



VETERANS' LOAN PROGRAM ANNUAL FINANCIAL REPORT

ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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, 2020**



Kelly Fitzpatrick
Director

Aaron Hunter, CPA
Chief Financial Officer

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal.....	ii
Organization Chart.....	v

FINANCIAL SECTION

Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	5

Veterans' Loan Program Basic Financial Statements

Statement of Net Position – Proprietary Fund	9
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund.....	10
Statement of Cash Flows - Proprietary Fund.....	11
Notes to the Financial Statements	13

STATISTICAL SECTION

Assets, Liabilities and Net Position – 10-Year Historical Data.....	31
Revenues, Expenses, and Changes in Net Position – 10-Year Historical Data	33
Principal Balance of Bonds Outstanding	35
Loans and Contracts Outstanding	36
Loan and Contract 90+ Day Delinquencies	37
Loans and Contracts Outstanding by County	38

OTHER REPORTS

Report on Internal Control and Compliance	40
---	----



INTRODUCTORY SECTION



Oregon

Kate Brown, Governor

Department of Veterans' Affairs

700 Summer St NE

Salem, OR 97301

800-828-8801 | 503-373-2085

www.oregon.gov/odva

October 19, 2020

To the Honorable Kate Brown and Citizens of the State of Oregon:

We are pleased to provide you with the Annual Financial Report of the Oregon Department of Veterans' Affairs (*the "Department"*) Loan Program Enterprise fund, for the fiscal year ended June 30, 2020.

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, 2020. 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 2020 Oregon Economic and Revenue Forecast from the Oregon Office of Economic Analysis (*OEA*):

Economic Summary

The economy remains in a Great Recession-sized hole. However, given the nature of the cycle to date, diverging trends have emerged. In particular, lower-income households have borne the brunt of the recession. The combination of higher-income households being less impacted to date, and the large federal support means consumer spending and tax collections have held up much better than expected.

The strong economic growth in recent months is encouraging, as many workers on temporary layoffs are recalled. However, normally it takes a year or two for the recessionary shock to work its way through the economy. When the outlook darkens, firms usually don't fire their workers immediately. Only over time, when the phone starts ringing less, do weak sales lead firms to cut back on parts and labor. These spending cuts in turn leads to lost income for suppliers and workers who reduce their downstream spending accordingly. This traditional recessionary dynamic is just getting under way, even though the labor market is improving due to thousands of temporarily unemployed workers returning to their jobs.

Overall the current state of the economy is much better than feared at the time of the previous forecast. But the economic outlook in the years ahead is only improved modestly. It takes time, even under the best of circumstances to regain lost ground due to recessions. 2020 so far is anything but the best.

Outlook

In the near-term Oregon's economy is impacted by COVID-19 and the wildfires that destroyed our communities. Over the long-term, Oregon's ability to attract and retain skilled, working-age households is one of our comparative advantages. To the extent the pandemic, wildfires, drought, or protests and clashes of violence impact this advantage remains to be seen, but they all represent downside risks to the outlook. On the other hand should telecommuting and remote work increase as a result of the pandemic and changing business practices, Oregon stands to take advantage.

Previously when Oregon faced double-digit job losses and unemployment, the recovery took five years once underway. All told, our office expects this cycle to be faster given the stronger economy before the pandemic and the somewhat limited amount of permanent damage to date. Expectations are Oregon's labor market will return to health by mid-2023. Even so, growth is likely to slow in the months ahead as the easy economic gains related to the recalls play out, the loss of federal support weighs more on consumers, and concerns over the spread of the virus increases in the coming, colder months.

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, 2020, this Program had approximately 1,777 mortgage loans and contracts outstanding, with a principal balance of approximately \$348 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, 2020, the Veterans' Loan Program had approximately \$557 million in assets (*primarily consisting of cash and cash equivalents and loan and contract receivables*) and approximately \$422 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, 2020, 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, 2020, the Department had approximately \$394 million (*par value*) in outstanding bonds. During fiscal year 2020, approximately \$98 million in bonds were issued and approximately \$75 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, 2020, the Department's Loan Program cash, cash equivalents (*excluding securities lending collateral*), and investments totaled approximately \$198 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.

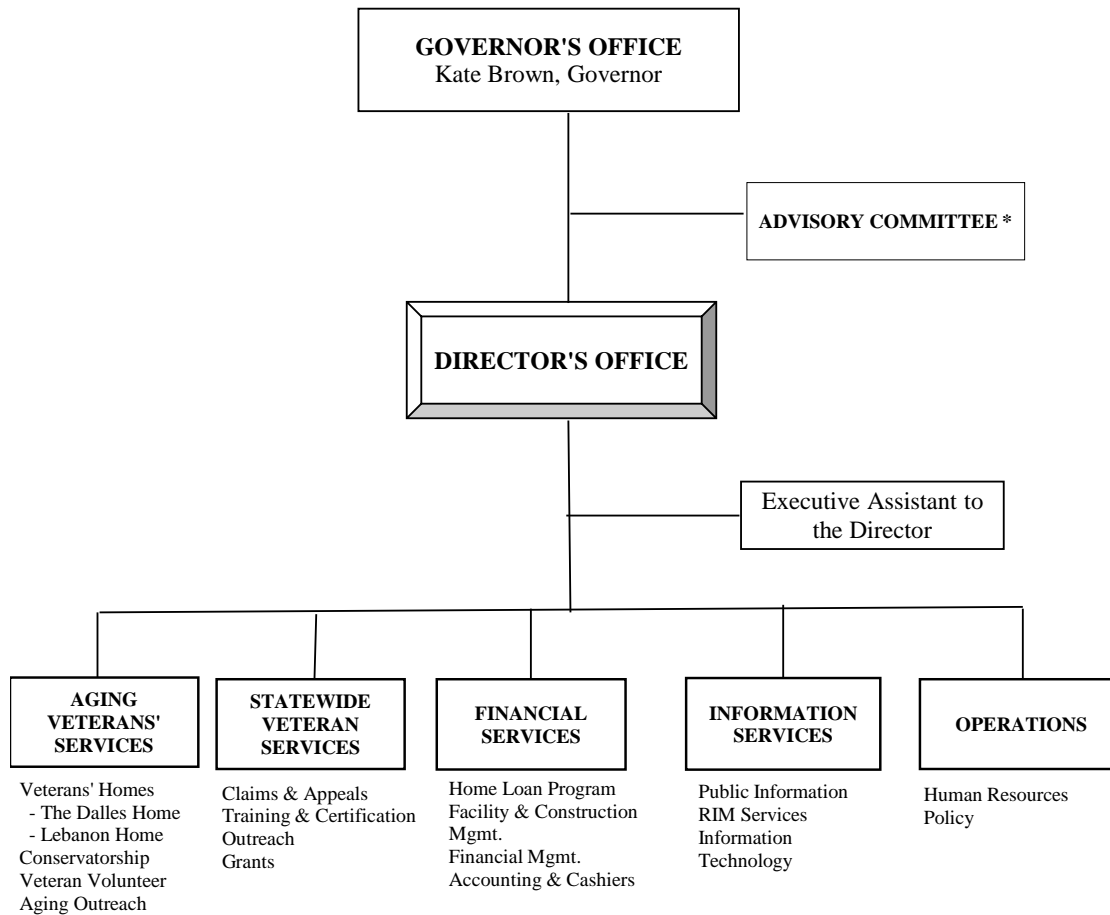
Respectfully submitted,



Kelly Fitzpatrick
Director



Aaron Hunter
Chief Financial Officer



* The Advisory Committee is a nine-member advisory body appointed by the Governor for four-year terms. The committee advises the Director concerning matters of the operations of the Department and issues affecting veterans and their dependents and survivors who reside in this state.

Advisory Committee Members	Term Expires	Advisory Committee Members	Term Expires
James A Gardner	November 30, 2020	Nell Stamper	November 30, 2023
Christine Gittins	September 30, 2023	Bob Van Voorhis	April 30, 2023
Dennis Guthrie	June 30, 2020	Vacant	
John F Howard	March 15, 2024	Vacant	
Reynold L Leno	March 15, 2024		

This page intentionally left blank





FINANCIAL SECTION

Office of the Secretary of State

Bev Clarno
Secretary of State

Jeff Morgan
Interim Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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

503-986-2255

Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Kelly Fitzpatrick, Director, Oregon Department of Veteran's Affairs

Report on the Financial Statements

We have audited the accompanying financial statements of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans Affairs, as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs, as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Veterans' Loan Program, an enterprise fund of the State of Oregon, Department of Veterans' Affairs, and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of Veterans' Affairs as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2020, on our consideration of the 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 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 *Governmental Auditing Standards* in considering the Department of Veterans' Affairs' internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
October 16, 2020

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, 2020. 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>	
	2020	2019	<i>(In Millions)</i>	Percentage
Net Position	\$ 136.0	\$ 134.0	\$ 2.00	1.49%
Revenues	\$ 22.0	\$ 23.1	\$ (1.10)	-4.76%
Expenses	\$ 20.6	\$ 19.4	\$ 1.20	6.19%
General Obligation Bond				
Debt (<i>par value</i>)	\$ 393.5	\$ 370.7	\$ 22.80	6.15%
Mortgage Loan Originations	\$ 47.4	\$ 77.0	\$ (29.60)	-38.44%

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Veterans' Loan Program's basic financial statements. The basic financial statements include proprietary fund financial statements and notes to the financial statements. The Veterans' Loan Program's basic financial statements do not include department-wide financial statements since only the Veterans' Loan Program proprietary fund is audited within this Annual Financial Report. The Department does have an audited Annual Financial Report on the Veterans' Home Program and that proprietary fund and a minimal portion of governmental funds that are included in the State of Oregon Comprehensive Annual Financial Report. 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, 2020 were approximately \$556.9 million, an increase of \$24.1 million from June 30, 2019. The change in assets consists primarily of a \$43.7 million

increase in cash and cash equivalents offset by a \$20.0 million decrease in mortgage loans receivable.

