Annual Financial Report

Enterprise Funds of the
Oregon Department of Veterans' Affairs

An Agency of the State of Oregon

For The Fiscal Years Ended
June 30, 2007 and June 30, 2006

Jim Willis
Director

Bruce Shriver, CPA
Chief Financial Officer

<u>Report Prepared By</u>

Carol Clevenberg
Ron Weisser, CPA
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With the assistance of the
Financial Administration Division,
Administrative Services Division,
and Public Information Section

<u>Cover Photo:</u>
F-22 Raptor in flight
Courtesy of US Department of Defense

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EVENTS FROM THIS PAST YEAR:

Annually, the department and its employees participate in various activities and events that honor and serve Oregon's veteran community. Below are a few of the events held in 2007.

Pillows were hand-made and donated by department employees to be used at the Portland VA Hospital. The pillows are part of a welcome package provided to new patients.

Department employees filled care boxes for troops overseas. Donations for the care boxes included both necessity and luxury items. Department employees pose for a picture to be sent with the care boxes.

The State of Oregon dedicated the Afghan-Iraqi Freedom memorial in November 2006 to honor all who served in Iraq and Afghanistan, and specifically to those service members who made the ultimate sacrifice.

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Oregon
Theodore R. Kulongoski, Governor

Oregon Department of Veterans' Affairs
Oregon Veterans' Building
700 Summer Street NE
Salem, OR 97301-1285

SERVING
OREGON VETERANS
SINCE 1945

December 14, 2007

The Honorable Ted Kulongoski
Governor of the State of Oregon
State Capitol
Salem, Oregon 97301-4047

Citizens of Oregon

We are pleased to provide you with the Annual Financial Report of the Oregon Department of Veterans' Affairs *(the "Department")* Enterprise funds, for the fiscal years ended June 30, 2007, and June 30, 2006. We believe the information presented herein is accurate in all material respects, that it is presented in a manner which fairly sets forth the financial position and results of operations of the Department's Enterprise funds, and that all disclosures necessary to enable the reader to gain an understanding of the Department's Enterprise funds' financial affairs have been included. The Department's Governmental and Fiduciary funds' financial statements are presented in the **Other Supplemental Section** for the purpose of additional analysis. The Department is responsible for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures.

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 financial statements and accompanying notes, as well as the independent auditor's report on the financial statements. The **Other Supplemental 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.

The Department is an agency of the State of Oregon and is identified as the reporting entity of this Annual Financial Report. The Department provides a range of services for veterans such as mortgage and home improvement loans, a skilled care nursing facility, benefits and claims counseling, and other veterans' services.

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, and other recognized standard-setting bodies. A summary of significant accounting policies of the Department is found in Note 1 of the financial statements.

OREGON ECONOMY

Recent Trends – According to the Oregon State Office of Economic Analysis *(OEA)*, the second quarter 2007 initial estimate of job growth was an annualized rate of 0.9 percent. This marks the 16th consecutive quarter of job growth. On a year-over-year (Y/Y) basis, jobs increased in the second quarter by 1.4 percent. Total nonfarm jobs in Oregon now stand at 1,725,200, up 3,800 from the first quarter of 2007.

The second quarter job growth was slightly higher than expected. This follows an unexpectedly high growth in the first quarter. The revised first quarter job growth rate was 2.7 percent. Job gains had been expected to be slow for the first half of 2007. Job growth of 0.9 percent in the second quarter provides further evidence that the labor market is indeed slowing down.

The details of second quarter growth reveal mostly expected results. Durable goods manufacturing continued to experience substantial job loss, led by losses in wood products, computer and electronics, and transportation equipment industries. While manufacturing was weak overall, the nonmanufacturing sector turned in a decent performance. The retail industry continued to expand without letup even after an impressive growth in the first quarter. The leisure and hospitality industry posted a marginal decline. Professional and business services registered another healthy job growth.

The construction sector enjoyed another surprising job increase in the second quarter. The slowing housing sector had limited impact on overall construction employment, a consequence of a strong nonresidential side. However, the housing sector correction has yet to exert its full impact on the economy. A slump in the housing sector also led to job losses in some industries that depend heavily on that sector, most notably in wood products and in some financial services industries.

