Secretary of State

State of Oregon

DEPARTMENT OF VETERANS' AFFAIRS

July 1, 1999, through June 30, 2000

Audits Division

Secretary of State

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No. 2001-09 February 26, 2001

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
John Lattimer
Director

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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Jon Mangis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97301

This report presents the results of our annual audit of the Oregon Department of Veterans' Affairs (department).

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements as of and for the year ended June 30, 2000, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Auditing standards also require us to review the department's internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Audit Results section of this report. We noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any matters involving internal control over financial reporting and its operations that we considered to be material weaknesses.

We appreciate the cooperation and assistance of the department's management and staff during the course of our audit.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
October 20, 2000

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SUMMARY

BACKGROUND

The Oregon Department of Veterans' Affairs (department) has as its primary operations the veterans' loan program, the veterans' services program, and the veterans' home program. The loan program is financed through the sale of tax-exempt general obligation bonds. These bonds are then retired using borrower repayments and investment earnings. The veterans' services program is funded by a combination of state General Fund Appropriations and fee income from its conservatorship program. These programs provide benefit counseling, claims assistance, conservatorship services, and education assistance.

The Oregon Veterans' Home at The Dalles, Oregon, became operational in November 1997. The Home is a 151-bed skilled nursing and Alzheimer's Disease care facility operated by a private long-term care provider under contract with the department. Resident veterans, or their health insurance providers, generally pay for the cost of care not paid by the United States Department of Veterans' Affairs.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the department's financial statements for the year ended June 30, 2000, and on internal control and compliance with laws and regulations.

AUDIT RESULTS

This audit concludes the department's financial statements for the year ended June 30, 2000, are presented fairly. Our review and evaluation of the department's internal control and tests of compliance with laws and regulations disclosed no significant findings.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon Department of Veterans' Affairs (department) was created in 1945 to aid veterans in obtaining benefits and to provide home and farm loans to veterans at favorable interest rates. The director, who must be a war veteran chosen on the basis of executive and administrative ability, is appointed by the governor with written approval of the department's Advisory Committee, and is subject to confirmation by the Senate. Members of the department's Advisory Committee must be veterans and are appointed by the governor for four-year terms.

Employing 142 people, the department consists of four main divisions and the director's senior management group.

The **Administrative Services Division** is responsible for collections, office and business services, and property and records management for the department.

The **Financial Administration Division** is responsible for accounting, budgeting, financial reporting, and financial management for the department. This division is also responsible for debt management including bond issuance, debt service, and tax and bond covenant compliance.

The **Veterans' Loan Division** is responsible for home loan processing and servicing. The department has made over 300,000 home and farm loans since it was created, with a principal amount of over $7 billion. These loans are financed with proceeds of general obligation bonds issued by the department.

The **Veterans' Services Division** is responsible for counseling and claims services to veterans, their dependents and survivors. It assists them in making application for benefits to which they may be entitled. This division is also responsible for the conservatorship program which manages the estates of veterans and their dependents who are considered "protected persons" by various Oregon courts and who are unable to manage their own affairs.

The **Administration Group** includes the director, deputy director, human resources section, program evaluation section, public information section, information systems section, an executive officer, and staff responsible for oversight of the veterans' home.

The department was directed by the 1993 Oregon Legislative Assembly to develop and administer an Oregon Veterans' Home, a long-term skilled nursing and Alzheimer's Disease care facility for disabled veterans. Construction of the facility at The Dalles, Oregon, cost some $13 million, of which about one third was funded by a Wasco County bond levy and about two thirds was paid by federal funds. The 151-bed facility opened in November 1997. Resident veterans or their health insurance providers generally pay for the cost of care not paid by the United States Department of Veterans' Affairs. A private long-term care provider under contract with the department operates the facility.

FINANCIAL ACTIVITIES

The primary source of revenue in the Enterprise Fund is the interest portion of mortgage loan and contract repayments. Another major source of income is investment income derived from Enterprise Fund investments and cash held by the State Treasury. Major expenses of the Enterprise Fund include interest on outstanding bonds and general administrative expenses (e.g. employee salaries and benefits, and services and supplies). The primary source of funds in the Expendable Trust Fund is from veterans' benefits (e.g. Social Security, and pension benefits). The primary expenditure is related to beneficiary care.

The veterans' loan program and the veterans' home program are accounted for as Enterprise Funds. Under generally accepted accounting principles applicable to state and local governmental units, Enterprise Funds are used to account for activities which operate primarily on a self-sustaining basis. The veterans' home trust fund and the conservatorship program, within the Veterans'

Services Division, are accounted for as Expendable Trust Funds. Expendable Trust Funds are used to account for the collection and disbursement of assets held in trust for a group of individuals.

The department utilizes the Department of Administrative Services' Statewide Financial Management System to record its financial transactions and account balances.

The department issues a separate Comprehensive Annual Financial Report, which includes additional analysis and information. If you would like a copy of this report, please contact the department at 700 Summer Street NE Salem, Oregon 97301-1285.

AUDIT RESULTS

OFFICE OF THE
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Department of Veterans' Affairs (department), as of and for the year ended June 30, 2000, and have issued our report thereon dated October 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control

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components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

October 20, 2000

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Oregon Department of Veterans' Affairs during the course of our audit were commendable and are much appreciated.

AUDIT TEAM

Craig M. Stroud, CPA, Audit Administrator
Aaron R. Hunter
Karen M. Leppin
Vena B. McCoy

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Department of Veterans' Affairs (department), an agency of the state of Oregon, as of and for the years ended June 30, 2000, and June 30, 1999. These financial statements are the responsibility of the management of the department. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the department are intended to present the financial position and results of operations and the cash flows of the proprietary fund type of only that portion of the financial reporting entity of the state of Oregon that is attributable to the transactions of the department.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the department as of June 30, 2000, and June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

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The combining financial statements and schedule are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, our report on consideration of the department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants is separately presented in the AUDIT RESULTS section of this report. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

October 20, 2000

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State of Oregon
Department of Veterans' Affairs
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2000 and June 30, 1999

	Proprietary Fund Type		Fiduciary Fund Type	
	Enterprise Fund		Expendable Trust Fund	
	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
ASSETS AND OTHER DEBITS				
Cash and Cash Equivalents	$ 162,531,674	$ 414,816,153	$ 20,471,787	$ 20,086,458
Cash and Cash Equivalents – Securities Lending Collateral	13,976,208	34,613,210	1,851,195	1,778,288
Investments (Net)	562,901,225	340,006,507	2,199,049	1,878,158
Receivables:				
Mortgage Loans and Contracts (Net)	761,866,479	863,723,925	151,350	181,270
Accrued Interest	10,312,569	11,477,199	108,918	1,072
Loan Cancellation Life Insurance Premiums	442,000	492,000	–	–
Other	420,780	272,100	–	82,788
Due From Other Funds	29,704	27,451	–	–
Due From State General Fund	–	–	–	–
Advances to Other Funds	134,000	734,000	–	–
Real Estate Owned	16,372	239,819	–	–
Supplies Inventory	21,702	37,311	–	–
Deferred Underwriter's Discount	1,291,911	1,088,801	–	–
Conservatorship Real Property	–	–	2,564,211	2,413,530
Conservatorship Personal Property	–	–	723,857	625,022
Fixed Assets (Net)	17,653,454	17,717,613	–	–
Amount to be Provided for Long–Term Obligation	–	–	–	–
TOTAL ASSETS	$ 1,531,598,078	$ 1,685,246,089	$ 28,070,367	$ 27,046,586
LIABILITIES AND FUND EQUITY				
Liabilities:				
Current Liabilities:				
Bonds Payable – Maturing Within One Year (Net)	$ 141,015,992	$ 142,403,824	$ –	$ –
Matured Bonds Payable	7,492,359	14,444,363	–	–
Accrued Interest on Bonds	26,576,000	29,576,000	–	–
Obligations under Securities Lending	13,976,208	34,613,210	1,851,195	1,778,288
Accounts Payable	992,090	1,059,285	–	–
Loan Cancellation Life Insurance Premium	810,146	986,521	–	–
Compensated Absences Payable	135,446	128,244	–	–
Due to Other Funds	–	–	29,992	28,219
Deposit Liabilities	1,610,777	1,440,859	–	–
Long–Term Liabilities:				
Bonds Payable – Maturing After One Year (Net)	1,249,408,908	1,368,606,917	–	–
Arbitrage Rebate Payable	346,385	151,049	–	–
Compensated Absences Payable	406,339	384,732	–	–
Advances from Other Funds	134,000	734,000	–	–
Mortgages on Conservatorship Real Property	–	–	742,179	638,852
TOTAL LIABILITIES	$ 1,442,904,650	$ 1,594,529,004	$ 2,623,366	$ 2,445,359
Fund Equity:				
Contributed Capital	$ 12,930,078	$ 13,225,867	$ –	$ –
Retained Earnings–Unreserved	75,763,350	77,491,218	–	–
Fund Balances:				
Reserved for Trust Fund	–	–	25,447,001	24,601,227
TOTAL FUND EQUITY	$ 88,693,428	$ 90,717,085	$ 25,447,001	$ 24,601,227
TOTAL LIABILITIES AND FUND EQUITY	$ 1,531,598,078	$ 1,685,246,089	$ 28,070,367	$ 27,046,586