Liabilities

Total liabilities at June 30, 2020, were \$422.5 million, an increase of \$22.3 million from June 30, 2019. The change in liabilities consists primarily of an increase of \$23.9 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>			
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%Change</u>
Assets:				
Current and Other Assets	\$ 550,961,313	\$ 527,806,476	\$23,154,837	4.39%
Capital Assets	5,941,499	5,019,418	922,081	18.37%
Total Assets	\$ 556,902,812	\$ 532,825,894	24,076,918	4.52%
Deferred Outflow of Resources	\$ 1,810,465	\$ 1,580,297	\$ 230,168	14.56%
Liabilities:				
Long Term Liabilities	\$ 400,353,399	\$ 376,919,391	\$23,434,008	6.22%
Other Liabilities	22,112,774	23,280,781	(1,168,007)	-5.02%
Total Liabilities	\$ 422,466,173	\$ 400,200,172	\$22,266,001	5.56%
Deferred Inflow of Resources	\$ 211,628	\$ 197,152	\$ 14,476	7.34%
Net Position:				
Net Investment in Capital Assets	\$ 5,941,499	\$ 5,019,418	\$ 922,081	18.37%
Restricted for OPEB	50,530	29,507	21,023	71.25%
Unrestricted	130,043,447	128,959,942	1,083,505	0.84%
Total Net Position	\$ 136,035,476	\$ 134,008,867	\$ 2,026,609	1.51%

Loans Receivable

Total mortgages and other loans receivable decreased by \$20.0 million in fiscal year 2020. This decrease was primarily due to a reduction in loan origination volume and the low interest rate environment which caused an increase in borrowers refinancing their home loan.

Bonds Payable

Bonds Payable increased by \$22.8 million (*par value*) from June 30, 2019 to June 30, 2020. During fiscal year 2020, the Department issued approximately \$98.2 million and retired approximately \$75.4 million in general obligation bonds. For additional details, see the Debt Administration section of the Management's Discussion and Analysis.

Net Position

Total Net Position increased by approximately \$2.0 million in fiscal year 2020. Revenues exceeded expenses resulting in an increase of net position.

The results of operations for the Veterans' Loan Program's proprietary fund is presented below:

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

	Business Type Activity			
	2020	2019	Change	% Change
Revenues:				
Interest Income:				
Mortgage Loans	\$ 14,586,593	\$ 14,987,375	\$ (400,782)	-2.67%
Contracts	1,857	4,174	(2,317)	-55.51%
Investment Income:	4,180,569	4,399,745	(219,176)	-4.98%
LCLI Premium Revenue	190,103	227,190	(37,087)	-16.32%
LCLI Processing Fee	72,000	72,000	-	0.00%
Other Fees and Charges	2,540,376	2,893,531	(353,155)	-12.20%
Conservatorship Fees	464,659	452,217	12,442	2.75%
Gain on Sale of Foreclosed Property	-	38,474	(38,474)	-100.00%
Total Revenues	\$ 22,036,157	\$ 23,074,706	\$ (1,038,549)	-4.50%
Expenses:				
Bond Interest	\$ 11,615,666	\$ 11,212,762	\$ 402,904	3.59%
Salaries and Other Payroll	5,077,542	4,030,200	1,047,342	25.99%
Bond Costs	1,019,122	558,622	460,500	82.43%
Securities Lending Investment Expense	24,840	60,052	(35,212)	-58.64%
Real Estate Owned Expense	710	19,709	(18,999)	-96.40%
Services and Supplies	1,509,643	1,476,316	33,327	2.26%
LCLI Claims & Admin. Expense	375,840	646,456	(270,616)	-41.86%
Depreciation	154,609	149,711	4,898	3.27%
Bad Debt	(29,554)	(126,193)	96,639	-76.58%
Other	893,536	1,409,209	(515,673)	-36.59%
Total Expenses	\$ 20,641,954	\$ 19,436,844	\$ 1,205,110	6.20%
Operating Income (Loss)	\$ 1,394,203	\$ 3,637,862	\$ (2,243,659)	-61.68%
Non-Operating Revenues (Expenses)				
Interest Expense - Pension Related Debt	\$ (43,559)	\$ (42,321)	\$ (1,238)	2.93%
Total Non-Operating Revenues (Expenses)	\$ (43,559)	\$ (42,321)	\$ (1,238)	2.93%
Income (Loss) before Transfers & Contributions	\$ 1,350,644	\$ 3,595,541	\$ (2,244,897)	-62.44%
Transfers & Contributions				
Net Transfers from Lottery	\$ 475,000	\$ -	475,000	100.00%
Transfers to Veterans' Rural Transp Grant	\$ -	\$ (485)	485	-100.00%
Net Transfers to Dept. of Admin Services	(176,040)	(181,544)	5,504	-3.03%
Capital Contributions	377,005	182,902	194,103	106.12%
Total Transfers & Contributions	\$ 675,965	\$ 873	\$ 675,092	77330.13%
Increase (Decrease) in Net Position	\$ 2,026,609	\$ 3,596,414	\$ (1,569,805)	-43.65%
Net Position – Beginning	\$ 134,008,867	\$ 130,412,453	\$ 3,596,414	2.76%
Net Position – Ending	\$ 136,035,476	\$ 134,008,867	\$ 2,026,609	1.51%

Revenues and Expenses

The Veterans' Loan Program's revenue is generated principally from interest earned on mortgage loans and investment income. In fiscal year 2020, revenue generated through the Veterans' Loan Program totaled approximately \$22.0 million, of which approximately \$18.8 million, or 85% 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 \$20.6 million, of which approximately \$11.6 million, or 56% is bond interest expense and \$5.1 million, or 25%, is salaries and other payroll expenses.

Change in Net Position

The change in net position for the year ended June 30, 2020 resulted in an increase of approximately \$2.0 million. The primary factors contributing to this change were the approximately \$1.0 million increase in salaries and other payroll, the approximately \$0.4 million increase in bond interest, and an increase in bond expenses of approximately \$.5 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 \$393.5 million (*par value*) in outstanding general obligation bonds as of June 30, 2020. During fiscal year 2020, approximately \$98.2 million in general obligation bonds were issued and \$75.4 million in bonds were retired.

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

Requests for Information

This financial report is designed to provide a general overview of the 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, 2020

	Business-Type Activity - Enterprise Fund
	<i>Veterans' Loan Program</i>
Assets	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 107,937,547
Cash and Cash Equivalents - Restricted	3,887,427
Securities Lending Cash Collateral	2,614,659
Investments	11,985,204
Receivables:	
Mortgage Loans and Contracts Receivable (Net)	10,053,418
Accrued Interest	1,286,518
Loan Cancellation Life Insurance Premiums	8,144
Other	140,845
Due from Other Funds	178,075
Prepaid Expenses	2,743
Total Current Assets	138,094,580
<u>Noncurrent Assets</u>	
Cash and Cash Equivalents - Restricted	74,016,597
Mortgage Loans and Contracts Receivable (Net)	337,869,323
Other Receivable	930,283
Net OPEB Asset - RHIA Plan	50,530
Capital Assets:	
Building, Property and Equipment	11,187,151
Works of Art and Historical Treasures	627,021
Accumulated Depreciation	(5,872,673)
Total Noncurrent Assets	418,808,232
Total Assets	556,902,812
<u>Deferred Outflows of Resources</u>	
Hedging Derivative	497,488
Pension Related	1,299,310
OPEB Related	13,667
Total Deferred Outflows of Resources	1,810,465
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 304,272
Loan Cancellation Life Insurance Payable	8,780
Deposit Liabilities	3,878,646
Accrued Interest on Bonds	854,351
Obligations under Securities Lending	2,614,659
Pension-Related Debt	58,128
Compensated Absences Payable	231,259
Bonds Payable-Maturing Within One Year (Net)	14,162,679
Total Current Liabilities	22,112,774
<u>Noncurrent Liabilities</u>	
Bonds Payable-Maturing After One Year (Net)	386,439,456
Pension-Related Debt	501,592
Net Pension Liability	3,852,506
Compensated Absences Payable	124,524
Excess Interest and Arbitrage Rebate Payable	8,811,678
Net OPEB Liability - RHIPA Plan	22,881
Total OPEB Liability - PEBB Plan	103,274
Derivative Instrument - Interest Rate Swap	497,488
Total Noncurrent Liabilities	400,353,399
Total Liabilities	422,466,173
<u>Deferred Inflows of Resources</u>	
Pension Related	183,664
OPEB Related	27,964
Total Deferred Inflows of Resources	211,628
<u>Net Position</u>	
Net Investment in Capital Assets	5,941,499
Restricted for OPEB	50,530
Unrestricted	130,043,447
Total Net Position	\$ 136,035,476