The information sector sustained a recent trend of high growth. The health care services industry continued to be a reliable source of growth. Government sector jobs increased, led by a boost in local government employment.

The most recent Blue Chip Job Growth rankings place Oregon 18th in the nation for Y/Y job growth. Between May 2006 and May 2007, jobs increased by 27,300 or 1.6 percent. A year ago Oregon ranked 8th.

Future Outlook – The OEA forecasts employment to rise by 1.3 percent for 2007, a sharp deceleration from 2005 and 2006. This is because OEA continues to assume that the rest of 2007 will see much more subdued growth on average. The job growth in the third quarter of 2007 is projected to be 0.1 percent, continuing the slowing trend since the 2.7 percent growth in the first quarter. Additional OEA forecasts for specific sectors of Oregon's economy are discussed in the following paragraphs.

The housing sector will bottom out toward the end of the year. A meaningful recovery in new home construction and overall home sales in that sector will have to wait until the middle of 2008. Even this scenario is subject to potential further unraveling of the mortgage markets should the subprime mortgage problem spill over to other segments of the industry.

Wood product manufacturing is projected to be down 8.7 percent in 2007 and then decline another 5.4 percent in 2008. We expect job gains in 2009 as the economy recovers from the housing slump. In fact, improvement in this industry will start in late 2008.

The computer and electronic products industry, which contains semiconductors, will show a slow decline in jobs during the forecast horizon. The job outlook is uncertain, with a decline of 2.5 percent in 2007 but some rebound in 2008. The out years are projected to keep this sector on a flat or slightly downward path. The sector is subject to further uncertainty as high tech firms try to become more cost-effective in manufacturing, research, and development. Off-shoring of manufacturing facilities may expedite the downward trend.

Construction jobs will stay virtually flat in 2007. The housing sector slowdown has yet to exert its full impact, but for now the nonresidential sector has more than offset the loss in housing construction. We expect some job losses in 2008, followed by 1.7 percent growth in 2009. If the housing sector deteriorates worse than expected, 2007 will see a decline in construction jobs. Non-residential construction and public projects may not be large enough to offset job losses from residential construction. With retail and office space construction in the pipeline and recovering residential construction, the outlook is brighter for 2009.

Retail trade jobs will increase by 2.6 percent in 2007. This strength is a consequence of spectacular growth in the first half of the year but the second half will stay essentially flat. Much slower growth will show up in 2008, followed by a decent 2.1 percent growth in 2009. Consumer spending has slowed substantially in the second quarter and the industry's employment growth will be stunted as a result. In outer years, retail employment will be supported by increasing population and income.

Wholesale trade will see a good increase in jobs in 2007, followed by job gains of 1.3 percent in 2008 and 1.5 percent in 2009. The strength in 2007 is largely a result of high growth rates in the fourth quarter of 2006 and the first quarter of 2007. Minimal growth is expected for the rest of this year, a reflection of slowing commerce traffic. A better economy in 2009 will give the industry a boost.

The professional and business services industry grew rapidly in 2004-2006. It will see only a slight slowdown despite a sluggish economy in 2007. It will grow 2.8 percent in 2007, which is lower than the 4.1 percent growth in 2006 and the 5.3 percent growth in 2005. However, if business firms become more cautious about the uncertainty of the economy, this industry may slow down more substantially. The rate of growth will accelerate again to 2.9 percent growth in 2008 and 4.1 percent in 2009. Again, this forecast assumes an expected pickup in economic expansion.

Health services grew even during the recession. The robust growth continues in this sector with a 2.4 percent increase in 2007, followed by similar increases in both 2008 and 2009. This sector is also supported by a robust population increase and increased demand due to changing demographics in Oregon.

Leisure and hospitality, which includes accommodations and food services, is expected to grow by 3.2 percent in 2007, 1.8 percent in 2008, and 2.3 percent in 2009. Consumers are expected to shift consumption away from housing-related durable goods toward services including tourism. A weak dollar will promote international tourism, too. However, weaker than expected consumer spending will trip up this industry.

