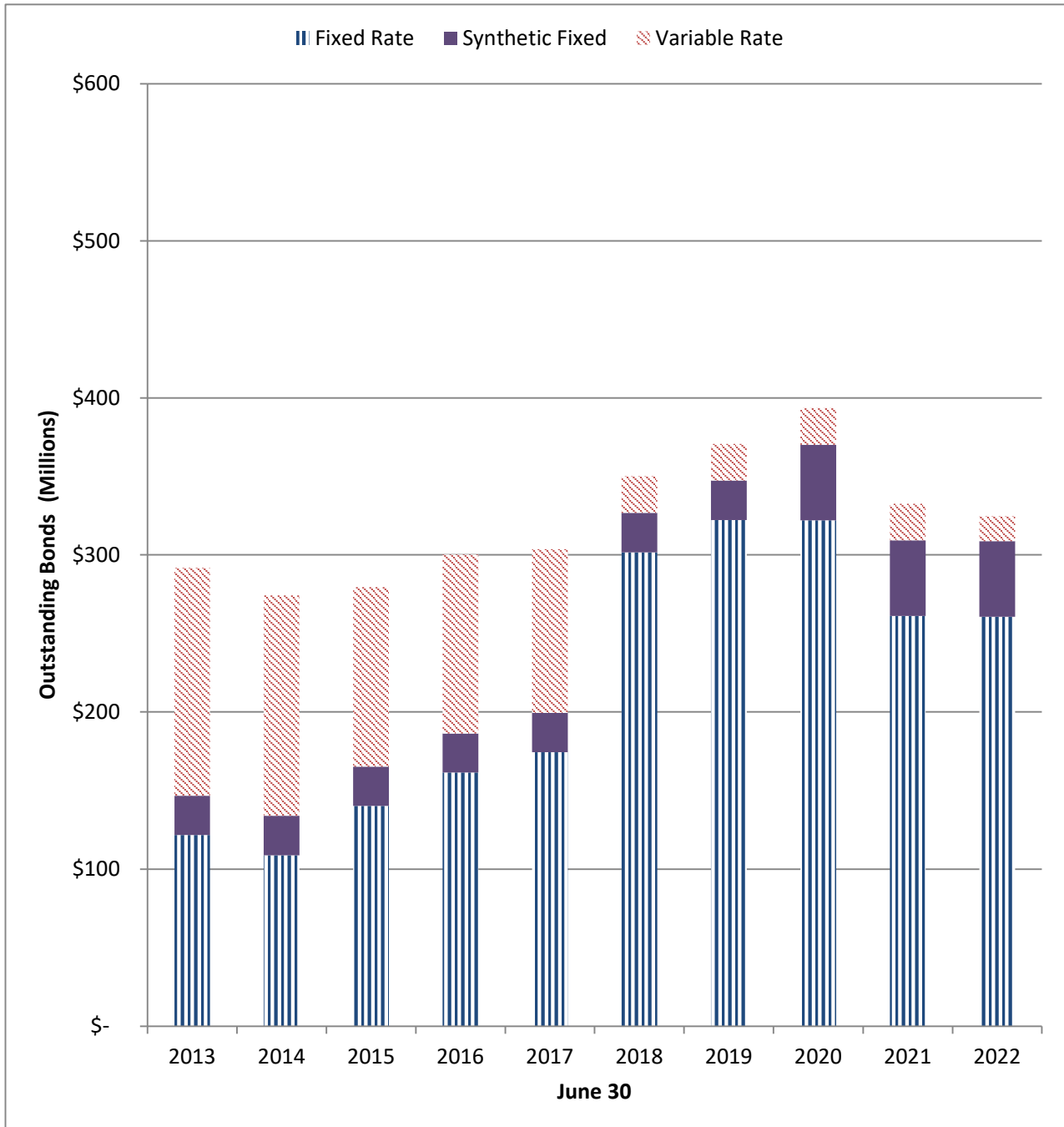
Oregon Department of Veterans' Affairs
Revenues, Expenses and Changes in Net Position - *Unaudited*
Veterans' Loan Program
For the Fiscal Years Ended 2013 - 2022