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, 2020

	Business-Type Activity - Enterprise Fund
	<i>Veterans' Loan Program</i>
Operating Revenues	
Interest Income:	
Mortgage Loans	\$ 14,586,593
Contracts	1,857
Investment Income	4,180,569
Loan Cancellation Life Insurance Premiums	190,103
Loan Cancellation Life Insurance Processing Fee	72,000
Other Fees and Charges	2,540,376
Conservatorship Fees	464,659
Total Operating Revenues	22,036,157
Operating Expenses	
Bond Interest	11,615,666
Salaries and Other Payroll	5,077,542
Bond Expenses	1,019,122
Securities Lending Investment Expense	24,840
Real Estate Owned Expense	710
Services and Supplies	1,509,643
Claims Expense - Loan Cancellation Life Insurance	375,840
Depreciation	154,609
Bad Debt	(29,554)
Other	893,536
Total Operating Expenses	20,641,954
Operating Income (Loss)	1,394,203
Non-operating Revenues (Expenses)	
Interest Expense - Pension Related Debt	(43,559)
Total Non-operating Revenues (Expenses)	(43,559)
Income (Loss) before Transfers & Contributions	1,350,644
Transfers & Contributions	
Net Transfers from Lottery Fund	475,000
Transfers to Dept. of Administrative Services	(176,040)
Capital Contributions	377,005
Total Transfers & Contributions	675,965
Increase (Decrease) in Net Position	2,026,609
Net Position - Beginning	134,008,867
Net Position - Ending	\$ 136,035,476

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, 2020

	Business-Type Activity - Enterprise Fund
	<i>Veterans' Loan Program</i>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 906,049
Receipts from Other Funds for Services	2,216,449
Loan Principal Repayments	68,022,875
Loan Interest Received	13,876,668
Payments to Employees for Services	(4,109,491)
Payments to Suppliers	(2,400,422)
Payments to Other Funds for Services	(441,246)
Loans Made	(48,222,849)
Other Receipts (Payments)	(26,071)
<i>Net Cash Provided (Used) in Operating Activities</i>	<u>29,821,963</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from Bond Sales	99,968,672
Principal Payments on Bonds	(75,415,000)
Interest Payments on Bonds	(12,238,732)
Bond Issuance Costs	(944,977)
Principal Payments on Pension-Related Debt	(56,694)
Interest Payments on Pension-Related Debt	(43,559)
Transfers to Other Funds	(151,040)
<i>Net Cash Provided (Used) in Noncapital Financing Activities</i>	<u>11,118,670</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(1,079,877)
Capital Contributions	377,006
<i>Net Cash Provided (Used) in Capital and Related Financing Activities</i>	<u>(702,872)</u>
Cash Flows from Investing Activities:	
Interest on Investments and Cash Balances	3,503,755
Investment Income from Securities Lending	24,840
Investment Expense from Securities Lending	(24,840)
<i>Net Cash Provided (Used) in Investing Activities</i>	<u>3,503,755</u>
Net Increase (Decrease) in Cash and Cash Equivalents	43,741,517
Cash and Cash Equivalents - Beginning	<u>142,100,054</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 185,841,571</u></u>
Reconciled to Statement of Net Position:	
Cash and Cash Equivalents - Current	\$ 107,937,547
Cash and Cash Equivalents - Current, Restricted	3,887,427
Cash and Cash Equivalents - Noncurrent, Restricted	74,016,597
Cash and Cash Equivalents - Ending (shown above)	<u><u>\$ 185,841,571</u></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, 2020

**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 \$ 1,394,203

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

by Operating Activities:

Depreciation/Amortization (325,208)

Investment Income Reported as Operating Revenue (4,180,569)

Investment Expense 24,840

Interest Expense Reported as Operating Expense 12,238,732

Bond Costs Reported as Operating Expense 1,019,121

Net Changes in Assets and Liabilities:

Accounts and Interest Receivable 23,729

Due from Other Funds (53,346)

Prepaid Items 3,153

Loans, Contracts and Other Receivable 19,770,397

Net OPEB Asset - RHIA Plan (21,023)

Accounts Payable 215,059

Deposit Liabilities (26,071)

Arbitrage Payable (826,759)

Compensated Absences Payable 25,839

Net Pension Liability 577,136

Net OPEB Liability - RHIPA Plan (9,458)

Total OPEB Liability (12,392)

Deferred Outflow of Resources

Related to Pensions (44,966)

Related to OPEB 20,332

Deferred Inflow of Resources

Related to Pensions (430)

Related to OPEB 9,644

Total Adjustments 28,427,760

Net Cash Provided (Used) by Operating Activities

\$ 29,821,963

Noncash Investing and Capital and Related Financing Activities:

Net Change in Fair Value of Investments \$ (651,974)

Total Noncash Investing and Capital and Related Financing Activities

\$ (651,974)

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, 2020***

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, 2020 are included in the table below:

	Total <u>June 30, 2020</u>
Book Balance - Cash and Cash Equivalents	
Current unrestricted	\$ 107,937,547
Current restricted	3,887,427
Noncurrent restricted	<u>74,016,597</u>
Combined Book Balance	<u>\$ 185,841,571</u>
Bank Balance - Cash and Cash Equivalents	<u>\$ 185,095,066</u>

As of June 30, 2020, the Veterans' Loan Program had a combined total of \$174,148,355 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, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held \$10,946,711 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, 2020 the Department estimated that required balance to be \$384,000. 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, 2020 was 3.14 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, 2020, the Veterans' Loan Program had restricted assets of \$77,904,024.

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, 2020, 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	\$ 3,205,540
Securities on Loan	\$ 3,141,072
Investments Purchased with Cash Collateral	\$ 2,614,837
<u>Securities on Loan:</u>	
U.S. Agency	23.64%
U.S. Treasury	58.80%
Domestic Fixed Income	17.56%
	<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 and Contracts Receivable

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

The loan and contract receivable portfolio at June 30, 2020 is approximately \$348 million. All mortgaged property is located within Oregon. The Department uses the allowance method to

estimate uncollectible mortgage loans and contracts receivable. The allowance is periodically adjusted by management to accommodate changes in economic conditions, nonperforming assets, historical loss experience, and other conditions that may affect the ultimate collectability of the mortgage loans and contracts. In 2020 the Department determined the balance of the allowance account to be in line with potential losses for the remaining loan and contract portfolio. Accordingly, the account balance at June 30, 2020, is approximately \$61 thousand. The balance of the allowance account represents approximately 0.02 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the Statement of Net Position for June 30, 2020.

	June 30, 2020		
	Current	Noncurrent	Total
Loans Receivable	\$ 10,055,178	\$ 337,917,867	\$ 347,973,045
Contracts Receivable	-	10,588	10,588
Total Loans and Contracts Receivable	10,055,178	337,928,455	347,983,633
Less: Allowance for Principal Losses	(1,760)	(59,132)	(60,892)
Net Loans and Contracts Receivable	\$ 10,053,418	\$ 337,869,323	\$ 347,922,741

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, 2020, there were 36 non-amortizing accounts with an aggregate principal balance of approximately \$4.3 million. This represents approximately 1.2 percent of the total net loans and contracts receivable.

Troubled Debt Restructurings

The Department makes every reasonable attempt to keep a borrower in the home purchased under the Veterans' Loan Program. In order to avoid foreclosure, one method of working with borrowers is to temporarily reduce loan payments for borrowers. This is allowed under ORS 407.095. During the year ended June 30, 2020, the Department provided this relief to eight borrowers and deferred loan principal of \$12,478. Payments are recalculated upon completion of the temporary reduction to recapture the deferred principal. In total, \$2,394,503 in loans were restructured in this fashion.

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, 2020, the Department had 177 insured accounts with six private mortgage insurers totaling approximately \$52 million. The

majority of insured accounts are with Mortgage Guaranty Insurance Corporation (MGIC) with 84%. As of June 30, 2020, the Standard and Poor's ratings for MGIC was "BBB+".

Deferred Payment Obligations

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

Effective March 31, 2009, the Illinois Department of Insurance required that all valid claims under Triad's mortgage guaranty insurance policies be paid at 60% in cash and 40% by the creation of a deferred payment obligation. As of December 31, 2013, the court supervising the rehabilitation of Triad approved a plan to increase the percentage of cash paid on valid settlements from 60% to 75%. If the financial position of Triad permits, the Illinois Department of Insurance will allow Triad to continue to increase the amount of cash paid on each claim. As of June 30, 2020, 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, 2020.