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

Governmental Fund Type		Account Groups		***TOTALS***	
General Fund		General Long-Term Debt		***(Memorandum only)***	
June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
$ –	$ –	$ –	$ –	$ 183,003,461	$ 434,902,611
–	–	–	–	15,827,403	36,391,498
–	–	–	–	565,100,274	341,884,665
–	–	–	–	762,017,829	863,905,195
–	–	–	–	10,421,487	11,478,271
–	–	–	–	442,000	492,000
–	–	–	–	420,780	354,888
288	768	–	–	29,992	28,219
134,204	209,007	–	–	134,204	209,007
–	–	–	–	134,000	734,000
–	–	–	–	16,372	239,819
293	273	–	–	21,995	37,584
–	–	–	–	1,291,911	1,088,801
–	–	–	–	2,564,211	2,413,530
–	–	–	–	723,857	625,022
–	–	–	–	17,653,454	17,717,613
–	–	31,598	32,849	31,598	32,849
$ 134,785	$ 210,048	$ 31,598	$ 32,849	$ 1,559,834,828	$ 1,712,535,572
$ –	$ –	$ –	$ –	$ 141,015,992	$ 142,403,824
–	–	–	–	7,492,359	14,444,363
–	–	–	–	26,576,000	29,576,000
–	–	–	–	15,827,403	36,391,498
124,252	199,099	–	–	1,116,342	1,258,384
–	–	–	–	810,146	986,521
10,533	10,949	–	–	145,979	139,193
–	–	–	–	29,992	28,219
–	–	–	–	1,610,777	1,440,859
–	–	–	–	1,249,408,908	1,368,606,917
–	–	–	–	346,385	151,049
–	–	31,598	32,849	437,937	417,581
–	–	–	–	134,000	734,000
–	–	–	–	742,179	638,852
$ 134,785	$ 210,048	$ 31,598	$ 32,849	$ 1,445,694,399	$ 1,597,217,260
–	$ –	$ –	$ –	$ 12,930,078	$ 13,225,867
–	–	–	–	75,763,350	77,491,218
–	–	–	–	25,447,001	24,601,227
–	$ –	$ –	$ –	$ 114,140,429	$ 115,318,312
$ 134,785	$ 210,048	$ 31,598	$ 32,849	$ 1,559,834,828	$ 1,712,535,572

State of Oregon
Department of Veterans' Affairs
Combined Statement of Revenues, Expenses, and Changes in Fund Equity
Proprietary Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

EXHIBIT B

	Enterprise Fund	
	June 30, 2000	June 30, 1999
REVENUES		
Interest Income:		
Mortgage Loans	$ 57,259,424	$ 68,967,805
Contracts	5,648,408	7,603,132
Investment Income	38,516,147	48,839,936
Gain on Sale of Foreclosed Property	16,892	32,324
Loan Cancellation Life Insurance Processing Fee	399,937	327,540
Other Fees and Charges	5,960,549	4,571,618
Conservatorship Fees	345,554	322,973
TOTAL REVENUES	$ 108,146,911	$ 130,665,328
EXPENSES		
Bond Interest	$ 93,957,700	$ 117,276,619
Salaries and Other Payroll Expenses	7,068,207	6,974,766
Bond Expenses	819,421	952,673
Securities Lending Investment Expense	2,008,673	1,607,836
Real Estate Owned Expense	42,230	49,096
Services and Supplies	2,859,780	3,218,359
Veterans Home Operations	3,945,157	3,088,796
Depreciation Expense	689,909	646,820
Bad Debt Expense	(1,227,068)	(3,346,273)
Other Expenses	42,749	42,477
TOTAL EXPENSES	$ 110,206,758	$ 130,511,169
NET INCOME BEFORE OPERATING TRANSFERS	$ (2,059,847)	$ 154,159
OPERATING TRANSFERS		
Transfers In from Veterans Home Trust Fund	$ 14,798	$ 9,960
NET INCOME BEFORE EXTRAORDINARY ITEMS	$ (2,045,049)	$ 164,119
Extraordinary Gain from Litigation	$ -	$ 654,385
Extraordinary Loss from Early Extinguishment of Debt	(11,888)	(12,271,433)
NET INCOME/(LOSS)	$ (2,056,937)	$ (11,452,929)
FUND EQUITY		
Beginning Retained Earnings	$ 77,491,218	$ 88,615,078
Net Income/(Loss)	$ (2,056,937)	$ (11,452,929)
Add: Depreciation Charged to Contributions	329,069	329,069
Increase/(Decrease) in Retained Earnings	$ (1,727,868)	$ (11,123,860)
Ending Retained Earnings	$ 75,763,350	$ 77,491,218
Beginning Contributed Capital	$ 13,225,867	$ 13,443,696
Changes in Contributed Capital	(295,789)	(217,829)
Ending Contributed Capital	$ 12,930,078	$ 13,225,867
Total Fund Equity	$ 88,693,428	$ 90,717,085

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

State of Oregon
Department of Veterans' Affairs
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiduciary Fund Type and Governmental Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

EXHIBIT C

	Fiduciary Fund Type		Governmental Fund Type	
	Expendable Trust		General Fund	
	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
REVENUES				
Veterans' Benefits	$ 7,494,025	$ 6,669,731	$ –	$ –
Interest Income	1,213,970	1,083,514	–	–
Donations	38,790	36,195	–	–
State Appropriations	–	–	1,237,840	1,182,671
TOTAL REVENUES	$ 8,746,785	$ 7,789,440	$ 1,237,840	$ 1,182,671
EXPENDITURES				
Veterans' Services	$ –	$ –	$ 1,237,840	$ 1,182,671
Securitites Lending Investment Expense	109,475	81,549	–	–
Beneficiary Care	7,782,230	6,017,597	–	–
TOTAL EXPENDITURES	$ 7,891,705	$ 6,099,146	$ 1,237,840	$ 1,182,671
Excess of Revenues Over/(Under) Expenditures	$ 855,080	$ 1,690,294	$ –	$ –
OTHER FINANCING SOURCES/(USES)				
Operating Transfer In from DMV	5,492	–	–	–
Operating Transfer to Veterans' Home Program	$ (14,798)	$ (9,960)	$ –	$ –
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	$ 845,774	$ 1,680,334	$ –	$ –
Beginning Fund Balance	$ 24,601,227	$ 22,920,893	$ –	$ –
Ending Fund Balance	$ 25,447,001	$ 24,601,227	$ –	$ –

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

State of Oregon
Department of Veterans' Affairs
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – Budgetary Basis – General Fund
For the Biennium Ended June 30, 2001

EXHIBIT D

	General Fund			
	1999-2001 Budget	1st Year Actuals	2nd Year Actuals	Variance: Favorable/ (Unfavorable)
REVENUES				
State Appropriations	$ 2,587,270	$ 1,238,549	$ –	$ 1,348,721
TOTAL REVENUES	$ 2,587,270	$ 1,238,549	$ –	$ 1,348,721
EXPENDITURES				
Veterans' Services	$ 2,587,270	$ 1,238,549	$ –	$ 1,348,721
TOTAL EXPENDITURES	$ 2,587,270	$ 1,238,549	$ –	$ 1,348,721
Excess of Revenues Over (Under) Expenditures	$ –	$ –	$ –	$ –

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

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State of Oregon
Department of Veterans' Affairs
Combined Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

	Enterprise Fund	
	June 30, 2000	June 30, 1999
Cash Flows from Operating Activities:		
Operating Income / (Loss)	$ (2,059,847)	$ 154,159
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	689,909	646,820
Amortization of Bond Premium & Discount	(308,984)	(334,333)
Amortization of Remarketing Fees	–	95,034
Amortization of Loan Origination Fees	380,436	364,768
Interest Received on Investments Reported as Operating Income	(38,514,178)	(47,232,100)
Interest Payments on Bonds Reported as Operating Expense	94,266,684	117,610,952
Letter of Credit and Remarketing Fees Reported as Operating Expense	819,421	857,638
Bad Debt Expense	(1,227,068)	(3,346,273)
(Gain)/Loss on Sale of Equipment	(4,065)	(1,822)
Change in Fair Value of Investments and Related Adjustments	2,857,519	6,184,911
(Increase)/Decrease in Receivables	(100,933)	(616,384)
(Increase)/Decrease in Loans and Contracts Receivable	102,704,078	215,908,601
(Increase)/Decrease in Accrued Interest Receivable	1,164,630	7,201,012
(Increase)/Decrease in Real Estate Owned	223,447	(64,655)
(Increase)/Decrease in Supplies Inventory	15,609	4,419
(Increase)/Decrease in Prepaid Remarketing Fees and Bond Issuance Costs	(216,855)	62,150
Increase/(Decrease) in Matured Bonds Payable	(6,952,004)	397,227
Increase/(Decrease) in Accrued Interest Payable – Bonds	(3,000,000)	(6,599,000)
Increase/(Decrease) in Obligations Under Securities Lending	(20,637,002)	(1,138,643)
Increase/(Decrease) in Arbitrage Payable	195,336	103,987
Increase/(Decrease) in Accounts Payable	(67,195)	486,858
Increase/(Decrease) in LCLI Premium Payable	(176,375)	(142,225)
Increase/(Decrease) in Compensated Absences Payable	28,810	4,058
Increase/(Decrease) in Deposit Liabilities	169,918	85,844
Total Adjustments	$ 132,311,138	$ 290,538,844
Net Cash and Cash Equivalents Provided in Operating Activities	$ 130,251,291	$ 290,693,003