Government employment is expected to increase by 0.9 percent in 2007, followed by growth of 0.9 percent both in 2008 and in 2009. Local government jobs will continue to experience mild growth to meet an increasing service demand due to population growth.

Population growth in Oregon is expected to be higher than the U.S. average, but slower than the growth experienced in the mid-1990s. Growth will be slightly higher than during the recession over the next three years, with increases of 1.4 to 1.5 percent for each year.

The growth in personal income will closely mimic the pattern of employment growth. Personal income is forecast to grow by 5.9 percent in 2007, followed by growth of 5.4 percent in 2008, and 6.1 percent in 2009. The 2007 growth rate largely reflects a strong first quarter. Income growth in the remainder of 2007 will be more moderate. Reflecting softer growth in the second half of 2007 and early 2008, personal income growth in 2008 is projected to be weaker than 2007.

MAJOR INITIATIVES

Current Service Efforts and Accomplishments - Article XI-A of the Oregon Constitution outlines the broad duties of the Department. The primary Oregon Revised Statutes governing the Department are Chapters 406 through 408. Following is a brief description of the Department's primary Enterprise funds' programs and activities.

- 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, 2007, this Program had approximately 5,670 mortgage loans and contracts outstanding, with a principal balance of approximately $288 million.

- The ***Veterans' Home Program*** provides professional medical, nursing, rehabilitative, social and other support services primarily to United States veterans residing in the Oregon Veterans' Home *(OVH)*, located in The Dalles, Oregon. The OVH, which opened in November 1997, has the capacity to serve 151 residents and had occupancy of approximately 140 residents at June 30, 2007. The Department owns the OVH and as of October 1, 2003, has contracted with Veterans Care Centers of Oregon *(VCCO)*, a non-profit organization, to provide the services needed by the residents.

The major issue related to the Department's client base is that the composition and essential necessities of the veteran population are changing due to the passage of time and external events. As the veteran population ages, it is necessary to be more responsive to the increasing health and disability issues of the elderly. In addition, with the ongoing conflicts in Iraq and Afghanistan, it is becoming increasingly important to help meet the needs of our younger returning veterans.

FINANCIAL INFORMATION

Internal Controls - Management is responsible for establishing and maintaining internal controls designed to ensure the Department's assets are safeguarded against loss from unauthorized use or disposition and that financial transactions are properly executed in accordance with generally accepted accounting principles. These internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The Department of Administrative Services and the Oregon Legislature maintain budgetary controls.

Enterprise Funds - The Veterans' Loan Program and the Veterans' Home Program are enterprise funds and account for the Department's business-type activities. At June 30, 2007, the Veterans' Loan Program had approximately $1.08 billion in assets *(primarily consisting of loan and contract receivables, cash and cash equivalents, securities lending cash collateral, and investment securities)* and about $960 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. At June 30, 2007, the Veterans' Home Program had assets of approximately $12.9 million consisting primarily of capital assets, receivables and cash and cash equivalents and approximately $1.3 million in liabilities consisting primarily of short-term payables.

Debt Administration - The Department, with the approval of the State Treasurer's office, has authority to issue general obligation bonds to fund the home loan program. The Department's general obligation bonds are rated as part of the State of Oregon's general obligation bond program. The Department's most recent general obligation bond issue was rated as follows:

Moody's Investor Service	Aa2
Fitch Ratings	AA-
Standard & Poor's	AA

As of June 30, 2007, the Department had approximately $739 million in outstanding bonds. During fiscal year 2007, the Department issued approximately $58.6 million in bonds and retired approximately $83.4 million.

Cash Management - All monies collected by the Department are turned over to the State Treasurer, who is responsible for the control of cash and the investment of State funds. On June 30, 2007, the Department's Enterprise funds cash, cash equivalents *(excluding securities lending collateral),* and investments totaled approximately $618.6 million. The Oregon Investment Council, of which the State Treasurer is a member, establishes investment policy for all State of Oregon funds. To further Oregon's economic growth, the Council's continuing policy has been to invest locally when investments of comparable yield, quality, and maturity can be found in state without damaging portfolio diversity. Fortunately for Oregonians, State-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments that have been a cause of national concern. The State Treasurer pools all available cash into the Oregon Short-Term Fund from which investments are made in a variety of instruments.