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, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 3,187	\$ -	\$ (3,187)	\$ -
Works of Art & Historical Treasures	627,021	-	-	627,021
Total Capital Assets Not Being Depreciated	630,208	-	(3,187)	627,021
Capital Assets Being Depreciated:				
Buildings, Property & Equipment	10,107,274	1,079,877	-	11,187,151
Total Capital Assets Being Depreciated	10,107,274	1,079,877	-	11,187,151
Less Accumulated Depreciation:				
Buildings, Property & Equipment	(5,718,064)	(154,609)	-	(5,872,673)
Total Accumulated Depreciation	(5,718,064)	(154,609)	-	(5,872,673)
Total Capital Assets Being Depreciated, Net	4,389,210	925,268	-	5,314,478
Total Capital Assets, Net	\$ 5,019,418	\$ 925,268	\$ (3,187)	\$ 5,941,499

Depreciation expense at June 30, 2020 was \$154,609.

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, 2020:

Bonds Payable (<i>Par</i>) at June 30, 2019	\$	370,720,000
Bonds Issued		98,215,000
Bonds Retired		<u>(75,415,000)</u>
Bonds Payable (<i>Par</i>) at June 30, 2020	\$	<u>393,520,000</u>

Shown below are the components of net bonds payable as disclosed on the Statement of Net Position for June 30, 2020:

	Current	Noncurrent	Total
Bonds Payable (<i>Par</i>)	\$ 13,640,000	\$ 379,880,000	\$ 393,520,000
Premium on Bonds Sold	522,679	6,559,456	7,082,135
Net Bonds Payable	<u>\$ 14,162,679</u>	<u>\$ 386,439,456</u>	<u>\$ 400,602,135</u>

The following schedule summarizes future debt service requirements to maturity as of June 30, 2020:

<i>Fiscal Year</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2021	\$ 13,640,000	\$ 9,777,600	\$ 23,417,600
2022	14,160,000	9,592,906	23,752,906
2023	13,935,000	9,330,135	23,265,135
2024	14,095,000	9,042,976	23,137,976
2025	14,590,000	8,744,195	23,334,195
2026-2030	75,500,000	38,902,714	114,402,714
2031-2035	80,875,000	28,760,895	109,635,895
2036-2040	76,725,000	19,740,670	96,465,670
2041-2045	61,050,000	10,458,659	71,508,659
2046-2050	28,535,000	2,329,329	30,864,329
2051	415,000	7,263	422,263
TOTAL	<u>\$ 393,520,000</u>	<u>\$ 146,687,341</u>	<u>\$ 540,207,341</u>

Shown below are the outstanding bond issues and their final maturities (*in fiscal years*) as of June 30, 2020:

<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	\$ 23,525,000	2040
94 (2014 H)	December 3, 2014	0.350	4.000%	10,000,000	2,020,000	2045
95 (2015 P)	November 19, 2015	**		25,140,000	25,140,000	2037
96 (2015 Q)	November 19, 2015	2.000	5.000%	34,215,000	17,035,000	2046
97A (2016 J)	December 7, 2016	0.850	3.550%	22,310,000	16,685,000	2031
97B (2016 K)	December 7, 2016	3.900	4.050%	17,500,000	14,960,000	2047
98A (2017 N)	October 11, 2017	1.350	5.000%	15,275,000	15,275,000	2030
98B (2017 O)	October 11, 2017	##		23,300,000	23,300,000	2041
99B (2017 Q)	October 11, 2017	0.950	3.500%	33,955,000	27,485,000	2048
100 (2017 U)	December 20, 2017	1.300	3.700%	73,885,000	68,910,000	2045
101 (2017 V)	December 20, 2017	1.200	4.000%	29,235,000	24,600,000	2049
102 (2018 E)	November 28, 2018	2.100	2.550%	4,435,000	3,765,000	2023
103 (2018 F)	November 28, 2018	1.950	4.250%	39,195,000	32,895,000	2049
104 (2019 R)	November 13, 2019	1.100	3.500%	28,990,000	28,700,000	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
106A (2020 K)	June 24, 2020	0.250	0.500%	4,410,000	4,410,000	2022
106B (2020 L)	June 24, 2020	0.500	3.500%	11,650,000	11,650,000	2051
106C (2020 M)	June 24, 2020	##		11,435,000	11,435,000	2045
Total Bonds Outstanding as of June 30, 2020:					<u>\$ 393,520,000</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 0.14% 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 0.13% for Series 98B, Series 105B and Series 106C.

Debt Refunding

On June 24, 2020, the Department issued \$69,225,000 (par value) of General Obligation Bonds, of which \$46,140,000 in bond proceeds were used to refund previously issued General Obligation Bonds. The current refunding of these bonds decreases the total debt service over the next 10.1 years by approximately \$14,717,896 and results in an economic gain of approximately \$12,408,688.

6. Demand Bonds

Included in long-term debt at June 30, 2020 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	4/7/2025	34 days/12%	0.320%
Series 98B (2017 Series O)	\$ 23,300,000	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	6/24/2025	34 days/12%	0.500%
Series 106C (2020 Series M)	\$ 11,435,000	U.S. Bank National Association	6/24/2025	34 days/12%	0.500%

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)	\$ 23,300,000	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 2020. Therefore, no tender advances or draws were outstanding as of June 30, 2020.

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

7. Derivative Instruments – Interest Rate Swaps

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

During fiscal year 2020, the Department did not terminate or have any maturities of derivatives. The Department did enter into an interest rate swap in connection with its Loan Program General Obligation Bonds, 2020 Series J (Veterans' Welfare Bonds Series 105B) and 2020 Series M (Veterans' Welfare Bonds Series 106C) that becomes effective on June 1, 2021. During the fiscal year the fair value of hedging derivatives increased by \$37,197.

The fair value balance of the interest rate swap is reported as a derivative instrument and deferred outflow of resources on the Statement of Net Position. Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2020 is negative. The fair value of the interest rate swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, using the forward interest rates implied by the yield curve for the floating leg of the swap and the fixed rate of the swap for the fixed leg of the swap. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap. The fair value is categorized as Level 2 within the fair value hierarchy – which includes quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Hedging Instruments

On June 30, 2020, the Department has the following derivative instruments outstanding:

Type	Objective	Notional Amount	Effective Date	Termination Date	Terms	Fair Value
Pay – fixed interest rate swap	Hedge of changes in cash flows on the Series 95 bonds, specifically related to changes in municipal tax-exempt interest rates	\$25,140,000	8/1/2016	12/1/2036	Pay 2.267%; Receive 66.3% of 1-month LIBOR* + .09%	\$ (260,018)

* London Interbank Offered Rate

The Series 95 swap was structured with the option where the Department has the right to “cancel” or terminate the swap at par on any payment date, in whole or in part commencing December 1, 2020. This option enhances asset/liability matching and provides flexibility to adjust the outstanding notional amount of the swap over time. The use of derivatives, including interest rate swaps, involves certain risks. These risks include, but are not limited to:

Credit Risk – is the risk that a counterparty will not fulfill its obligations. The Department’s interest swap is with Royal Bank of Canada (“*counterparty*”), which is rated AA- and Aa2 by S&P and Moody’s respectively.

If the counterparty’s credit rating falls below certain levels, the counterparty is required to post collateral to the lower of the following ratings:

S&P Rating	Moody’s Rating	Threshold	Minimum Transfer Amount
AA- or higher	Aa3 or higher	Infinite	\$ 100,000
A+	A1	\$ 20,000,000	\$ 100,000
A	A2	\$ 10,000,000	\$ 100,000
A-	A3	\$ 5,000,000	\$ 100,000
BBB+ or below or not rated	Baa1 or below or not rated	\$ -	\$100,000*

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

Since the fair value of the swap as of June 30, 2020 is negative, the counterparty is not required to post collateral.

According to the State of Oregon Swap Policy, the State may require collateralization or other credit enhancements to secure any or all swap payment obligations, where the Oregon State

Treasurer determines such security is necessary to limit the credit risk or otherwise protect the interests of the State.

Interest Rate Risk – is the risk that changes in interest rates will adversely affect the fair values of a government's cash flows. The Department is exposed to interest rate risk on its pay-fixed, receive variable interest rate swap. As the one-month LIBOR rate decreases, the Department's net payment on the swap increases.

Basis Risk – is the risk that arises when variable rates of a hedging derivative instrument and a hedged item are based on different reference rates. The variable-rate debt hedged by the Department's interest rate swap is variable-rate demand obligation ("VRDO") bonds that are remarketed weekly. The Department is exposed to basis risk on its pay-fixed interest rate swap that is hedging the VRDO bonds, because the variable-rate payments received by the Department are based on a rate other than the interest rates the Department pays on the VRDO bonds. At June 30, 2020, the interest rate on the Department's variable-rate hedged debt is 0.14%, while the 66.3% of one-month LIBOR plus 0.09% is 0.204454%.