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

	Enterprise Fund June 30, 2000	Enterprise Fund June 30, 1999
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	$ 50,000,000	$ –
Principal Payments on Bonds	(170,275,000)	(575,365,000)
Interest Payments on Bonds	(94,266,684)	(117,610,952)
Operating Transfers In	14,798	9,960
Investment Expense from Securities Lending	(2,004,735)	(1,607,836)
Payment of Letter of Credit and Remarketing Fees	(819,421)	(857,638)
Bond Call Premium	–	(7,400,000)
Net Cash and Cash Equivalents Used in Noncapital Financing Activities	$ (213,341,572)	$ (702,831,466)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	$ (625,751)	$ (220,742)
Proceeds from Sale of Fixed Assets	4,065	1,822
Contributions Restricted For Capital Purposes	33,280	111,240
Gain from Litigation Settlement	–	654,385
Net Cash and Cash Equivalents Provided by Capital and Related Financing Activities	$ (588,406)	$ 546,705
Cash Flows from Investing Activities:		
Purchases of Investments	$ (340,584,358)	$ (116,245,854)
Proceeds from Sales or Maturities of Investments	114,832,121	461,911,674
Interest on Investments and Cash Balances	38,514,178	47,232,100
Investment Income from Securities Lending	(2,004,735)	1,607,836
Net Cash and Cash Equivalents Provided by Investing Activities	$ (189,242,794)	$ 394,505,756
Net Increase/(Decrease) in Cash and Cash Equivalents	$ (272,921,481)	$ (17,086,002)
Cash and Cash Equivalents at Beginning of Year	$ 449,429,363	$ 466,515,365
Cash and Cash Equivalents at End of Year	$ 176,507,882	$ 449,429,363

Reconciliation to Balance Sheet:

	June 30, 2000	June 30, 1999
Cash and Cash Equivalents	$ 162,531,674	$ 414,816,153
Cash and Cash Equivalents – Securities Lending Collateral	13,976,208	34,613,210
Cash and Cash Equivalents at End of Year	$ 176,507,882	$ 449,429,363

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State of Oregon
DEPARTMENT OF VETERANS' AFFAIRS
Notes to the Financial Statements
June 30, 2000

(1)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Department of Veterans' Affairs (Department) is a department of the State of Oregon. 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 war 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.

The Department was created in 1945 to help veterans in obtaining benefits under federal, state, and local programs and to undertake the Veterans' Loan Program to provide home and farm loans to veterans at favorable interest rates. The Veterans' Loan Program is operated through earnings of the program itself, which is financed through the sale of tax-exempt general obligation bonds. These bonds are then retired through regular principal and interest payments from borrowers and earnings from invested funds.

The Department also acts as conservator of estates for approximately 280 veterans, survivors, and minor or helpless children of veterans who the court has determined are unable to manage their own financial affairs.

The Oregon Veterans' Home provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans. The single-story, 75,000 square foot facility offers care in a home-like environment, complementing the philosophy of personal independence.

MEASUREMENT FOCUS OF ACCOUNTING

The accompanying financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under the auspices of GASB Statement No. 20, the Department does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 for proprietary activities unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. The Department complies with the State of Oregon guidelines in applying GAAP following GASB Statement No. 20.

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

The Veterans' Loan Program and the Veterans' Home Program are accounted for within the Enterprise Fund. The Enterprise Fund is 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 Conservatorship Program and donations for the Veterans' Home Program are accounted for within the Expendable Trust Fund. A trust fund is established to account for assets received and held by an agency acting in the capacity of trustee or custodian. The Expendable Trust Fund is presented using the modified accrual basis of accounting and the flow of current financial resources measurement focus. Under this method, revenues and other sources of financial resources as well as related current assets are recognized when they become measurable and available. Expenditures and other uses of financial resources are recognized when the liabilities are incurred. Veterans' benefits and donations, which are the primary revenue sources, are susceptible to accrual.

The Veterans' Services Division is accounted for within the General Fund. It is presented using the modified accrual basis of accounting and the flow of current financial resources measurement focus. Revenues and expenditures are recognized in essentially the same manner as the Expendable Trust Fund described above.

The General Long-Term Debt Account Group consists of a long-term liability for compensated absences payable. The liability was incurred by the Veterans' Services Division and is an obligation of the General Fund.

BUDGETARY PROCESS

The Department's budget for all funds is approved biennially by the Oregon Legislature. Any increase in the budget that may be necessary during the interim is approved by the Emergency Board of the Legislature. Appropriations are financed from general governmental revenues of the State General Fund. Limitations, which represent an authority to spend as approved by the Executive and the Legislative branches, are financed from general governmental revenues or revenues of self-supporting activities. Appropriations and limitations are treated identically for budgetary and accounting purposes. Both lapse at the end of the biennium.

The appropriated budget is prepared by fund, function and department. Within the Department, the Director may make transfers of appropriations without legislative approval. The legal level of budgetary control is at the department level.

The budgetary basis of accounting is materially consistent with the GAAP basis of accounting, except for transactions related to long-term receivables and payables, debt service, and the acquisition and depreciation of fixed assets. For budgetary purposes, these transactions may or may not be treated as revenues and expenditures. Encumbrance accounting is allowed during the biennium. However, encumbrances are not allowed at the end of a biennium except those related to capital construction, capital improvement, continuing contracts, and contested claims, which are continuously appropriated.

CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents include cash on hand, cash and investments held by the State Treasury in the Oregon Short-Term Fund (OSTF), and cash deposits held by the State's Fiscal Agent for payment of matured bonds and coupons. 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. The State Treasurer participates in securities lending with a portion of the OSTF. The Department's share of the cash collateral received from broker-dealers is disclosed in the balance sheet as Cash and Cash Equivalents – Securities Lending Collateral.

INVESTMENTS AND INVESTMENT INCOME

The Department's investments are stated at fair value. Quoted market values were used to value investments with the following exceptions: nonparticipating interest-earning investment contracts and certain conservatorship investments. Nonparticipating interest-earning investment contracts are exempt from fair value reporting and are shown on the financial statements at amortized cost. Conservatorship investments include U.S. Savings bonds which were valued at current redemption values as a substitute for quoted market value. In addition, equity securities in privately held entities were valued at estimated market value.

Investment Income includes changes in the fair value of investments and is recognized as a revenue in the operating statement or statement of changes in fund balance. Realized gains based on the net increase in fair value of investments are included as a component of Investment Income.

REAL ESTATE OWNED

Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or net realizable value. Cost is defined as the outstanding principal balance of the mortgage loan or contract on the date of foreclosure. Professional appraisers estimate fair market value. The lower of cost or fair market value is adjusted, if necessary, for estimated selling expenses to arrive at the net realizable value shown on the financial statements.

CONSERVATORSHIP ASSETS

Conservatorship personal property with an estimated value less than $1,000 is presented at a nominal value of one dollar to maintain accountability. Conservatorship real property is shown at cost. Cost is defined as the original cost of the real property to the protected person or the tax assessed value of the real property at the time the Department became conservator.

FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded at cost. Depreciation is calculated using the straight-line method. Furniture and equipment are depreciated over a period of five years. The Veterans' Building and the Oregon Veterans' Home are depreciated over their useful life (50 years and 40 years, respectively). 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.

SUPPLIES INVENTORIES

Supplies inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. Supplies inventories include prepaid postage on hand at year end. In both governmental and proprietary fund types, inventories are recorded as expenditures when used (consumption method).

COMPENSATED ABSENCES PAYABLE

Employees accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 250 hours per classified employee. Accumulated vacation leave that is expected to be paid with expendable available financial resources, generally within 90 days, is reported as an expenditure and a fund liability of the governmental fund type that will pay for it. Accumulated vacation leave of proprietary fund types is recorded as an expense and a liability of those funds as the benefits accrue to the employees.

ARBITRAGE REBATE LIABILITY

The Department discloses a liability to the federal government for excess earnings on tax-exempt bonds. The liability is long-term in nature with payments due to the federal government every five years. The Department treats excess earnings which are rebatable to the federal government as a reduction of revenue.

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. Underwriter's discounts are among miscellaneous bond expenses and are amortized over the life of the bond issue. Included in bond expenses are fees related to Series 73 variable-rate bonds, amortization of prepaid remarketing fees from fixed-rate conversions, expenses of the matured bond and coupon account with the State's Fiscal Agent, and bond attorney fees.

Expenses of Series 73 variable rate bonds include Standby Bond Purchase Agreement commitment fees and remarketing agent fees (See Note 7). These fees are payable quarterly in arrears.

TOTAL COLUMN

The Total column on the Combined Balance Sheet is captioned "memorandum only" to indicate that they are presented only for use in financial analysis. Data in this column do not present financial position in conformity with generally accepted accounting principles.

Furthermore, this information is not comparable to a consolidation of funds, as interfund balances have not been eliminated.

(2)
DEPOSITS AND INVESTMENTS

DEPOSITS

At June 30, 2000 the book balance of Cash and Cash Equivalents was $183,003,461. This is shown in the balance sheet as $162,531,674 in Enterprise funds and $20,471,787 in Expendable Trust funds. The bank balance of cash was $183,886,251, of which $163,077,730 was for Enterprise funds and $20,808,521 in Expendable Trust funds. These amounts were on deposit with the State Treasurer and the State's Fiscal Agent (Bank of New York) on June 30, 2000. According to the Governmental Accounting Standards Board, deposits are classified in three categories of credit risk assumed by the Department:

- Category 1 includes deposits that are insured or collateralized with securities held by the Department or its agent in the Department's name.
- Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Department's name.
- Category 3 includes deposits which are uncollateralized. This category may include any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Department's name.