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
OPERATING REVENUES				
Mortgage Loan Interest Income	\$ 11,844,958	\$ 10,092,947	\$ 14,586,593	\$ 14,987,375
Contract Interest Income		208	1,857	4,174
Investment Income	455,117	2,119,590	4,180,569	4,399,745
Gain on Sale of Foreclosed Property		-	-	38,474
Loan Cancellation Life Insurance Premiums	136,895	161,434	190,103	227,190
Loan Cancellation Life Insurance Processing Fees	66,000	72,000	72,000	72,000
Other Fees and Charges	3,419,054	2,985,887	2,540,376	2,893,531
Conservatorship Fees	418,607	432,285	464,659	452,217
TOTAL OPERATING REVENUES	\$ 16,340,631	\$ 15,864,351	\$ 22,036,157	\$ 23,074,706
OPERATING EXPENSES				
Bond Interest	\$ 7,901,444	\$ 8,957,712	\$ 11,615,666	\$ 11,212,762
Salaries and Other Payroll	4,314,746	5,048,660	5,077,542	4,030,200
Bond Expenses	814,254	(381,644)	1,019,122	558,622
Securities Lending Investment Expense	2,498	1,191	24,840	60,052
Real Estate Owned Expense	1,685	-	710	19,709
Services and Supplies	2,015,755	1,532,279	1,509,643	1,476,316
Claims Expense - Loan Cancellation Life Insurance	300,770	273,555	375,840	646,456
Depreciation	211,187	192,919	154,609	149,711
Bad Debt	31,428	(20,124)	(29,554)	(126,193)
Other	1,551,028	870,861	893,536	1,409,209
TOTAL OPERATING EXPENSES	\$ 17,144,795	\$ 16,475,409	\$ 20,641,954	\$ 19,436,844
OPERATING INCOME (LOSS)	\$ (804,164)	\$ (611,058)	\$ 1,394,203	\$ 3,637,862
NONOPERATING INCOME (EXPENSES)				
Interest Expense - Pension Related Debt	(24,416)	(38,750)	(43,559)	(42,321)
Gain/(Loss) on Early Extinguishment of Debt	612,893	-	-	-
TOTAL NONOPERATING INCOME (EXPENSES)	588,477	(38,750)	(43,559)	(42,321)
INCOME (LOSS) BEFORE TRANSFERS	(215,687)	(649,808)	1,350,644	3,595,541
TRANSFERS				
Net Transfers from Lottery Fund	\$	\$ 85,817	\$ 475,000	\$ -
Net Transfers to Dept. of Administrative Services	(172,293)	(178,371)	(176,040)	(181,544)
Net Transfers from Military Dept.		-	-	-
Net Transfers to Veterans' Rural Transp. Grant		-	-	(485)
Capital Contributions		1,142	377,005	182,902
TOTAL TRANSFERS	(172,293)	(91,412)	675,965	873
CHANGE IN NET POSITION	\$ (387,980)	\$ (741,220)	\$ 2,026,609	\$ 3,596,414
NET POSITION				
Beginning Net Position	\$ 135,294,256	\$ 136,035,476	\$ 134,008,867	\$ 130,412,453
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Position, Restated	\$ 135,294,256	\$ 136,035,476	\$ 134,008,867	\$ 130,412,453
Ending Net Position	\$ 134,906,276	\$ 135,294,256	\$ 136,035,476	\$ 134,008,867