Termination Risk – is the risk that a hedging derivative instrument's unscheduled end will affect a government's asset and liability strategy or will present the government with potentially significant unscheduled termination payments to the counterparty. The Department or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract.

Cash Flows

As interest rates fluctuate, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department. Using interest rates as of June 30, 2020, debt service requirements of the variable-rate debt (*on the notional amount of the swap*) 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>
2021	\$ -	\$ 35,148	\$ 519,367	\$ 554,515
2022	-	35,196	519,228	554,424
2023	-	35,196	519,228	554,424
2024	-	35,244	519,228	554,472
2025	1,730,000	34,359	510,638	2,274,997
2026-2030	9,480,000	133,601	1,986,960	11,600,561
2031-2035	10,710,000	63,303	951,918	11,725,221
2036-2037	3,220,000	3,975	64,132	3,288,107
<i>TOTAL</i>	<i>\$ 25,140,000</i>	<i>\$ 376,022</i>	<i>\$ 5,590,699</i>	<i>\$ 31,106,721</i>

Contingent Features

If the State of Oregon's unsecured, unenhanced general obligation debt rating reaches certain levels, the Department is required to post collateral to the lower of the following ratings:

S&P Rating	Moody's Rating	Threshold	Minimum Transfer Amount
A- or higher	A3 or higher	Infinite	\$100,000
BBB+ or below	Baa1 or below	\$0	\$100,000*

*Minimum Transfer Amount shall be \$0 if, and for so long as, neither Moody's nor S&P rate the applicable Department's debt.

8. Changes in Long Term Liabilities

The following table provides detail on the long-term liability activity as of June 30, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond Principal	\$ 370,720,000	\$ 98,215,000	\$ (75,415,000)	\$ 393,520,000	
Bond Premium	6,072,681	1,753,672	(744,218)	7,082,135	
Bond Discount	(112,610)	-	112,610	-	
Total Bonds Payable	376,680,071	99,968,672	(76,046,608)	400,602,135	14,162,679
Pension-Related Debt	616,415	114,146	(170,841)	559,720	58,128
Net Pension Liability	3,275,369	1,165,457	(588,320)	3,852,506	-
Compensated Absences Payable	329,944	346,152	(320,313)	355,783	231,259
Excess Interest & Arbitrage					
Rebate Payable	9,638,437	-	(826,759)	8,811,678	-
Net OPEB Liability - RHIPA Plan	32,339	27,358	(36,816)	22,881	-
Total OPEB Liability	115,666	7,428	(19,820)	103,274	-
Derivative Instrument - Interest					
Rate Swap	297,215	200,273	-	497,488	-
Total Long-Term Liabilities	\$ 390,985,456	\$ 101,829,486	\$ (78,009,477)	\$ 414,805,465	\$ 14,452,066

9. Interfund Transactions

At June 30, 2020, the Veterans' Loan Program had outstanding interfund receivables of \$178,075 which was due from the Veterans' Home Program for services performed by Department employees related to the operation of the Oregon Veterans' Home. The balances are shown as a "Due from Other Funds" on the Statement of Net Position.

10. Employee Retirement Plan

Plan Description

As part of the State of Oregon, the Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans to Loan Program employees. PERS is a cost-sharing multiple-employer defined benefit pension plan. All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or

after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the members IAP account. The pension plans provide pension benefits, death benefits and disability benefits.

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

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2020 for state agencies general service members were 20.76% for Tier One/Tier Two and 14.48% 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, 2020, the State of Oregon reported a liability of \$4.95 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. 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, 2019, the State's proportion was 28.6%, which increased from the 27.3% proportion measured as of June 30, 2018.

As part of the State of Oregon, the Loan Program was allocated a percentage (.0223%) 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	\$ 212,454	\$ -
Changes in assumptions	522,636	-
Net difference between projected and actual earnings on investments	-	109,215
Changes in proportion and differences between contributions and proportionate share of contributions	141,367	74,450
Subtotal	876,457	183,665
Net deferred Outflow (Inflow) of Resources before contributions subsequent to measurement date		692,792
Contributions subsequent to measurement date	422,853	
Net Deferred Outflow (Inflow) of Resources		\$ 1,115,645

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, 2020, the total rental income received from tenants was \$574,627.

	Lease Effective Date	Lease Termination Date	Future Rental Income
Tenant 1	March 1, 2020	February 28, 2025	\$ 1,311,549
Tenant 2	November 8, 2019	November 30, 2028	\$ 4,870,067
Total			\$ 6,181,616

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, 2020 there were no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years *(July 1, 2010 through June 30, 2020)* there have been no claims that exceeded the Department's property or liability coverage.

13. Subsequent Events

On September 1, 2020, the Department called the following bonds:

	<u>Amount Called</u>
Series 94 (2014 H)	\$290,000
Series 96 (2015 Q)	\$685,000
Series 99B (2017 Q)	\$345,000
Series 101 (2017 V)	\$380,000
Series 103 (2018 F)	\$420,000
Series 104 (2019 R)	\$140,000
Series 106 (2020 L)	\$65,000



STATISTICAL SECTION

Oregon Department of Veterans' Affairs

Assets, Liabilities and Net Position - *Unaudited*

Veterans' Loan Program

For the Fiscal Years Ended 2011 - 2020

ASSETS & DEFERRED OUTFLOWS	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Current Assets				
Cash and Cash Equivalents (1)	\$ 107,937,547	\$ 109,175,030	\$ 84,384,687	\$ 86,895,236
Cash and Cash Equivalents - Restricted	3,887,427	3,913,498	3,445,301	3,107,741
Securities Lending Cash Collateral	2,614,659	4,164,292	3,175,631	1,017,020
Investments	11,985,204	11,333,230	10,683,342	10,709,272
Investments - Restricted	-	-	-	-
Receivables:				
Mortgage Loans and Contracts Receivable	10,053,418	10,433,755	9,926,645	-
Accrued Interest	1,286,518	1,401,495	1,247,464	1,167,666
LCLI Premiums	8,144	10,135	23,478	16,442
Other	140,845	47,605	243,755	23,440
Due from Other Funds	178,075	90,840	94,707	87,272
Real Estate Owned	-	-	-	259,586
Prepaid Expenses	2,743	5,896	4,665	8,575
Total Current Assets	\$ 138,094,580	\$ 140,575,776	\$ 113,229,675	\$ 103,292,250
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	\$ 74,016,597	\$ 29,011,526	\$ 64,724,859	\$ 52,093,642
Investments	-	-	-	-
Investments - Restricted	-	-	-	-
Mortgage Loans and Contracts Receivable (Net)	337,869,323	357,506,594	321,510,937	295,521,511
Other Receivable	930,283	683,073	3,767,345	2,335,640
Derivative Instrument - Interest Rate Swap	-	-	403,600	245,110
Net OPEB Asset - RHIA Plan	50,530	29,507	13,603	-
Deferred Underwriter's Discount	-	-	-	-
Net Pension Asset	-	-	-	-
Capital Assets:				
Building, Property and Equipment	11,187,151	10,107,274	9,891,950	9,004,597
Construction in Progress	-	3,187	-	-
Works of Art and Historical Treasures	627,021	627,021	627,021	627,021
Accumulated Depreciation	(5,872,673)	(5,718,064)	(5,568,352)	(5,448,479)
Total Noncurrent Assets	\$ 418,808,232	\$ 392,250,118	\$ 395,370,963	\$ 354,379,042
Deferred Outflow of Resources				
Hedging Derivative	\$ 497,488	\$ 297,215	\$ -	\$ -
Pension Related	1,299,310	1,254,344	1,359,565	2,246,768
OPEB Related	13,667	28,738	25,794	-
Total Deferred Outflow of Resources	1,810,465	1,580,297	1,385,359	2,246,768
TOTAL ASSETS & DEFERRED OUTFLOWS	\$ 558,713,277	\$ 534,406,191	\$ 509,985,997	\$ 459,918,060
LIABILITIES & DEFERRED INFLOWS				
Current Liabilities				
Accounts Payable	\$ 304,272	\$ 139,326	\$ 86,208	\$ 114,532
LCLI Premium Payable	8,780	22,910	14,543	27,227
LCLI Claims Payable	-	-	-	45,708
Deposit Liabilities	3,878,646	3,890,587	3,430,757	3,080,514
Accrued Interest on Bonds	854,351	997,600	916,761	667,278
Obligations Under Securities Lending	2,614,659	4,164,292	3,175,631	1,017,020
Pension-Related Debt	58,128	56,018	40,100	33,200
Compensated Absences Payable	231,259	217,763	235,512	239,928
Excess Interest and Arbitrage Rebate Payable	-	-	-	-
Bonds Payable - Maturing Within One Year (Net)	14,162,679	13,792,285	13,045,401	8,386,825
Matured Bonds Payable	-	-	-	-
Total Current Liabilities	\$ 22,112,774	\$ 23,280,781	\$ 20,944,913	\$ 13,612,232
Noncurrent Liabilities				
Bonds Payable - Maturing After One Year (Net)	\$ 386,439,456	\$ 362,887,787	\$ 342,783,322	\$ 298,811,581
Pension-Related Debt	501,592	560,397	625,521	672,474
Net Pension Liability	3,852,506	3,275,369	3,891,047	4,295,159
Compensated Absences Payable	124,524	112,181	126,814	129,192
Excess Interest and Arbitrage Rebate Payable	8,811,678	9,638,437	10,599,876	20,660,816
Net OPEB Liability - RHIA Plan	22,881	32,339	49,224	-
Total OPEB Liability - PEBB Plan	103,274	115,666	107,538	-
Other Postemployment Benefits Obligation (Net)	-	-	-	114,450
Derivative Instrument - Interest Rate Swap	497,488	297,215	-	-
Total Noncurrent Liabilities	\$ 400,353,399	\$ 376,919,391	\$ 358,183,342	\$ 324,683,672
TOTAL LIABILITIES	\$ 422,466,173	\$ 400,200,172	\$ 379,128,255	\$ 338,295,904
Deferred Inflow of Resources				
Hedging Derivative	\$ -	\$ -	\$ 403,600	\$ 245,110
Pension Related	183,664	184,094	32,509	40,813
OPEB Related	27,964	13,058	9,180	-
Total Deferred Inflow of Resources	211,628	197,152	445,289	285,923
NET POSITION				
Net Investment in Capital Assets	\$ 5,941,499	\$ 5,019,418	\$ 4,950,619	\$ 4,183,139
Restricted for OPEB	50,530	29,507	13,603	-
Net Assets, Unrestricted	130,043,447	128,959,942	125,448,231	117,153,094
TOTAL NET POSITION	\$ 136,035,476	\$ 134,008,867	\$ 130,412,453	\$ 121,336,233
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 558,713,277	\$ 534,406,191	\$ 509,985,997	\$ 459,918,060