Deposit balances as of June 30, 2000 consisted of the following:

	Category			Bank	Carrying
Form of Deposit	1	2	3	Balance	Amount
Enterprise Funds:					
Oregon Short-Term fund	$ 155,039,315	$ –	$ –	$ 155,585,371	$ 155,039,315
Cash with Fiscal Agent	7,492,359	–	–	7,492,359	7,492,359
Subtotal	$ 162,531,674	$ –	$ –	$ 163,077,730	$ 162,531,674
Expendable Trust Funds:					
Oregon Short-Term fund	20,471,787	–	–	20,808,521	20,471,787
Total Deposits	$ 183,003,461	$ –	$ –	$ 183,886,251	$ 183,003,461

The State Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Combined Balance Sheet as Cash and Cash Equivalents. Deposits in the State Treasury's OSTF are insured or collateralized in excess of FDIC coverage for a minimum of 25 percent in accordance with state statute. All funds over FDIC coverage of $100,000 are included in the statewide collateral pool, a multiple financial institution collateral pool which protects public deposits pursuant to Oregon Revised Statutes (ORS) 295.015.

Securities in the OSTF are held by the State Treasurer's agent in the name of the State of Oregon. They consist of 39 percent in U.S. government securities; 43 percent in short-term commercial paper; and the remainder in bankers acceptances, time certificates of deposit, and securities lending holdings.

The funds held by the State's Fiscal Agent are restricted for payment of matured bonds and interest payable. These funds are deposited at the Bank of New York and are backed by the full faith and credit of the Bank of New York. Further, these funds, while not collateralized, are insured up to $100,000 per bondholder as specified by FDIC regulations. On June 30, 2000, the state's Fiscal Agent was holding $7,492,359 for redemption of Oregon War Veterans' bonds and coupons that have matured, but have not yet been redeemed. On June 30, 1999, the matured bonds payable balance was $14,444,363.

As of June 30, 1999 the Department had a book balance of Cash and Cash Equivalents of $434,902,611, which was composed of $414,816,153 in Enterprise funds and $20,086,458 in Expendable Trust funds. The bank balance of cash as of June 30, 1999 was $434,428,700, composed of $413,905,971 in Enterprise funds and $20,522,729 in Expendable Trust funds.

INVESTMENTS

The State Treasurer is the investment officer for funds on deposit in the State Treasury. The state's investment policies are governed by statute and are overseen by the Oregon Investment Council. The State Treasurer may invest in any instrument which persons of prudence, discretion, and intelligence would invest in for their own account. The State Treasurer is prohibited from investing in common stock pursuant to ORS 293.736. As of June 30, 2000, the State Treasurer invested the Department's funds primarily in U.S. government securities, international securities, and corporate bonds.

A portion of the proceeds of Bond Series 75, Series 76, Series 77, and Series 79 was invested in specified accounts called Guaranteed Investment Contracts. The State Treasurer named a securities custodian to oversee these deposits, which are held in institutions (providers) outside of the State Treasury. The Guaranteed Investment Contracts feature fixed rates of return over the length of the contracts. The accounts require collateralization by the providers as specified by the state and contain default provisions in the event that the debt rating of a provider falls below a specified level. Guaranteed Investment Contracts are investments evidenced by contracts, rather than by securities, and are uncategorized with regard to credit risk.

Investments in Expendable Trust funds include holdings of protected persons whose funds are managed by the Department under the conservatorship laws of the state. Those investments are, in effect, held in the Department's name. These items are presented in the schedule below as "Other Investments."

There are three categories of credit risk that apply to investments:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the Department or its agent in the Department's name.

- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Department's name.

- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Department's name.

The schedule below presents the credit risk and carrying amount (fair value) as of June 30, 2000. The Department's portion of securities lending balances in the OSTF is unclassified with regard to risk and is included in the investment schedule below.

	Category 1	Category 2	Category 3	Carrying Amount
Investments				
Investments held by State Treasurer				
U.S. Government and agency securities	$ 148,611,022	$ –	$ –	$ 148,611,022
International Bonds	42,696,190	–	–	42,696,190
Corporate Bonds	341,893,933	–	–	341,893,933
Total Investments held by State Treasurer	$ 533,201,145	$ –	$ –	$ 533,201,145
Other Investments				
U.S. Savings Bonds	$ 1,577,133	$ –	$ –	$ 1,577,133
Stocks and other equity	621,916	–	–	621,916
Total Other Investments	$ 2,199,049	$ –	$ –	$ 2,199,049
Subtotal	$ 535,400,194	$	$	$ 535,400,194
Investments – Not Categorized				
Guaranteed Investment Contracts				$ 29,700,080
Investments held by broker-dealers under securities loans with cash collateral:				
U.S. Government and agency securities				$ 15,436,409
Securities Lending Short-Term collateral Investment Pool (Oregon Short-Term Fund only):				$ 15,802,156
Less:				
Securities Lending Amounts				$ (31,238,565)
Total Investments				$ 565,100,274

As of June 30, 1999, the Department had investments with a carrying value of $341,884,665, composed of $340,006,507 in Enterprise funds and $1,878,158 in Expendable Trust funds.

RESTRICTED ASSETS

Included in Cash and Cash Equivalents and Investments are amounts recorded in the Department's Debt Service Reserve Account. Funds in the Debt Service Reserve Account are restricted for retirement of future bond principal and interest. The Debt Service Reserve Account was established to provide a reserve that is to be maintained at a level equal to the maximum annual debt service of the program. As of June 30, 2000, the Debt Service Reserve Account has a balance of $237,108,544, which includes $77,881,661 in cash and $159,226,883 in net investments (fair value). The Debt Service Account as of June 30, 2000 exceeded the maximum yearly requirement by $120,900 due to the fair value market valuation, which occurred at year end. The balance of the Debt Service Reserve Account as of June 30, 1999 was $252,969,998, which included $41,964,180 in cash and $211,005,818 in net investments (fair value). The Debt Service Reserve Account as of June 30, 1999, exceeded the maximum yearly requirement by $4,210,000 as a result of the fair value market valuation at year end.

SECURITIES LENDING

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

During the year, State Street lent the Department's fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102 percent of the fair value of the security on loan. Oregon State Treasury did not impose any restrictions during the year on loans of the Department's fixed income securities. The Oregon State Treasury is fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return securities on loan. However, the Department had no securities on loan as of June 30, 2000, and therefore no cash collateral was invested on the Department's behalf by State Street. Also, because the Department had no securities on loan as of June 30, 2000, it had no credit risk exposure to borrowers.

The Department's cash balances are invested in the OSTF, as is the cash of other state agencies. State Street is authorized by the Securities Lending Agreement to invest cash collateral received for securities loans in the OSTF. As of June 30, 2000, the OSTF had an average weighted maturity of 157 days. Since the securities loans are callable on demand by either the lender or borrower, the life of the loans as of June 30, 2000 is effectively one day and consequently does not generally match the life of the investments in the Fund. The Department's allocated portion of the OSTF securities on loan and the related collateral is presented in the schedule of investments shown above. As of June 30, 2000, the fair value of the securities on loan from the OSTF and the fair value of securities purchased with the cash collateral was $484,654,040 and $496,137,329, respectively.

INVESTMENT INCOME

The following table details the components of Investment Income for the year ended June 30, 2000 and June 30, 1999:

		June 30, 2000		June 30, 1999
Enterprise funds:				
Investment income: Cash and Accrual basis	$	39,334,099	$	50,855,945
Securities lending revenue		2,008,673		1,607,836
Increase/(Decrease) in fair value of investments		(2,826,625)		(3,623,845)
Investment income	$	38,516,147	$	48,839,936
Expendable trust funds:				
Investment income: Cash and Accrual basis	$	1,176,305	$	1,011,021
Securities lending revenue		109,475		81,549
Increase/(Decrease) in fair value of investments		(71,810)		(9,056)
Investment income	$	1,213,970	$	1,083,514

(3)
MORTGAGE LOANS AND CONTRACTS RECEIVABLE

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

The loan and contract receivable portfolio as of June 30, 2000 is approximately $762,000,000. All mortgaged property is located within Oregon. The Department is exposed to a statewide concentration of credit risk in the amount of approximately $762,000,000.

The Department uses the allowance method to estimate uncollectible mortgage loans and contracts receivable. The allowance is periodically adjusted by management to accommodate changes in economic conditions, nonperforming assets, historical loss experience, and other conditions which may affect the ultimate collectibility of the mortgage loans and contracts. In 2000 the Department determined the balance of the allowance account to be in excess of projected losses for the remaining loan and contract portfolio. Accordingly, the account balance was reduced as of June 30, 2000 from $13,600,000 to $12,400,000, or approximately 1.6 percent of gross loans and contracts receivable.

The Department recognizes the net amount of certain nonrefundable loan fees and costs associated with its lending activities over the life of the loan. The unamortized balance of these net loan fees and costs are included on the balance sheet as part of the net mortgage loan and contract balances. During the year ended June 30, 2000, the unamortized loan fees and costs, which had been deferred from prior fiscal periods, amortized completely. Due to immateriality, the fees will not be deferred and amortized for the current period.

The following table details the mortgage loans and contracts receivable, unamortized loan fees and costs, and allowance accounts as disclosed on the balance sheets for June 30, 2000 and June 30, 1999.

		June 30, 2000		**June 30, 1999**
Loans Receivable	$	712,148,434	$	800,353,980
Contracts Receivable		62,087,045		77,353,381
Total Loans and Contracts Receivable	$	774,235,479	$	877,707,361
Less: Unamortized Loan Fees/Costs		–		380,436
Less: Allowance for Principal Losses		12,369,000		13,603,000
Net Loans and Contracts Receivable	$	761,866,479	$	863,723,925

Included in mortgage loans receivable are loans that will not amortize at their current monthly payment amounts. These loans became nonamortizing 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, 2000, there were approximately 500 nonamortizing accounts with an aggregate principal balance of approximately $48,000,000. This represents 6.3 percent of the total net loans and contracts receivable.