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
\$	22,000,659	\$ 13,302,684	\$ 9,926,312	\$ 9,573,211	\$ 7,441,010	\$ 8,827,619
	6,420	11,033	23,118	36,952	57,000	69,347
	2,983,359	2,017,506	1,744,597	1,317,488	1,700,149	2,162,639
	207,875	7,143	44,415	37,528	262,886	53,635
	270,555	304,246	351,809	418,580	493,942	605,167
	72,000	72,000	72,000	72,000	87,000	102,000
	2,276,040	1,979,856	2,080,470	2,349,133	2,324,761	1,636,638
	503,471	534,731	489,585	392,206	364,090	264,161
\$	<u>28,320,379</u>	<u>18,229,199</u>	<u>14,732,306</u>	<u>14,197,098</u>	<u>12,730,838</u>	<u>13,721,206</u>
\$	9,508,093	\$ 8,299,193	\$ 7,009,347	\$ 5,999,144	\$ 5,847,512	\$ 6,119,393
	4,588,032	5,391,885	6,033,621	3,966,905	4,052,936	4,802,451
	1,657,852	1,009,223	1,184,177	1,174,810	866,823	1,020,215
	19,234	7,675	31,957	12,050	12,873	41,639
	75,420	44,121	17,833	138,901	328,002	300,065
	1,356,698	1,379,273	1,541,746	1,205,305	1,491,581	1,253,702
	526,411	450,938	1,247,875	1,170,815	1,244,045	1,294,691
	119,874	115,289	108,783	104,244	100,555	98,754
	(313,706)	(539,102)	(244,749)	(600,374)	(1,187,213)	(177,874)
	1,412,369	1,370,564	1,139,726	1,081,046	973,850	467,545
\$	<u>18,950,277</u>	<u>17,529,059</u>	<u>18,070,316</u>	<u>14,252,846</u>	<u>13,730,964</u>	<u>15,220,581</u>
\$	<u>9,370,102</u>	<u>700,140</u>	<u>(3,338,010)</u>	<u>(55,748)</u>	<u>(1,000,126)</u>	<u>(1,499,375)</u>
	(43,835)	(50,496)	(50,122)	(51,837)	(51,735)	(54,142)
	-	-	-	-	-	-
	<u>(43,835)</u>	<u>(50,496)</u>	<u>(50,122)</u>	<u>(51,837)</u>	<u>(51,735)</u>	<u>(54,142)</u>
	9,326,267	649,644	(3,388,132)	(107,585)	(1,051,861)	(1,553,517)
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -
	(187,783)	(208,629)	(194,350)	(203,543)	(166,321)	(209,608)
	-	-	-	-	-	14,124
	-	-	-	-	-	-
	-	-	-	-	-	-
	<u>(187,783)</u>	<u>(208,629)</u>	<u>(194,350)</u>	<u>(203,543)</u>	<u>(166,321)</u>	<u>(195,484)</u>
\$	<u>9,138,484</u>	<u>441,015</u>	<u>(3,582,482)</u>	<u>(311,128)</u>	<u>(1,218,182)</u>	<u>(1,749,001)</u>
\$	121,336,233	\$ 120,895,218	\$ 124,477,700	\$ 125,711,830	\$ 128,148,184	\$ 130,734,537
	-	-	-	3,958	-	(837,352)
	<u>(62,264)</u>	<u>-</u>	<u>-</u>	<u>(926,960)</u>	<u>(1,218,172)</u>	<u>-</u>
\$	<u>121,273,969</u>	<u>120,895,218</u>	<u>124,477,700</u>	<u>124,788,828</u>	<u>126,930,012</u>	<u>129,897,185</u>
\$	<u>130,412,453</u>	<u>121,336,233</u>	<u>120,895,218</u>	<u>124,477,700</u>	<u>125,711,830</u>	<u>128,148,184</u>