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

	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
\$	102,196,365	\$ 88,290,771	\$ 81,418,994	\$ 91,182,217	\$ 70,538,060	\$ 92,654,442
	2,848,532	2,532,900	2,019,125	1,805,833	1,970,398	3,107,401
	7,174,060	10,291,763	12,366,201	13,766,369	22,652,458	67,609,488
	10,613,753	10,296,884	10,145,257	7,010,850	14,525,830	3,540,625
	-	-	-	-	-	5,005,250
	-	-	-	-	-	-
	1,131,097	1,101,323	1,117,525	1,246,755	1,485,707	1,641,564
	32,899	53,734	47,253	59,058	70,243	71,655
	9,563	50,777	80,456	38,988	24,542	24,638
	105,539	110,081	134,588	71,798	68,285	66,147
	424,720	196,585	680,635	1,087,119	1,908,323	1,570,465
	14,133	5,241	6,080	2,405	8,506	6,946
\$	<u>124,550,661</u>	<u>\$ 112,930,059</u>	<u>\$ 108,016,114</u>	<u>\$ 116,271,392</u>	<u>\$ 113,252,352</u>	<u>\$ 175,298,621</u>
\$	69,855,033	\$ 85,073,503	\$ 107,661,208	\$ 134,842,147	\$ 140,316,030	\$ 139,488,446
	-	-	-	-	7,005,810	21,783,303
	-	-	-	-	-	3,269,211
	261,187,668	236,597,114	212,809,406	197,333,478	217,022,740	247,018,965
	1,413,881	2,637,961	4,148,543	1,526,883	1,082,269	523,531
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	1,218,172	1,303,955	1,937,005
	-	507,702	-	-	-	-
	9,132,222	9,107,786	8,995,981	8,984,206	8,925,405	8,954,357
	627,021	627,021	627,021	627,021	627,021	85,170
	(5,501,146)	(5,392,363)	(5,288,119)	(5,187,564)	(5,088,810)	(5,008,953)
\$	<u>336,714,679</u>	<u>\$ 329,158,724</u>	<u>\$ 328,954,040</u>	<u>\$ 339,344,343</u>	<u>\$ 371,194,420</u>	<u>\$ 418,051,035</u>
\$	763,043	\$ 1,391,681	\$ 1,895,225	\$ 2,250,525	\$ 3,047,423	\$ 1,808,678
	396,597	187,905	-	-	-	-
	-	-	-	-	-	-
	1,159,640	1,579,586	1,895,225	2,250,525	3,047,423	1,808,678
\$	<u>462,424,980</u>	<u>\$ 443,668,369</u>	<u>\$ 438,865,379</u>	<u>\$ 457,866,260</u>	<u>\$ 487,494,195</u>	<u>\$ 595,158,334</u>
\$	118,401	\$ 49,112	\$ 144,124	\$ 76,910	\$ 167,851	\$ 237,200
	18,059	26,024	34,124	35,571	40,635	58,000
	-	25,166	42,245	190,401	19,406	90,094
	2,830,472	2,506,875	1,920,002	1,695,262	1,834,763	1,976,620
	579,261	467,235	380,999	425,153	450,338	964,913
	7,174,060	10,291,763	12,366,201	13,766,369	22,652,458	67,609,488
	25,300	29,900	21,100	18,300	-	-
	242,503	231,008	208,479	211,447	301,467	296,022
	-	111,793	9,024	-	-	-
	6,883,474	4,621,160	3,634,808	3,478,108	3,377,727	3,302,227
	-	-	65,000	75,000	95,000	1,072,780
\$	<u>17,871,530</u>	<u>\$ 18,360,036</u>	<u>\$ 18,826,106</u>	<u>\$ 19,972,521</u>	<u>\$ 28,939,645</u>	<u>\$ 75,607,344</u>
\$	297,180,572	\$ 275,544,308	\$ 270,369,127	\$ 288,111,038	\$ 308,656,156	\$ 371,039,732
	713,539	734,282	776,914	800,787	-	-
	1,538,316	-	-	-	-	-
	130,579	119,004	107,398	113,856	155,301	152,496
	22,845,548	21,941,769	21,063,255	18,357,159	15,860,488	13,170,925
	-	-	-	-	-	-
	-	-	-	-	-	-
	112,087	119,930	115,524	112,190	100,645	87,656
	763,043	1,391,681	1,895,225	2,250,525	3,047,423	1,808,678
\$	<u>323,283,684</u>	<u>\$ 299,850,974</u>	<u>\$ 294,327,443</u>	<u>\$ 309,745,555</u>	<u>\$ 327,820,013</u>	<u>\$ 386,259,487</u>
\$	<u>341,155,214</u>	<u>\$ 318,211,010</u>	<u>\$ 313,153,549</u>	<u>\$ 329,718,076</u>	<u>\$ 356,759,658</u>	<u>\$ 461,866,831</u>
	-	-	-	-	-	-
	374,548	979,659	-	-	-	-
	-	-	-	-	-	-
	<u>374,548</u>	<u>979,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$	4,258,097	\$ 4,342,444	\$ 4,334,883	\$ 4,423,663	\$ 4,463,616	\$ 4,030,574
	-	-	-	-	-	-
	116,637,121	120,135,256	121,376,947	123,724,521	126,270,921	129,260,929
\$	<u>120,895,218</u>	<u>\$ 124,477,700</u>	<u>\$ 125,711,830</u>	<u>\$ 128,148,184</u>	<u>\$ 130,734,537</u>	<u>\$ 133,291,503</u>
\$	<u>462,424,980</u>	<u>\$ 443,668,369</u>	<u>\$ 438,865,379</u>	<u>\$ 457,866,260</u>	<u>\$ 487,494,195</u>	<u>\$ 595,158,334</u>