(4)
FIXED ASSETS

Furniture and equipment assets costing $5,000 or more are capitalized and then depreciated over a useful life of five years. Building-related assets are capitalized and then depreciated over the remaining estimated life of the building.

The table below details the composition of the Department's net fixed assets (Proprietary fund Type) as of June 30, 2000 and June 30, 1999:

	June 30, 1999	June 30, 1998
Veterans' Loan Program		
Building	$ 7,232,201	$ 7,232,201
Less: Accumulated Depreciation	2,330,890	2,186,023
Carrying Value, Building	$ 4,901,311	$ 5,046,178
Furniture and Equipment	$ 1,954,346	$ 3,610,667
Less: Accumulated Depreciation	893,335	2,959,434
Carrying Value, Furniture and Equipment	$ 1,061,011	$ 651,233
Net Fixed Assets, Loan Program	$ 5,962,322	$ 5,697,411
Veterans' Home Program		
Building	$ 12,369,112	$ 12,369,112
Less: Accumulated Depreciation	819,389	510,020
Carrying Value, Building	$ 11,549,723	$ 11,859,092
Furniture and Equipment	$ 98,507	$ 98,507
Less: Accumulated Depreciation	46,598	26,897
Carrying Value, Furniture and Equipment	$ 51,909	$ 71,610
Land	$ 89,500	$ 89,500
Net Fixed Assets, Home Program	$ 11,691,132	$ 12,020,202
Total Net Fixed Assets	$ 17,653,454	$ 17,717,613

(5)
LOAN CANCELLATION LIFE INSURANCE

The Department offers Loan Cancellation Life Insurance (LCLI) to approved borrowers and their spouses through a contract with a private insurance company. 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 reserve fund consisting of amounts generated by the group policy and interest earned on the fund balance. The money is 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. Annual accounting of premiums, claims, administrative costs, and interest earnings are provided by the insurance carrier for the fund once a year, at August 31. The balance of the fund as of August 31, 2000 and August 31, 1999 was approximately $44,000,000 and $43,000,000, respectively.

(6)
BONDS PAYABLE AND DEBT SERVICE

The table below provides a summary of general obligation bond transactions of the Department for the fiscal years ended June 30, 1999 and June 30, 2000:

Bonds Payable (Par) as of June 30, 1998	$	2,085,760,000
Bonds Issued		–
Bonds Retired		(575,365,000)
Bonds Payable (Par) as of June 30, 1998	$	1,510,395,000
Bonds Issued		50,000,000
Bonds Retired		(170,275,000)
Bonds Payable (Par) as of June 30, 1999	$	1,390,120,000

Shown below are the components of net bonds payable as disclosed on the balance sheet for June 30, 2000:

		Short Term		Long Term		Total
Bonds Payable (Par)	$	140,760,000	$	1,249,360,000	$	1,390,120,000
Premium on Bonds Sold		309,952		957,232		1,267,184
Discount on Bonds Sold		(53,960)		(908,324)		(962,284)
Net Bonds Payable	$	141,015,992	$	1,249,408,908	$	1,390,424,900

The following schedule summarizes future debt service requirements to maturity as of June 30, 2000:

Fiscal Year	Principal	Interest*	Total
2001	$ 140,760,000	96,469,465	237,229,465
2002	123,175,000	86,074,059	209,249,059
2003	113,610,000	76,462,535	190,072,535
2004	103,765,000	68,385,488	172,150,488
2005	83,945,000	61,084,676	145,029,676
2006	84,115,000	54,523,854	138,638,854
2007	84,345,000	47,569,555	131,914,555
2008	84,570,000	40,604,718	125,174,718
2009	64,735,000	33,654,005	98,389,005
2010	14,845,000	29,824,881	44,669,881
2011	4,600,000	29,167,535	33,767,535
2012	4,685,000	28,916,231	33,601,231
2013	4,815,000	28,651,628	33,466,628
2014	4,760,000	28,383,010	33,143,010
2015	4,985,000	28,110,636	33,095,636
2016	5,285,000	27,830,845	33,115,845
2017	98,110,000	24,286,699	122,396,699
2018	98,385,000	18,411,413	116,796,413
2019	98,640,000	12,518,964	111,158,964
2020	98,905,000	6,609,776	105,514,776
2021	6,780,000	3,918,520	10,698,520
2022	7,180,000	3,517,048	10,697,048
2023	7,600,000	3,091,390	10,691,390
2024	7,920,000	2,642,281	10,562,281
2025	8,080,000	2,175,756	10,255,756
2026	7,630,000	1,711,375	9,341,375
2027	7,255,000	1,264,165	8,519,165
2028	6,010,000	872,311	6,882,311
2029	5,040,000	521,873	5,561,873
2030	2,635,000	272,403	2,907,403
2031	1,435,000	156,150	1,591,150
2032	1,520,000	68,700	1,588,700
	$ 1,390,120,000	$ 847,751,945	$ 2,237,871,945

* $370,000,000 of the Series 73E, F, G, and H Variable Rate Bonds are included at an assumed interest rate of 6.0 percent. For each change of 1 percent in Series 73 interest rates, annual interest requirements would change by approximately $3,700,000.

Shown below are the outstanding bond issues and their final maturities (in fiscal years) as of June 30, 2000:

Series	Dated	Issued	Outstanding	Final Maturity
LIX (59)	August 1, 1979	$ 200,000,000	$ 80,000,000	2004
LX (60)	November 1, 1979	200,000,000	100,000,000	2005
LXI (61)	January 1, 1980	300,000,000	180,000,000	2009
LXII (62)	April 1, 1980	300,000,000	170,000,000	2009
LXIII (63)	July 1, 1980	300,000,000	170,000,000	2009
LXIV (64)	October 1, 1980	300,000,000	90,000,000	2010
LXVI (66)	June 1, 1981	240,000,000	50,000,000	2003
73	December 1, 1985	740,000,000	370,000,000	2020
75	October 1, 1995	70,000,000	53,630,000	2027
76A	April 1, 1997	40,000,000	36,800,000	2029
77	April 1, 1998	40,000,000	39,690,000	2030
78A	March 1, 2000	10,000,000	10,000,000	2024
79A	March 1, 2000	22,000,000	22,000,000	2032
79B	April 6, 2000	18,000,000	18,000,000	2001
Total Bonds Outstanding as of June 30, 2000:			$ 1,390,120,000	

DEBT REFUNDINGS

On March 30, 2000, the Department issued $10,000,000 of Series 78A with an average interest rate of 5.13 percent. These bonds were issued to refund $10,000,000 of Series 64, with an average interest rate of 9.20 percent. The current refunding of these bonds reduces the total debt service payment over the next 23 years (assuming no bond calls of Series 78A occur) by approximately $73,000 and result in an economic gain of approximately $1,300,000.

(7)
DEMAND BONDS

Included in long-term debt as of June 30, 2000 is $370,000,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G & H. The bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. These bonds may be tendered by the bondholder on specified dates at a price equal to principal plus accrued interest.

The Department's Remarketing Agents (J.P. Morgan & Co. and Prudential Securities Incorporated) are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis. The interest rate borne by each series of bonds will be determined by the designated Remarketing Agent for such bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement (SBPA). Under the SBPA, Morgan Guaranty Trust

Company will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA; therefore, no tender advances or draws are outstanding as of June 30, 2000. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher). If the tender advance is in default, interest would accrue at the bank's base rate plus 1 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days' of accrued interest calculated at a rate of 14 percent per annum, 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 SBPA. Presently, the Department is required to pay a yearly commitment fee which is payable quarterly in arrears, at a rate of .10 percent per annum, applied to the purchase commitment defined above. During the fiscal year, the commitment fee, as specified in the first supplement to the SPBA, for the period of June 30, 1999, to June 28, 2000, was .08 percent per annum applied to the purchase contract.

The present purchase commitments by the banks will remain in effect from June 28, 2000 to the earlier of (a) June 26, 2001 (scheduled expiration date), unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate or a fixed (or term) rate; (c) the date on which no bonds of a given series are outstanding; or (d) the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA.

(8)
FUND EQUITY

DEFICIT RETAINED EARNINGS

The Enterprise fund – Veterans' Home Program had deficit unreserved retained earnings as of June 30, 2000. The deficit is $828,007 and resulted primarily from start-up expenses incurred to equip and begin operation of the Oregon Veterans' Home. The deficit for the fiscal year ended June 30, 1999 was $1,114,627.

CONTRIBUTED CAPITAL

Contributed capital represents contributions and federal grant monies restricted to capital acquisition and construction of the Oregon Veterans' Home in Wasco County.

The table below summarizes changes to the Department's contributed capital account for its proprietary fund type for the fiscal years ended June 30, 2000 and June 30, 1999:

Balance, June 30, 1998	$	13,443,696
Federal grant		111,240
Less: Depreciation		(329,069)
Balance, June 30, 1999	$	13,225,867
Federal grant		33,280
Less: Depreciation		(329,069)
Balance, June 30, 2000	$	12,930,078

(9)
INTERFUND TRANSACTIONS

The following schedule summarizes interfund receivables and payables for the years ended June 30, 2000 and June 30, 1999:

Description	Receivables	Payables	June 30, 2000	June 30, 1999
Conservatorship fees	Veterans' Loan Program		$ 29,704	$ 27,451
Conservatorship fees	General Fund		288	768
Conservatorship fees		Conservatorship Trust Fund	$ 29,992	$ 28,219

The Veterans' Loan Program loaned monies to the Veterans' Home Program for operating expenses of the Oregon Veterans' Home. As of June 30, 2000, the advance from the Veterans' Loan Program was $134,000. As of June 30, 1999, the advance was $734,000.