Risk Management - The Department of Administrative Services, through the Insurance Fund, provides for the State's self-insurance programs and for the administration, investigation, and settlement of claims against the Insurance Fund. In accordance with legislative directives, the Insurance Fund must operate on an actuarially sound basis.

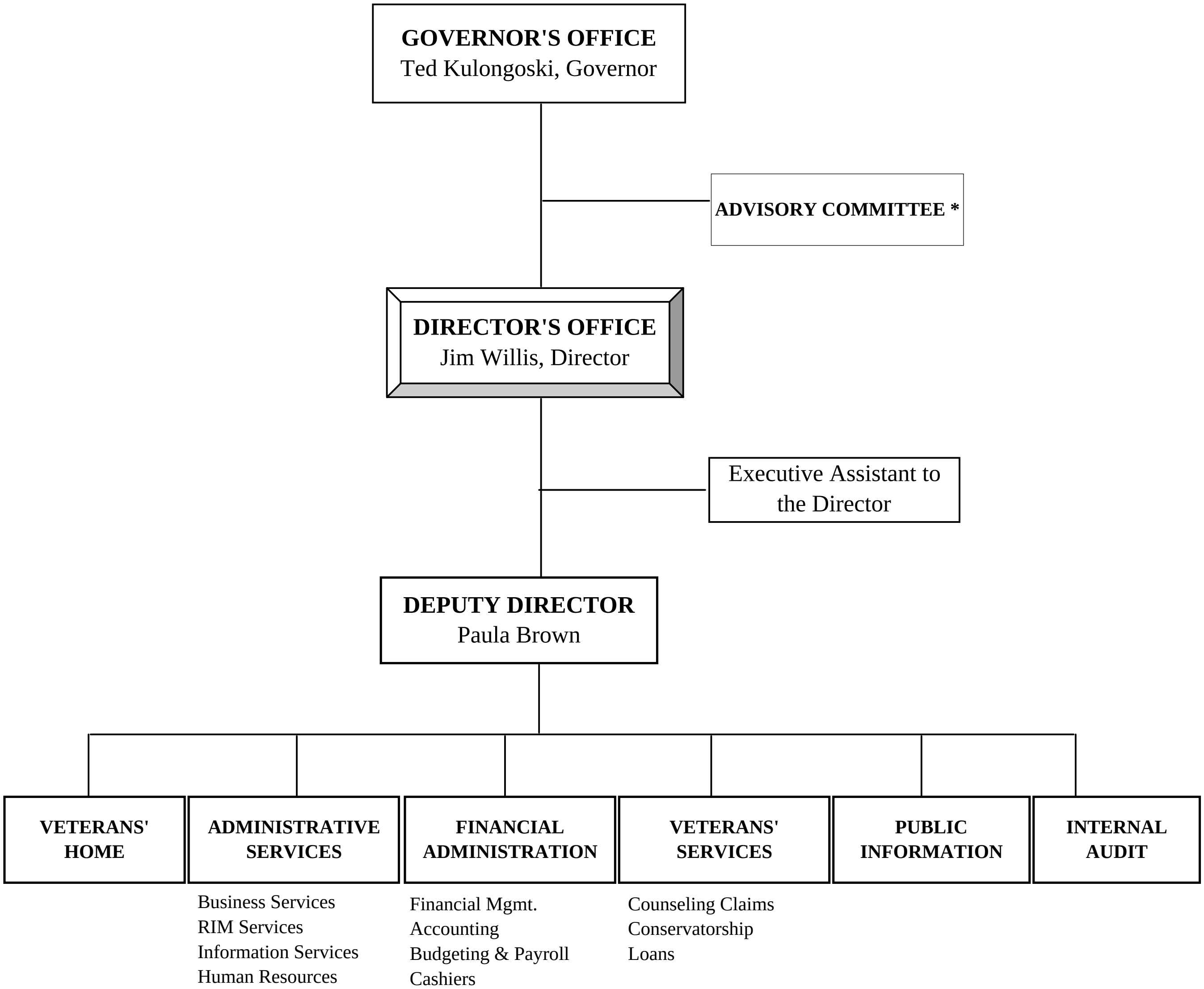
Independent Audit - The Secretary of State, Audits Division, has audited or contracted for the audit of the financial records, books of account, and transactions of the Department for the years ended June 30, 2007 and June 30, 2006. The auditors used generally accepted government auditing standards in conducting the engagement. Their opinion on the financial statements is included in the Financial Section of this report.