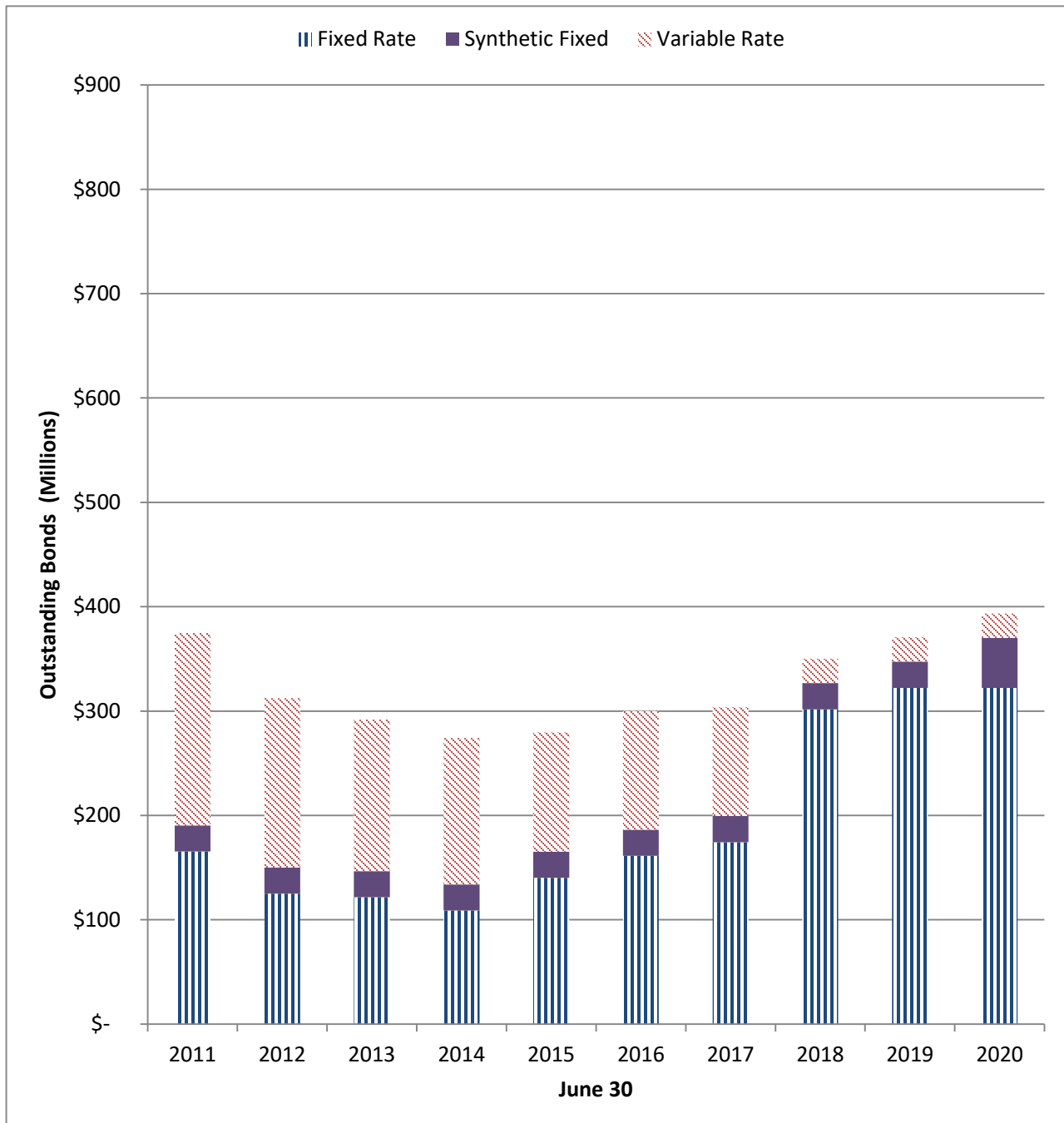
Oregon Department of Veterans' Affairs
Revenues, Expenses and Changes in Net Position - *Unaudited*
Veterans' Loan Program
For the Fiscal Years Ended 2011 - 2020

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
OPERATING REVENUES				
Mortgage Loan Interest Income	\$ 14,586,593	\$ 14,987,375	\$ 22,000,659	\$ 13,302,684
Contract Interest Income	1,857	4,174	6,420	11,033
Investment Income	4,180,569	4,399,745	2,983,359	2,017,506
Gain on Sale of Foreclosed Property	-	38,474	207,875	7,143
Loan Cancellation Life Insurance Premiums	190,103	227,190	270,555	304,246
Loan Cancellation Life Insurance Processing Fees	72,000	72,000	72,000	72,000
Other Fees and Charges	2,540,376	2,893,531	2,276,040	1,979,856
Conservatorship Fees	464,659	452,217	503,471	534,731
TOTAL OPERATING REVENUES	\$ 22,036,157	\$ 23,074,706	\$ 28,320,379	\$ 18,229,199
OPERATING EXPENSES				
Bond Interest	\$ 11,615,666	\$ 11,212,762	\$ 9,508,093	\$ 8,299,193
Salaries and Other Payroll	5,077,542	4,030,200	4,588,032	5,391,885
Bond Expenses	1,019,122	558,622	1,657,852	1,009,223
Securities Lending Investment Expense	24,840	60,052	19,234	7,675
Real Estate Owned Expense	710	19,709	75,420	44,121
Services and Supplies	1,509,643	1,476,316	1,356,698	1,379,273
Claims Expense - Loan Cancellation Life Insurance	375,840	646,456	526,411	450,938
Depreciation	154,609	149,711	119,874	115,289
Bad Debt	(29,554)	(126,193)	(313,706)	(539,102)
Other	893,536	1,409,209	1,412,369	1,370,564
TOTAL OPERATING EXPENSES	\$ 20,641,954	\$ 19,436,844	\$ 18,950,277	\$ 17,529,059
OPERATING INCOME (LOSS)	\$ 1,394,203	\$ 3,637,862	\$ 9,370,102	\$ 700,140
NONOPERATING INCOME (EXPENSES)				
Interest Expense - Pension Related Debt	(43,559)	(42,321)	(43,835)	(50,496)
TOTAL NONOPERATING INCOME (EXPENSES)	(43,559)	(42,321)	(43,835)	(50,496)
INCOME (LOSS) BEFORE TRANSFERS	1,350,644	3,595,541	9,326,267	649,644
TRANSFERS				
Net Transfers from Lottery Fund	\$ 475,000	\$ -	\$ -	\$ -
Net Transfers to Dept. of Administrative Services	(176,040)	(181,544)	(187,783)	(208,629)
Net Transfers from Military Dept.	-	-	-	-
Net Transfers to Veterans' Rural Transp. Grant	-	(485)	-	-
Capital Contributions	377,005	182,902	-	-
TOTAL TRANSFERS	675,965	873	(187,783)	(208,629)
CHANGE IN NET POSITION	\$ 2,026,609	\$ 3,596,414	\$ 9,138,484	\$ 441,015
NET POSITION				
Beginning Net Position	\$ 134,008,867	\$ 130,412,453	\$ 121,336,233	\$ 120,895,218
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	(62,264)	-
Beginning Net Position, Restated	\$ 134,008,867	\$ 130,412,453	\$ 121,273,969	\$ 120,895,218
Ending Net Position	\$ 136,035,476	\$ 134,008,867	\$ 130,412,453	\$ 121,336,233

June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
\$ 9,926,312	\$ 9,573,211	\$ 7,441,010	\$ 8,827,619	\$ 10,494,442	\$ 11,797,640
23,118	36,952	57,000	69,347	108,784	139,828
1,744,597	1,317,488	1,700,149	2,162,639	2,327,058	4,043,049
44,415	37,528	262,886	53,635	76,034	295,954
351,809	418,580	493,942	605,167	715,356	822,503
72,000	72,000	87,000	102,000	102,000	102,000
2,080,470	2,349,133	2,324,761	1,636,638	1,689,093	1,516,602
489,585	392,206	364,090	264,161	298,380	289,939
<u>\$ 14,732,306</u>	<u>\$ 14,197,098</u>	<u>\$ 12,730,838</u>	<u>\$ 13,721,206</u>	<u>\$ 15,811,147</u>	<u>\$ 19,007,515</u>
\$ 7,009,347	\$ 5,999,144	\$ 5,847,512	\$ 6,119,393	\$ 7,498,587	\$ 8,520,503
6,033,621	3,966,905	4,052,936	4,802,451	5,653,694	5,717,843
1,184,177	1,174,810	866,823	1,020,215	1,858,820	1,378,103
31,957	12,050	12,873	41,639	57,794	232,258
17,833	138,901	328,002	300,065	491,313	259,411
1,541,746	1,205,305	1,491,581	1,253,702	1,340,540	1,744,035
1,247,875	1,170,815	1,244,045	1,294,691	1,091,934	1,155,382
108,783	104,244	100,555	98,754	108,809	117,160
(244,749)	(600,374)	(1,187,213)	(177,874)	336,329	360,478
1,139,726	1,081,046	973,850	467,545	242,959	117,585
<u>\$ 18,070,316</u>	<u>\$ 14,252,846</u>	<u>\$ 13,730,964</u>	<u>\$ 15,220,581</u>	<u>\$ 18,680,779</u>	<u>\$ 19,602,758</u>
<u>\$ (3,338,010)</u>	<u>\$ (55,748)</u>	<u>\$ (1,000,126)</u>	<u>\$ (1,499,375)</u>	<u>\$ (2,869,632)</u>	<u>\$ (595,243)</u>
<u>(50,122)</u>	<u>(51,837)</u>	<u>(51,735)</u>	<u>(54,142)</u>	<u>-</u>	<u>-</u>
<u>(50,122)</u>	<u>(51,837)</u>	<u>(51,735)</u>	<u>(54,142)</u>	<u>-</u>	<u>-</u>
(3,388,132)	(107,585)	(1,051,861)	(1,553,517)	(2,869,632)	(595,243)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(194,350)	(203,543)	(166,321)	(209,608)	(229,185)	(225,977)
-	-	-	14,124	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(194,350)</u>	<u>(203,543)</u>	<u>(166,321)</u>	<u>(195,484)</u>	<u>(229,185)</u>	<u>(225,977)</u>
<u>\$ (3,582,482)</u>	<u>\$ (311,128)</u>	<u>\$ (1,218,182)</u>	<u>\$ (1,749,001)</u>	<u>\$ (3,098,817)</u>	<u>\$ (821,220)</u>
\$ 124,477,700	\$ 125,711,830	\$ 128,148,184	\$ 130,734,537	\$ 133,291,503	\$ 134,201,334
-	3,958	-	(837,352)	541,851	(88,611)
<u>-</u>	<u>(926,960)</u>	<u>(1,218,172)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 124,477,700</u>	<u>\$ 124,788,828</u>	<u>\$ 126,930,012</u>	<u>\$ 129,897,185</u>	<u>\$ 133,833,354</u>	<u>\$ 134,112,723</u>
<u>\$ 120,895,218</u>	<u>\$ 124,477,700</u>	<u>\$ 125,711,830</u>	<u>\$ 128,148,184</u>	<u>\$ 130,734,537</u>	<u>\$ 133,291,503</u>