(10)
BUDGETARY COMPLIANCE

A comparison of General Fund expenditures to budget authorization is presented in the Schedule of Legislative Authorization (Non-GAAP Budgetary Basis) Compared to Actual Expenditures Subject to Budget for the biennium ended June 30, 2001 (Schedule 6).

The following table reconciles General Fund budgetary expenditures with operating expenditures. Other adjustments include an adjustment to prepaid postage (supplies) and prior biennium transactions included in operating expenditures.

		Fiscal Year Ending 6/30/00		Fiscal Year Ending 6/30/99
Total Budgetary Expenditures	$	1,238,549	$	1,176,157
Changes (Nonbudgeted Expenditures):				
Change in Compensated Absences		(417)		6,514
Other adjustments		(292)		–
Total Operating Expenditures	$	1,237,840	$	1,182,671

In December 1999, the Emergency Board of the Legislature approved a General fund appropriation increase of $147,633, which was contributed toward the construction of a national World War II memorial. Another Emergency Board action in January 2000 increased the Department’s General fund appropriation by $24,533 due to state-wide compensation plan adjustments. The Department’s other fund limitation also increased in January 2000 by $595,026 due to the same state-wide compensation adjustments. In addition, there were additional state-wide assessment adjustments that reduced the Department’s General fund by $32 and its other fund limitation by $153,517. The other fund category includes Veterans’ Loan Program, Veterans’ Home Program, and partial funding of Veterans’ Services Division.

(11)
DEFINED BENEFIT RETIREMENT PLAN

The Department's employees participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. All Department employees are eligible to participate in the system after completing six months of service. PERS is administered by the Public Employees Retirement Board under the guidelines of ORS Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from 12 retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits also may be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits, which are established by state statutes. A copy of the PERS annual financial report may be obtained from PERS, P.O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by state statute to contribute 6.0 percent of their salaries to the plan. Current law permits employers to pay employee contributions to the Retirement Fund. The Department is required by statute to contribute actuarially computed amounts as determined by PERS; rates are subject to change as a result of subsequent actuarial valuations. Currently, the rate is 10.314 percent of each covered employee's salary. The payroll for Department employees covered by the PERS for the years ended June 30, 2000, June 30, 1999, and June 30, 1998 was $5,520,277, $5,515,864, and

$5,595,801, respectively. The employer contributions to PERS for the years ended June 30, 2000, 1999, and 1998 were approximately $569,000, $479,000, and $486,000, respectively, and were equal to the required contributions for those years.

(12)
SEGMENT INFORMATION

The Department maintains two enterprise funds. The Veterans' Loan Program provides home and farm loans to veterans at favorable interest rates. The Veterans' Home Program provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans. Selected segment information for the year ended June 30, 2000 is as follows:

SEGMENT INFORMATION	**Veterans' Loan Program**	**Veterans' Home Program**
Operating revenues	$ 103,565,974	$ 4,580,937
Depreciation	360,840	329,069
Net loss before operating transfers	(2,002,600)	(57,247)
Operating transfers	–	14,798
Net income or (loss)	(2,014,488)	(42,449)
Fixed asset additions	625,751	–
Net working capital	557,471,858	143,554
Total assets	1,518,940,029	12,658,049
Bonds payable	1,390,424,900	–
Total fund equity	76,591,357	12,102,071

(13)
EXTRAORDINARY ITEMS

LOSSES FROM EARLY EXTINGUISHMENT OF DEBT

During the period from July 1, 1999 through June 30, 2000, the Department called (redeemed early) a total of $28,240,000 of its Series 64, 75 and 76. As a result of these early bond redemptions, the Department recognized a net loss of $11,888 due to accelerated amortization of issue premium and discount.

During the period from July 1, 1998 through June 30, 1999, the Department called (redeemed early) a total of $393,900,000 of its Series 64, 73 and 75. A net loss of approximately $12.3 million was recognized as a result of these early bond redemptions due to bond call premium and accelerated amortization of issue premium and discount.

(14)
RISK FINANCING

The State of Oregon administers property and casualty insurance programs covering state government through its 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; workers' compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other 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 of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.

(15)
SUBSEQUENT EVENTS

July 6, 2000 Bond Sale and Refunding – Series 78B

On July 6, 2000, the Department issued $10,000,000 of Series 78B general obligation bonds with an average interest rate of 5.80 percent. These bonds were issued to refund $10,000,000 of Series 64, with an average interest rate of 9.20 percent. The current refunding of these bonds increases the total debt service payment over the next 23 years (assuming no bond calls of Series 78B occur) by approximately $54,000 and result in an economic gain of approximately $1,000,000.

September 28, 2000 Bond Sale – Series 80A and 80B

On September 28, 2000, the Department issued $35,000,000 of Series 80A and $13,000,000 of Series 80B general obligation bonds.

October 1, 2000 Bond Call – Series 64, 75 ,76A, 77, and 79B

On October 1, 2000, the Department called the following general obligation bonds: $10,000,000 of Series 64, $3,640,000 of Series 75, $1,460,000 of Series 76A, and $365,000 of Series 77 general obligation bonds. In addition, Series 79B general obligation bonds, with a par value of $18,000,000, were retired early. No call premium was required to be paid on any of these early redemptions.

Enterprise Funds

Enterprise Funds account for goods and services that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily from user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

Veterans' Loan Program

The Veterans' Loan Program was authorized by a constitutional amendment approved by the voters in 1944. This program quickly became, and remains today, the largest program administered by the Department, with the purpose of providing funds to finance owner-occupied, single-family residential housing for qualified eligible veterans of the State of Oregon.

The program's first loan was made in 1945. Since that time, more than 300 thousand loans have been granted, primarily to eligible veterans who served during World War II, the Korean War, and the Vietnam War, with a total original principal amount exceeding $7.2 billion.

The primary revenues for the Veterans' Loan Program consist of interest income from the mortgage portfolio and investment income from program investments. Funds for lending are provided through the issuance of State of Oregon, General Obligation, Veterans' Welfare Bonds, which currently represent over 60 percent of the outstanding general obligation debt of the State of Oregon.

Veterans' Home Program

The purpose of the Oregon Veterans' Home (OVH) is to provide a home for Oregon veterans who have honorably served the nation and are now in need of skilled nursing and Alzheimer's disease care. OVH programs include around-the-clock nursing care; occupational, speech and physical therapy; dietary services; and social and other support services to residents. The Department owns the OVH but contracts out the day-to-day operations to a private contractor. The OVH, which opened in November 1997, has the capacity to serve 151 veterans.

State of Oregon
Department of Veterans' Affairs
Combining Balance Sheet
Proprietary Fund Type
June 30, 2000 and June 30, 1999

	Enterprise Fund Veterans' Loan Program		Enterprise Fund Veterans' Home Program	
	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
ASSETS				
Cash and Cash Equivalents	$ 162,024,212	$ 413,978,031	$ 507,462	$ 838,122
Cash and Cash Equivalents – Securities Lending Collateral	13,928,185	34,606,571	48,023	6,639
Investments (Net)	562,901,225	340,006,507	–	–
Receivables:				
Mortgage Loans and Contracts (Net)	761,866,479	863,723,925	–	–
Accrued Interest	10,312,569	11,455,137	–	22,062
Loan Cancellation Life Insurance Premiums	442,000	492,000	–	–
Other	9,500	20,700	411,280	251,400
Due From Other Funds	29,704	27,451	–	–
Advances to Other Funds	134,000	734,000	–	–
Real Estate Owned	16,372	239,819	–	–
Supplies Inventory	21,550	36,486	152	825
Deferred Underwriter's Discount	1,291,911	1,088,801	–	–
Fixed Assets (Net)	5,962,322	5,697,411	11,691,132	12,020,202
TOTAL ASSETS	$ 1,518,940,029	$ 1,672,106,839	$ 12,658,049	$ 13,139,250
LIABILITIES & FUND EQUITY				
Liabilities:				
Current Liabilities:				
Bonds Payable – Maturing Within One Year (Net)	$ 141,015,992	$ 142,403,824	$ –	$ –
Matured Bonds Payable	7,492,359	14,444,363	–	–
Accrued Interest on Bonds	26,576,000	29,576,000	–	–
Obligations under Securities Lending	13,928,185	34,606,571	48,023	6,639
Accounts Payable	634,643	781,945	357,447	277,340
Loan Cancellation Life Insurance Premium	810,146	986,521	–	–
Compensated Absences Payable	132,097	126,062	3,349	2,182
Deposit Liabilities	1,607,665	1,439,557	3,112	1,302
Long–Term Liabilities:				
Bonds Payable – Maturing After One Year (Net)	1,249,408,908	1,368,606,917	–	–
Arbitrage Rebate Payable	346,385	151,049	–	–
Compensated Absences Payable	396,292	378,185	10,047	6,547
Advances from Other Funds	–	–	134,000	734,000
TOTAL LIABILITIES	$ 1,442,348,672	$ 1,593,500,994	$ 555,978	$ 1,028,010
Fund Equity:				
Contributed Capital	$ –	$ –	$ 12,930,078	$ 13,225,867
Retained Earnings–Unreserved	76,591,357	78,605,845	(828,007)	(1,114,627)
TOTAL FUND EQUITY	$ 76,591,357	$ 78,605,845	$ 12,102,071	$ 12,111,240
TOTAL LIABILITIES AND FUND EQUITY	$ 1,518,940,029	$ 1,672,106,839	$ 12,658,049	$ 13,139,250