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,

Jim Willis
Director

Bruce W. Shriver
Chief Financial Officer



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

Advisory Committee Members	Term Expires	Advisory Committee Members	Term Expires
Evelyn F. Anderson	July 31, 2009	Irv Fletcher	December 31, 2010
Staryl C. Austin, Jr.	March 15, 2008	Robert Haltiner	March 15, 2008
Furlton M. Burns	March 15, 2008	Tino E. Ornelas	September 30, 2011
Walter R. Crews	March 15, 2008	Charles E. Schmidt	September 30, 2008
David Fairclo	March 15, 2008		

FINANCIAL SECTION

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA

INDEPENDENT AUDITOR'S REPORT

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

Jim Willis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97301-1285

We have audited the accompanying financial statements of the enterprise funds of the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2007 and 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Oregon, Department of Veterans' Affairs management. 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 *Government Auditing Standards,* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Department's enterprise funds and do not purport to, and do not, present fairly the financial position of the State of Oregon, as of June 30, 2007 and 2006, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise funds of the State of Oregon's Department of Veterans' Affairs, as of June 30, 2007 and 2006, the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of the State of Oregon, Department of Veterans' Affairs internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.

Our audit was conducted for the purpose of forming opinions on the basic financials statements that collectively comprise the Department's enterprise funds. The introductory section, other supplemental section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
December 14, 2007

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007 AND JUNE 30, 2006

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 82,904,783	$ 70,310,067	$ 1,105,989	$ 1,474,963
Cash and Cash Equivalents - Restricted	4,199,669	4,002,196	-	-
Securities Lending Cash Collateral	171,313,426	56,088,643	387,988	189,105
Investments - Restricted	95,073,362	100,656,772	-	-
Receivables:				
Accrued Interest	2,753,190	3,240,750	-	-
Loan Cancellation Life Insurance Premiums	147,259	170,762	-	-
Resident Care Related	-	-	1,158,387	707,089
Other	10,875	34,301	-	51,800
Due from Other Funds	73,850	138,755	-	-
Prepaid Expenses	39,796	27,271	-	571
Total Current Assets	356,516,210	234,669,517	2,652,364	2,423,528
Noncurrent Assets				
Cash and Cash Equivalents - Restricted	402,707,726	419,260,547	-	-
Investments	2,544,843	2,564,209	-	-
Investments - Restricted	30,074,187	26,342,808	-	-
Mortgage Loans and Contracts Receivable (Net)	283,736,757	266,034,069	-	-
Resident Care Receivable (Net)	-	-	13,754	2,614
Notes Receivable	123,428	176,040	-	-
Other Receivable	1,712,187	1,931,151	-	-
Deferred Underwriter's Discount	1,847,213	1,991,927	-	-
Capital Assets:				
Building, Property and Equipment	9,563,859	9,949,641	12,562,282	12,540,540
Improvements Other than Buildings	-	-	7,250	7,250
Land	-	-	600,073	600,073
Works of Art and Historical Treasures	85,170	85,170	70,000	70,000
Accumulated Depreciation	(5,269,006)	(5,647,415)	(3,027,776)	(2,738,926)
Total Noncurrent Assets	727,126,364	722,688,147	10,225,583	10,481,551
TOTAL ASSETS	$ 1,083,642,574	$ 957,357,664	$ 12,877,947	$ 12,905,079
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 292,260	$ 301,996	$ 855,175	$ 705,069
Line of Credit Payable	30,835,000	1,000,000	-	-
Loan Cancellation Life Insurance Premium Payable	103,602	135,470	-	-
Loan Cancellation Life Insurance Claims Payable	254,704	13,762	-	-
Due to Other Funds	-	-	55,909	119,104
Deposit Liabilities	2,005,195	1,637,899	361	652
Accrued Interest on Bonds	6,144,051	8,234,121	-	-
Obligations under Securities Lending	171,313,426	56,088,643	387,988	189,105
Claims and Judgments Payable	875	-	-	-
Compensated Absences Payable	287,513	294,236	2,277	437
Arbitrage Rebate Payable	105,259	212,771	-	-
Bonds Payable-Maturing Within One Year (Net)	61,353,153	62,250,115	-	-
Matured Bonds Payable	4,199,669	4,002,196	-	-
Total Current Liabilities	276,894,707	134,171,209	1,301,710	1,014,367
Noncurrent Liabilities				
Bonds Payable-Maturing After One Year (Net)	677,075,220	701,016,462	-	-
Claims and Judgments Payable	-	15,518	-	6,994
Compensated Absences Payable	141,611	98,079	1,121	146
Arbitrage Rebate Payable	1,561,754	891,286	-	-
Total Noncurrent Liabilities	678,778,585	702,021,345	1,121	7,140
TOTAL LIABILITIES	955,673,292	836,192,554	1,302,831	1,021,507
NET ASSETS				
Invested in Capital Assets	4,380,023	4,387,396	10,211,829	10,478,937
Net Assets, Unrestricted	123,589,259	116,777,714	1,363,287	1,404,635
TOTAL NET ASSETS	$ 127,969,282	$ 121,165,110	$ 11,575,116	$ 11,883,572