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

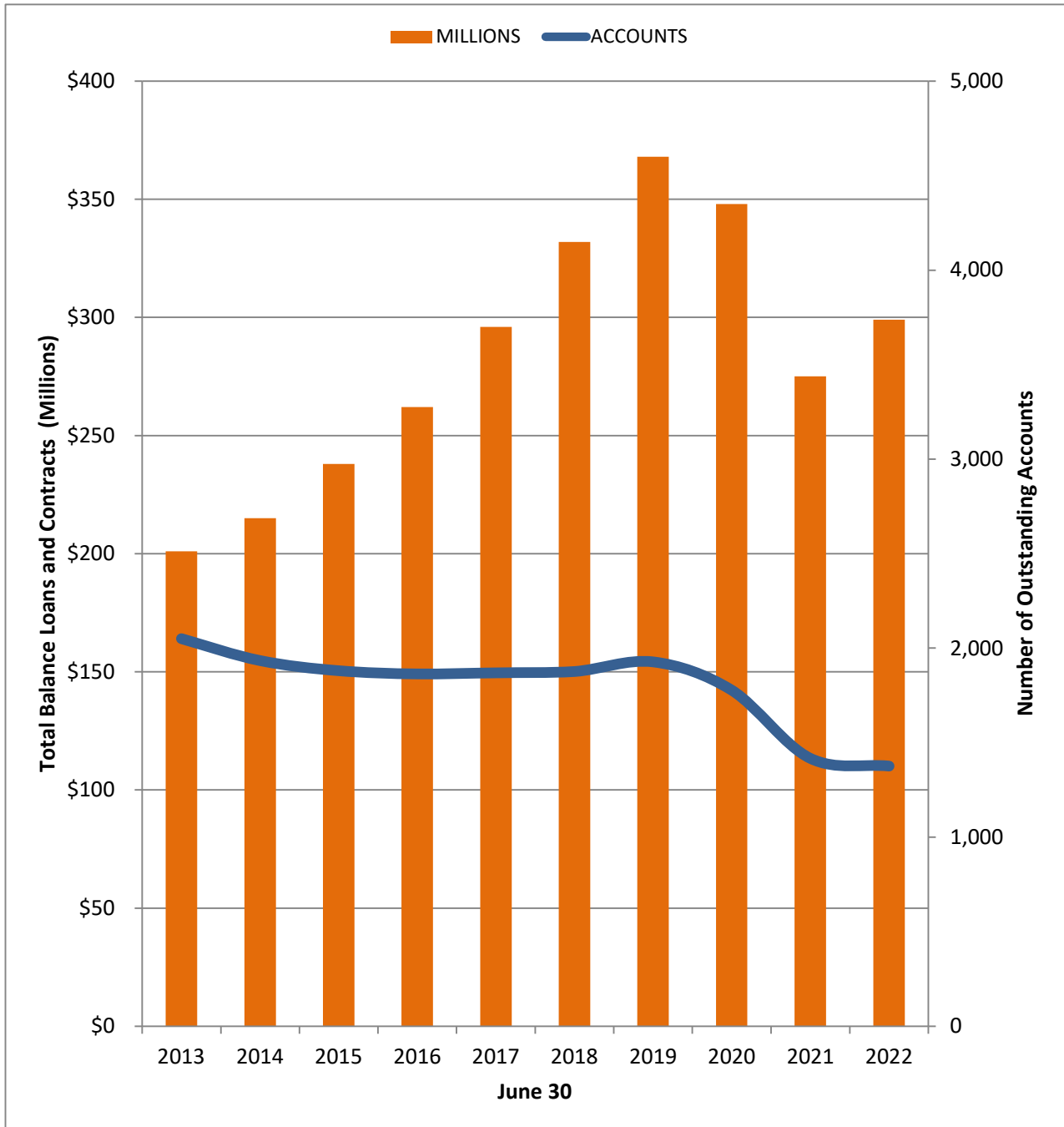
Principal Balance of Bonds Outstanding



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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