Total Enterprise Funds	
June 30, 2000	June 30, 1999
$ 162,531,674	$ 414,816,153
13,976,208	34,613,210
562,901,225	340,006,507
761,866,479	863,723,925
10,312,569	11,477,199
442,000	492,000
420,780	272,100
29,704	27,451
134,000	734,000
16,372	239,819
21,702	37,311
1,291,911	1,088,801
17,653,454	17,717,613
$ 1,531,598,078	$ 1,685,246,089
$ 141,015,992	$ 142,403,824
7,492,359	14,444,363
26,576,000	29,576,000
13,976,208	34,613,210
992,090	1,059,285
810,146	986,521
135,446	128,244
1,610,777	1,440,859
1,249,408,908	1,368,606,917
346,385	151,049
406,339	384,732
134,000	734,000
$ 1,442,904,650	$ 1,594,529,004
$ 12,930,078	$ 13,225,867
75,763,350	77,491,218
$ 88,693,428	$ 90,717,085
$ 1,531,598,078	$ 1,685,246,089

State of Oregon
Department of Veterans' Affairs
Combining Statement of Revenues, Expenses, and Changes in Fund Equity
Proprietary Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

	Enterprise Fund – Veterans' Loan Program	
	June 30, 2000	June 30, 1999
REVENUES		
Interest Income:		
Mortgage Loans	$ 57,259,424	$ 68,967,805
Contracts	5,648,408	7,603,132
Investment Income	38,492,961	48,834,865
Gain on Sale of Foreclosed Property	16,892	32,324
Loan Cancellation Life Insurance Processing Fee	399,937	327,540
Other Fees and Charges	1,402,798	1,055,894
Conservatorship Fees	345,554	322,973
TOTAL REVENUES	$ 103,565,974	$ 127,144,533
EXPENSES		
Bond Interest	$ 93,957,700	$ 117,276,619
Salaries and Other Payroll Expenses	6,886,703	6,829,801
Bond Expenses	819,421	952,673
Securities Lending Investment Expense	2,006,704	1,607,492
Real Estate Owned Expense	42,230	49,096
Services and Supplies	2,679,295	3,055,525
Veterans Home Operations	–	–
Depreciation Expense	360,840	317,751
Bad Debt Expense	(1,227,068)	(3,346,273)
Other Expenses	42,749	42,477
TOTAL EXPENSES	$ 105,568,574	$ 126,785,161
NET INCOME BEFORE OPERATING TRANSFERS	$ (2,002,600)	$ 359,372
OPERATING TRANSFERS		
Net Operating Transfers In from Veterans Home Trust Fund	–	–
NET INCOME BEFORE EXTRAORDINARY ITEMS	$ (2,002,600)	$ 359,372
Extraordinary Gain on Litigation	$ –	$ 654,385
Extraordinary Loss from Early Extinguishment of Debt	(11,888)	(12,271,433)
NET INCOME/(LOSS)	$ (2,014,488)	$ (11,257,676)
FUND EQUITY		
Beginning Retained Earnings–Unreserved	$ 78,605,845	$ 89,863,521
Net Income / (Loss)	$ (2,014,488)	$ (11,257,676)
Add: Depreciation Charged to Contributions	–	–
Increase/(Decrease) in Retained Earnings	$ (2,014,488)	$ (11,257,676)
Ending Retained Earnings–Unreserved	$ 76,591,357	$ 78,605,845
Beginning Contributed Capital	$ –	$ –
Changes in Contributed Capital	–	–
Ending Contributed Capital	$ –	$ –
Total Fund Equity	$ 76,591,357	$ 78,605,845

Enterprise Fund – Veterans' Home Program		Total Enterprise Funds	
June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
$ –	$ –	$ 57,259,424	$ 68,967,805
–	–	5,648,408	7,603,132
23,186	5,071	38,516,147	48,839,936
–	–	16,892	32,324
–	–	399,937	327,540
4,557,751	3,515,724	5,960,549	4,571,618
–	–	345,554	322,973
$ 4,580,937	$ 3,520,795	$ 108,146,911	$ 130,665,328
$ –	$ –	$ 93,957,700	$ 117,276,619
181,504	144,965	7,068,207	6,974,766
–	–	819,421	952,673
1,969	344	2,008,673	1,607,836
–	–	42,230	49,096
180,485	162,834	2,859,780	3,218,359
3,945,157	3,088,796	3,945,157	3,088,796
329,069	329,069	689,909	646,820
–	–	(1,227,068)	(3,346,273)
–	–	42,749	42,477
$ 4,638,184	$ 3,726,008	$ 110,206,758	$ 130,511,169
$ (57,247)	$ (205,213)	$ (2,059,847)	$ 154,159
14,798	9,960	14,798	9,960
$ (42,449)	$ (195,253)	$ (2,045,049)	$ 164,119
$ –	$ –	$ –	$ 654,385
–	–	(11,888)	(12,271,433)
$ (42,449)	$ (195,253)	$ (2,056,937)	$ (11,452,929)
$ (1,114,627)	$ (1,248,443)	$ 77,491,218	$ 88,615,078
$ (42,449)	$ (195,253)	$ (2,056,937)	$ (11,452,929)
329,069	329,069	329,069	329,069
$ 286,620	$ 133,816	$ (1,727,868)	$ (11,123,860)
$ (828,007)	$ (1,114,627)	$ 75,763,350	$ 77,491,218
$ 13,225,867	$ 13,443,696	$ 13,225,867	$ 13,443,696
(295,789)	(217,829)	(295,789)	(217,829)
$ 12,930,078	$ 13,225,867	$ 12,930,078	$ 13,225,867
$ 12,102,071	$ 12,111,240	$ 88,693,428	$ 90,717,085

State of Oregon
Department of Veterans' Affairs
Combining Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

	Enterprise Fund – Veterans' Loan Program	
	June 30, 2000	June 30, 1999
Cash Flows from Operating Activities:		
Operating Income / (Loss)	$ (2,002,600)	$ 359,372
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation	360,840	317,751
Amortization of Bond Premium & Discount	(308,984)	(334,333)
Amortization of Remarketing Fees	–	95,034
Amortization of Loan Origination Fees	380,436	364,768
Interest Received on Investments Reported as Operating Income	(38,492,961)	(47,227,373)
Interest Payments on Bonds Reported as Operating Expense	94,266,684	117,610,952
Letter of Credit and Remarketing Fees Reported as Operating Expense	819,421	857,638
Bad Debt Expense	(1,227,068)	(3,346,273)
(Gain)/Loss on Sale of Equipment	(4,065)	(1,822)
Change in Fair Value of Investments and related adjustments	2,857,519	6,184,911
(Increase)/Decrease in Receivables	58,947	(456,524)
(Increase)/Decrease in Loans and Contracts Receivable	102,704,078	215,908,601
(Increase)/Decrease in Accrued Interest Receivable	1,142,568	7,220,379
(Increase)/Decrease in Real Estate Owned	223,447	(64,655)
(Increase)/Decrease in Supplies Inventory	14,936	5,244
(Increase)/Decrease in Prepaid Remarketing Fees and Bond Issuance Costs	(216,855)	62,150
Increase/(Decrease) in Matured Bonds Payable	(6,952,004)	397,227
Increase/(Decrease) in Accrued Interest Payable – Bonds	(3,000,000)	(6,599,000)
Increase/(Decrease) in Obligations Under Securities Lending	(20,678,386)	(1,136,147)
Increase/(Decrease) in Arbitrage Payable	195,336	103,987
Increase/(Decrease) in Accounts Payable	(147,302)	(4,253)
Increase/(Decrease) in LCLI Premium Payable	(176,375)	(142,225)
Increase/(Decrease) in Compensated Absences Payable	24,142	2,206
Increase/(Decrease) in Deposit Liabilities	168,108	84,542
Total Adjustments	$ 132,012,462	$ 289,902,785
Net Cash and Cash Equivalents Provided/(Used) in Operating Activities	$ 130,009,862	$ 290,262,157

Enterprise Fund – Veterans' Home Program		Total Enterprise Funds	
June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
$ (57,247)	$ (205,213)	$ (2,059,847)	$ 154,159
329,069	329,069	689,909	646,820
–	–	(308,984)	(334,333)
–	–	–	95,034
–	–	380,436	364,768
(21,217)	(4,727)	(38,514,178)	(47,232,100)
–	–	94,266,684	117,610,952
–	–	819,421	857,638
–	–	(1,227,068)	(3,346,273)
–	–	(4,065)	(1,822)
		2,857,519	6,184,911
(159,880)	(159,860)	(100,933)	(616,384)
–	–	102,704,078	215,908,601
22,062	(19,367)	1,164,630	7,201,012
–	–	223,447	(64,655)
673	(825)	15,609	4,419
–	–	(216,855)	62,150
–	–	(6,952,004)	397,227
–	–	(3,000,000)	(6,599,000)
41,384	(2,496)	(20,637,002)	(1,138,643)
–	–	195,336	103,987
80,107	491,111	(67,195)	486,858
–	–	(176,375)	(142,225)
4,668	1,852	28,810	4,058
1,810	1,302	169,918	85,844
$ 298,676	$ 636,059	$ 132,311,138	$ 290,538,844
$ 241,429	$ 430,846	$ 130,251,291	$ 290,693,003