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

Enterprise Funds	
TOTAL	
June 30, 2007	June 30, 2006
$ 84,010,772	$ 71,785,030
4,199,669	4,002,196
171,701,414	56,277,748
95,073,362	100,656,772
2,753,190	3,240,750
147,259	170,762
1,158,387	707,089
10,875	86,101
73,850	138,755
39,796	27,842
359,168,574	237,093,045
402,707,726	419,260,547
2,544,843	2,564,209
30,074,187	26,342,808
283,736,757	266,034,069
13,754	2,614
123,428	176,040
1,712,187	1,931,151
1,847,213	1,991,927
22,126,141	22,490,181
7,250	7,250
600,073	600,073
155,170	155,170
(8,296,782)	(8,386,341)
737,351,947	733,169,698
$ 1,096,520,521	$ 970,262,743
$ 1,147,435	$ 1,007,065
30,835,000	1,000,000
103,602	135,470
254,704	13,762
55,909	119,104
2,005,556	1,638,551
6,144,051	8,234,121
171,701,414	56,277,748
875	-
289,790	294,673
105,259	212,771
61,353,153	62,250,115
4,199,669	4,002,196
278,196,417	135,185,576
677,075,220	701,016,462
-	22,512
142,732	98,225
1,561,754	891,286
678,779,706	702,028,485
956,976,123	837,214,061
14,591,852	14,866,333
124,952,546	118,182,349
$ 139,544,398	$ 133,048,682

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

	Enterprise Funds			
	Veterans' Loan Program		Veterans' Home Program	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
OPERATING REVENUES				
Interest Income:				
Mortgage Loans	$ 17,526,662	$ 17,561,219	$ -	$ -
Contracts	593,760	806,376	-	-
Investment Income	37,683,095	28,209,288	57,064	73,604
Loan Cancellation Life Insurance Premiums	1,626,287	1,962,357	-	-
Loan Cancellation Life Insurance Processing Fee	180,000	180,000	-	-
Resident Revenue (Net)	-	-	10,223,934	9,809,017
Other Fees and Charges	2,131,847	1,941,079	2,066	1,946
Conservatorship Fees	333,974	354,808	-	-
Gain on Sale of Foreclosed Property	-	7,551	-	-
TOTAL OPERATING REVENUES	60,075,625	51,022,678	10,283,064	9,884,567
OPERATING EXPENSES				
Bond Interest	34,581,972	35,121,631	-	-
Interest on Taxable Line of Credit	279,906	525,600	-	-
Salaries and Other Payroll Expenses	5,445,234	5,239,879	98,888	80,684
Bond Expenses	1,581,932	1,129,971	-	-
Securities Lending Investment Expense	6,266,412	2,910,155	12,974	10,346
Real Estate Owned Expense	2,267	9,485	-	-
Services and Supplies	2,133,903	2,174,420	583,527	157,869
Claims Expense - Loan Cancellation Life Insurance	2,717,581	2,952,064	-	-
Mortgage Broker Fees	467,853	275,144		
Veterans' Home Operations	-	-	9,632,303	9,120,185
Depreciation Expense	156,656	255,626	288,852	289,619
Bad Debt Expense	(545,135)	(918,401)	-	-
Other Expenses	177,305	57,327	-	-
TOTAL OPERATING EXPENSES	53,265,886	49,732,901	10,616,544	9,658,703
OPERATING INCOME (LOSS)	6,809,739	1,289,777	(333,480)	225,864
Contributions, Extraordinary Items and Transfers:				
Net Transfers from Veterans' Home Trust Fund	-	-	25,024	25,483
Net Transfers to Dept. of Administrative Services	(5,567)	-	-	-
Capital Contributions	-	-	-	16,794
CHANGE IN NET ASSETS	6,804,172	1,289,777	(308,456)	268,141
NET ASSETS - Beginning	121,165,110	119,875,333	11,883,572	11,615,431
NET ASSETS - Ending	$ 127,969,282	$ 121,165,110	$ 11,575,116	$ 11,883,572