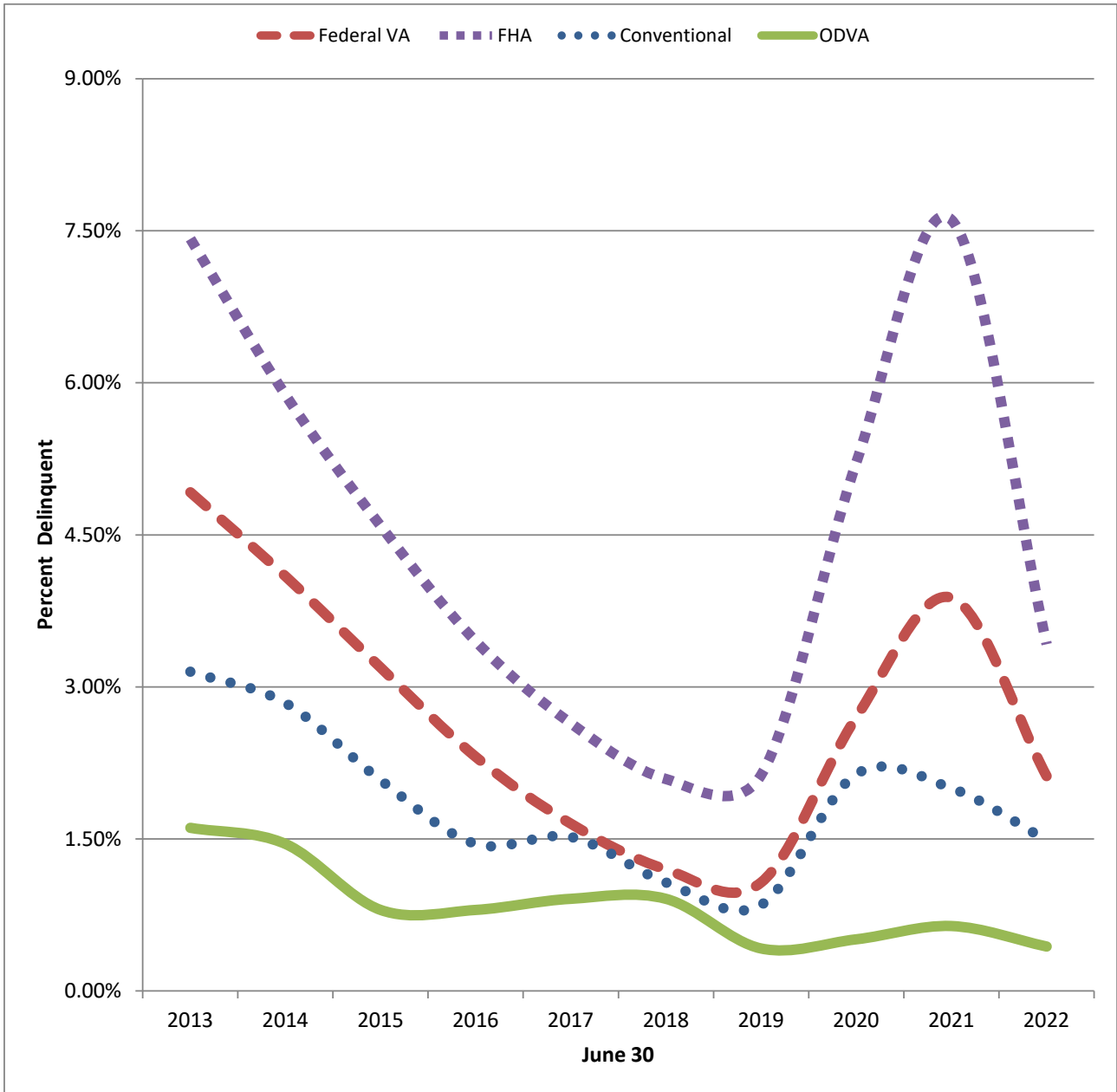
Loans and Contracts Outstanding



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



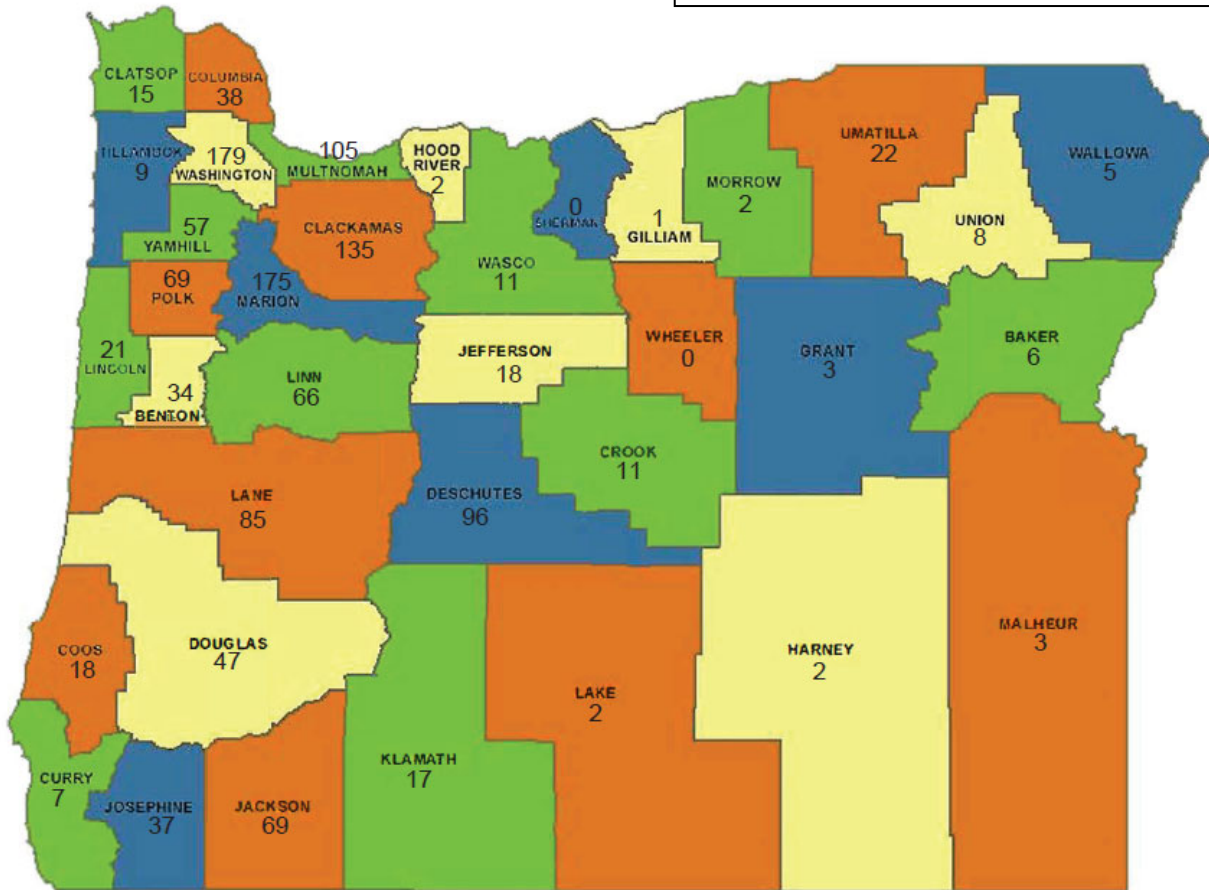
Source: Statistical Reports of the Oregon Department of Veterans' Affairs.