(Continued on next page)

State of Oregon
Department of Veterans' Affairs
Combining Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

(Continued from prior page)

	Enterprise Fund – Veterans' Loan Program	
	June 30, 2000	June 30, 1999
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	$ 50,000,000	$ –
Principal Payments on Bonds	(170,275,000)	(575,365,000)
Interest Payments on Bonds	(94,266,684)	(117,610,952)
Operating Transfers In	–	–
Investment Expense from Securities Lending	2,006,704	(1,607,492)
Collections from Advances to Other Funds	600,000	–
Payments on Advances from Other Funds	–	–
Payment of Letter of Credit and Remarketing Fees	(819,421)	(857,638)
Bond Call Premium	–	(7,400,000)
Net Cash and Cash Equivalents Provided/(Used) in Noncapital Financing Activities	$ (212,754,401)	$ (702,841,082)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	$ (625,751)	$ (220,742)
Proceeds from Sale of Fixed Assets	4,065	1,822
Contributions Restricted For Capital Purposes	–	–
Gain from Litigation Settlement	–	654,385
Net Cash and Cash Equivalents Provided/(Used) by Capital and Related Financing Activities	$ (621,686)	$ 435,465
Cash Flows from Investing Activities:		
Purchases of Investments	$ (340,584,358)	$ (116,245,854)
Proceeds from Sales or Maturities of Investments	114,832,121	461,911,674
Interest on Investments and Cash Balances	38,492,961	47,227,373
Investment Income from Securities Lending	(2,006,704)	1,607,492
Net Cash and Cash Equivalents Provided by Investing Activities	$ (189,265,980)	$ 394,500,685
Net Increase/(Decrease) in Cash and Cash Equivalents	$ (272,632,205)	$ (17,642,775)
Net Cash and Cash Equivalents at Beginning of Year	$ 448,584,602	$ 466,227,377
Cash and Cash Equivalents at End of Year	$ 175,952,397	$ 448,584,602
Reconciliation to Balance Sheet:		
Cash and Cash Equivalents	$ 162,024,212	$ 413,978,031
Cash and Cash Equivalents – Securities Lending Collateral	13,928,185	34,606,571
Cash and Cash Equivalents at End of Year	$ 175,952,397	$ 448,584,602

Enterprise Fund – Veterans' Home Program		Total Enterprise Funds	
June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
$ –	$ –	$ 50,000,000	$ –
–	–	(170,275,000)	(575,365,000)
–	–	(94,266,684)	(117,610,952)
14,798	9,960	14,798	9,960
(1,969)	(344)	2,004,735	(1,607,836)
–		600,000	
(600,000)		(600,000)	
–	–	(819,421)	(857,638)
–	–	–	(7,400,000)
$ (587,171)	$ 9,616	$ (213,341,572)	$ (702,831,466)
$ –	$ –	$ (625,751)	$ (220,742)
–	–	4,065	1,822
33,280	111,240	33,280	111,240
–	–	–	654,385
$ 33,280	$ 111,240	$ (588,406)	$ 546,705
$ –	$ –	$ (340,584,358)	$ (116,245,854)
–	–	114,832,121	461,911,674
21,217	4,727	38,514,178	47,232,100
1,969	344	(2,004,735)	1,607,836
$ 23,186	$ 5,071	$ (189,242,794)	$ 394,505,756
$ (289,276)	$ 556,773	$ (272,921,481)	$ (17,086,002)
$ 844,761	$ 287,988	$ 449,429,363	$ 466,515,365
$ 555,485	$ 844,761	$ 176,507,882	$ 449,429,363
$ 507,462	$ 838,122	$ 162,531,674	$ 414,816,153
48,023	6,639	13,976,208	34,613,210
$ 555,485	$ 844,761	$ 176,507,882	$ 449,429,363

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Expendable Trust Funds

Expendable Trust Funds account for assets held by the Department in a trustee capacity when the principal and income may be expended in the course of the fund's designated operations.

Conservatorship Trust
The Department acts as conservator of estates of approximately 280 veterans, survivors, and minor or helpless children of veterans who the court has determined are unable to manage their own financial affairs. Revenue sources include Social Security monies, U.S. Department of Veterans' Affairs benefits, investment income, and other sources of income.

Veterans' Home Trust
The Department accepts donations that can be used to operate the Oregon Veterans' Home in Wasco County, Oregon, and to provide its residents with amenities to enhance their quality of life. The fund is composed of donations and interest earnings.

State of Oregon
Department of Veterans' Affairs
Combining Balance Sheet
Fiduciary Fund Type
June 30, 2000 and June 30, 1999

	Expendable Trust Fund Conservatorship Trust				Expendable Trust Fund Veterans' Home Trust			
		June 30, 2000		June 30, 1999		June 30, 2000		June 30, 1999
Assets								
Cash and Cash Equivalents	$	20,294,514	$	19,947,545	$	177,273	$	138,913
Cash and Cash Equivalents – Securities Lending Collateral		1,851,195		1,766,251		–		12,037
Investments (Net)		2,199,049		1,878,158		–		–
Receivables								
Mortgage Loans and Contracts (Net)		151,350		181,270		–		–
Accrued Interest		108,918		1,072		–		–
Other		–		82,788		–		–
Conservatorship Real Property		2,564,211		2,413,530		–		–
Conservatorship Personal Property		723,857		625,022		–		–
TOTAL ASSETS	$	27,893,094	$	26,895,636	$	177,273	$	150,950
Liabilities and Fund Balance								
Liabilities								
Current Liabilities:								
Due to Other Funds	$	29,992	$	28,219	$	–	$	–
Obligations under Securities Lending		1,851,195		1,766,251		–		12,037
Long-Term Liabilities:								
Mortgages on Conservatorship Real Property		742,179		638,852		–		–
TOTAL LIABILITIES	$	2,623,366	$	2,433,322	$	–	$	12,037
Fund Balance:								
Reserved for Trust Fund	$	25,269,728	$	24,462,314	$	177,273	$	138,913
TOTAL FUND BALANCE	$	25,269,728	$	24,462,314	$	177,273	$	138,913
TOTAL LIABILITIES AND FUND BALANCE	$	27,893,094	$	26,895,636	$	177,273	$	150,950

Total Expendable Trust Funds	
June 30, 2000	June 30, 1999
$ 20,471,787	$ 20,086,458
1,851,195	1,778,288
2,199,049	1,878,158
151,350	181,270
108,918	1,072
–	82,788
2,564,211	2,413,530
723,857	625,022
$ 28,070,367	$ 27,046,586
$ 29,992	$ 28,219
1,851,195	1,778,288
742,179	638,852
$ 2,623,366	$ 2,445,359
$ 25,447,001	$ 24,601,227
$ 25,447,001	$ 24,601,227
$ 28,070,367	$ 27,046,586

State of Oregon
Department of Veterans' Affairs
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiduciary Fund Type
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

	Expendable Trust Fund Conservatorship Trust		Expendable Trust Fund Veterans' Home Trust	
	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
REVENUES				
Veterans' Benefits	$ 7,494,025	$ 6,669,731	$ –	$ –
Interest Income	1,205,094	1,076,762	8,876	6,752
Donations	–	–	38,790	36,195
TOTAL REVENUES	$ 8,699,119	$ 7,746,493	$ 47,666	$ 42,947
EXPENDITURES				
Securitites Lending Investment Expense	$ 109,475	$ 81,044	$ –	$ 505
Beneficiary Care	7,782,230	6,017,597	–	–
TOTAL EXPENDITURES	$ 7,891,705	$ 6,098,641	$ –	$ 505
Excess of Revenues Over/(Under) Expenditures	$ 807,414	$ 1,647,852	$ 47,666	$ 42,442
OTHER FINANCING SOURCES/(USES)				
Operating Transfer In from DMV	$ –	$ –	$ 5,492	$ –
Operating Transfer to Veterans' Home Program	–	–	(14,798)	(9,960)
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	$ 807,414	$ 1,647,852	$ 38,360	$ 32,482
Beginning Fund Balance	$ 24,462,314	$ 22,814,462	$ 138,913	$ 106,431
Ending Fund Balance	$ 25,269,728	$ 24,462,314	$ 177,273	$ 138,913

Total Expendable Trust Funds	
June 30, 2000	June 30, 1999
$ 7,494,025	$ 6,669,731
1,213,970	1,083,514
38,790	36,195
$ 8,746,785	$ 7,789,440
$ 109,475	$ 81,549
7,782,230	6,017,597
$ 7,891,705	$ 6,099,146
$ 855,080	$ 1,690,294
$ 5,492	$ –
(14,798)	(9,960)
$ 845,774	$ 1,680,334
$ 24,601,227	$ 22,920,893
$ 25,447,001	$ 24,601,227

General Fund

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

State of Oregon
Department of Veterans' Affairs
Schedule of Legislative Authorization (Non-GAAP Budgetary Basis)
Compared To Actual Expenditures Subject to Budget
General Fund
For the Biennium Ended June 30, 2001

SCHEDULE 6

	General Fund			
	1999-2001 Budget	First Year Actual June 30, 2000	Second Year Actual June 30, 2001	Variance Favorable/ (Unfavorable)
General Fund:				
Veterans' Services Division – Appropriation	$ 2,587,270	$ 1,238,549	$ –	$ 1,348,721
Total General Fund	$ 2,587,270	$ 1,238,549	$ –	$ 1,348,721

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Facts About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	John N. Lattimer
Deputy Director	Catherine E. Pollino, CGFM
Deputy Director	Sharron E. Walker, CPA, CFE

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