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

Enterprise Funds	
TOTAL	
June 30, 2007	June 30, 2006
$ 17,526,662	$ 17,561,219
593,760	806,376
37,740,159	28,282,892
1,626,287	1,962,357
180,000	180,000
10,223,934	9,809,017
2,133,913	1,943,025
333,974	354,808
-	7,551
70,358,689	60,907,245
34,581,972	35,121,631
279,906	525,600
5,544,122	5,320,563
1,581,932	1,129,971
6,279,386	2,920,501
2,267	9,485
2,717,430	2,332,289
2,717,581	2,952,064
467,853	275,144
9,632,303	9,120,185
445,508	545,245
(545,135)	(918,401)
177,305	57,327
63,882,430	59,391,604
6,476,259	1,515,641
25,024	25,483
(5,567)	-
-	16,794
6,495,716	1,557,918
133,048,682	131,490,764
$ 139,544,398	$ 133,048,682

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2007	June 30, 2006
Cash Flows from Operating Activities:		
Receipts from Customers	$ 3,672,693	$ 3,716,004
Receipts from Other Funds for Services	677,057	1,117,481
Loan Principal Repayments	49,350,042	64,809,583
Loan Interest Received	18,392,748	19,112,707
Payments to Employees for Services	(5,461,753)	(5,209,467)
Payments to Suppliers	(4,461,543)	(5,074,148)
Payments to Other Funds for Services	(736,086)	(588,723)
Loans Made	(66,194,263)	(46,904,555)
Other Receipts (Payments)	335,350	100,192
Net Cash Provided (Used) in Operating Activities	(4,425,755)	31,079,074
Cash Flows from Noncapital Financing Activities:		
Proceeds from Bond Sales	58,630,000	49,000,000
Taxable Line of Credit Proceeds	41,865,000	30,000,000
Principal Payments on Bonds	(83,267,526)	(87,725,434)
Principal Payments on Taxable Line of Credit	(12,030,000)	(29,000,000)
Interest Payments on Bonds	(36,677,261)	(36,816,494)
Interest Payments on Taxable Line of Credit	(279,906)	(525,600)
Bond Issuance Costs	(1,297,705)	(1,193,064)
Loss on Bond Call	(220,500)	-
Transfers from Other Funds	-	-
Net Cash Provided (Used) in Noncapital Financing Activities	(33,277,898)	(76,260,592)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(123,249)	(4,486)
Net Cash Provided (Used) in Capital and Related Financing Activities	(123,249)	(4,486)
Cash Flows from Investing Activities:		
Purchases of Investments	(531,952,215)	(211,333,124)
Proceeds from Sales or Maturities of Investments	537,422,638	217,041,836
Interest on Investments and Cash Balances	28,595,847	25,547,193
Investment Income from Securities Lending	6,266,412	2,910,155
Investment Expense from Securities Lending	(6,266,412)	(2,910,155)
Net Cash Provided (Used) in Investing Activities	34,066,270	31,255,905
Net Increase (Decrease) in Cash and Cash Equivalents	(3,760,632)	(13,930,099)
Cash and Cash Equivalents - Beginning	493,572,810	507,502,909
Cash and Cash Equivalents - Ending	$ 489,812,178	$ 493,572,810
Reconciled to Statement of Net Assets:		
Cash and Cash Equivalents - Current	$ 82,904,783	$ 70,310,067
Cash and Cash Equivalents - Current, Restricted	4,199,669	4,002,196
Cash and Cash Equivalents - Noncurrent, Restricted	402,707,726	419,260,547
Cash and Cash Equivalents - Ending (shown above)	$ 489,812,178	$ 493,572,810