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

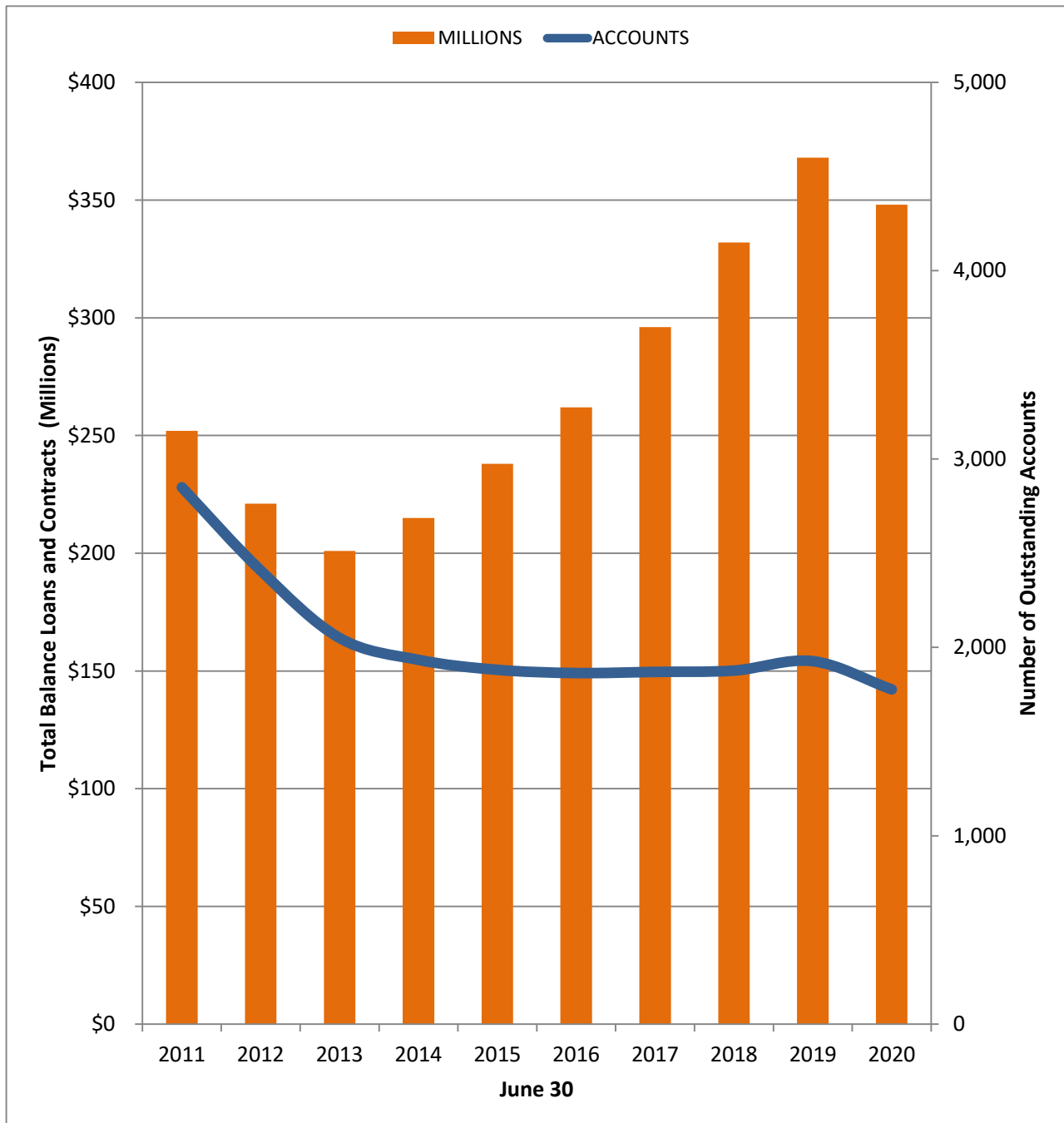
Principal Balance of Bonds Outstanding



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

Oregon Department of Veterans' Affairs
Veterans' Loan Program
Unaudited

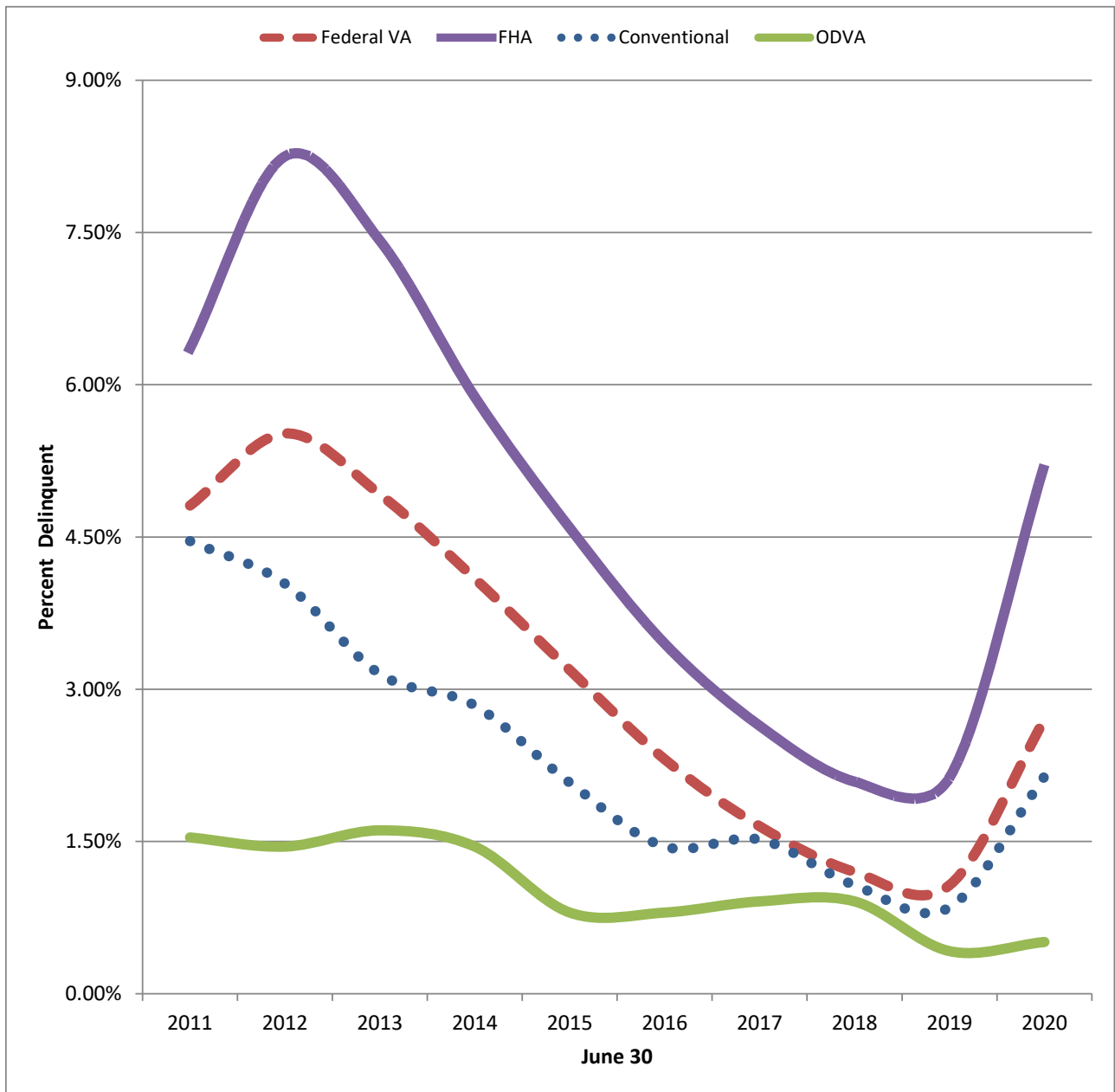
Loans and Contracts Outstanding



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.

Loans and Contracts Outstanding by County As of June 30, 2020





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 Kate Brown, 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, 2020, 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 October 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Veterans' Affairs' (department's) internal control over financial reporting (internal control) related to the Veterans' Loan Program 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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
October 16, 2020



**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.