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, 2022**

Total Loans & Contracts Outstanding: 1,376



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



OTHER REPORTS

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 Tina Kotek, Governor of Oregon
Kelly Fitzpatrick, 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, 2022, and the related notes to the financial statements, which collectively comprise the Veterans' Loan Program's basic financial statements, and have issued our report thereon dated February 9, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial statements of the Veterans' Loan Program 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 financial statements. 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*.

Department Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the department's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 department'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 department'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
February 9, 2023

Schedule of Findings and Responses

Knowledge, skills, and abilities necessary to prepare financial statements that are compliant with GAAP require improvement

During the fiscal year 2022 audit of the Veterans' Loan Program's financial statements, auditors noted concerns regarding the department's ability to prepare the program's financial statements and notes to financial statements in compliance with generally accepted accounting principles, primarily because the department experienced significant turnover of accounting staff over the past year, including the accountant responsible for the preparation of the financial statements.

In our review of the initial and subsequent drafts of the financial statements and note disclosures we noted several errors:

- Within Management's Discussion and Analysis, we found sections of missing information, information that was not updated for the current year, incorrectly presented comparative financial information and information that did not reconcile to the basic financial statements.
- In the Notes to the Financial Statements, dates were not updated for the current fiscal year, amounts did not tie back to the basic financial statements or accounting records, and incorrect rates or amounts were reported.
- The Statement of Net Position and the Statement of Cash Flows were missing key line items or lacked adequate support, including missing required components in the Net Position section of the Statement of Net Position, and omission of Securities Lending Revenue and Expense line items in the Statement of Cash Flows.

We recommend department management dedicate resources to training staff responsible for the preparation of the financial statements and notes to the financial statements. We also recommend department management implement financial statement preparation procedures.

MANAGEMENT RESPONSE

Management agrees with the audit findings as presented. Within the past year, ODVA has experienced turnover in the Financial Services Division Director (Chief Financial Officer) and Controller positions as well as four out of the remaining seven accounting positions in the finance division. That turnover as well as the lack of staff experience and documentation of internal procedures significantly contributed to the errors and omissions.

Corrective Action:

1. Management will require additional training for staff responsible for the preparation of the financial statements and notes to the financial statements to ensure completeness and accuracy in those documents.
2. Management will document financial statement preparation procedures to aid Financial Services Division staff and provide continuity during periods of staff turnover.

Anticipated Completion Date:

Training: April 30, 2023

Procedure Documentation: June 30, 2023

Contact Persons Responsible for Corrective Actions:

Training: Donna Haole-Valenzuela, Financial Services Division Director

Procedure Documentation: Derek Simmons, Controller



VETERANS' LOAN PROGRAM ANNUAL FINANCIAL REPORT

ENTERPRISE FUND FOR THE YEAR ENDED JUNE 30, 2022



OREGON DEPARTMENT
of **VETERANS' AFFAIRS**

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

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

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