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
$ 9,761,205	$ 9,919,746	$ 13,433,898	$ 13,635,750
-	-	677,057	1,117,481
-	-	49,350,042	64,809,583
-	-	18,392,748	19,112,707
(103,346)	(77,903)	(5,565,099)	(5,287,370)
(9,163,963)	(8,737,873)	(13,625,506)	(13,812,021)
(912,306)	(1,134,932)	(1,648,392)	(1,723,655)
-	-	(66,194,263)	(46,904,555)
2,066	1,946	337,416	102,138
(416,344)	(29,016)	(4,842,099)	31,050,058
-	-	58,630,000	49,000,000
-	-	41,865,000	30,000,000
-	-	(83,267,526)	(87,725,434)
-	-	(12,030,000)	(29,000,000)
-	-	(36,677,261)	(36,816,494)
-	-	(279,906)	(525,600)
-	-	(1,297,705)	(1,193,064)
-	-	(220,500)	-
25,024	25,482	25,024	25,482
25,024	25,482	(33,252,874)	(76,235,110)
(21,744)	1,182	(144,993)	(3,304)
(21,744)	1,182	(144,993)	(3,304)
-	-	(531,952,215)	(211,333,124)
-	-	537,422,638	217,041,836
44,089	63,258	28,639,936	25,610,451
12,974	10,346	6,279,386	2,920,501
(12,974)	(10,346)	(6,279,386)	(2,920,501)
44,089	63,258	34,110,359	31,319,163
(368,975)	60,906	(4,129,607)	(13,869,193)
1,474,963	1,414,057	495,047,773	508,916,966
$ 1,105,988	$ 1,474,963	$ 490,918,166	$ 495,047,773
$ 1,105,988	$ 1,474,963	$ 84,010,771	$ 71,785,030
-	-	4,199,669	4,002,196
-	-	402,707,726	419,260,547
$ 1,105,988	$ 1,474,963	$ 490,918,166	$ 495,047,773

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

(Continued from prior page)

	Enterprise Funds	
	Veterans' Loan Program	
	June 30, 2007	June 30, 2006
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ 6,809,739	$ 1,289,777
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization of Capital Assets	156,656	255,626
Amortization of Bond Premium, Discount and Underwriter's Discount on Called Bonds	618,633	63,602
Bad Debt Expense	(545,135)	(918,401)
Interest Received on Investments Reported as Operating Revenue	(37,410,771)	(27,464,175)
Investment Expense	6,266,412	2,910,155
Interest and Line of Credit Payments on Bonds Reported as Operating Expense	34,867,098	35,684,380
Bond Costs	958,080	1,029,220
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	46,930	(7,678)
Due from Other Funds	64,905	355,409
Prepaid Items	(12,525)	(19,156)
Loans and Contracts Receivable	(16,885,978)	17,935,811
Accounts Payable	299,564	(166,725)
Due to Other Funds	-	-
Deposit Liabilities	335,429	99,203
Compensated Absences Payable	5,208	32,026
Total Adjustments	(11,235,494)	29,789,297
Net Cash Provided (Used) by Operating Activities	$ (4,425,755)	$ 31,079,074
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	3,599,026	343,737
Contributed Assets	31,600	-
Total Noncash Investing and Capital and Related Financing Activities	$ 3,630,626	$ 343,737

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

Enterprise Funds		Enterprise Funds	
Veterans' Home Program		TOTAL	
June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
$ (333,480)	$ 225,864	$ 6,476,259	$ 1,515,641
288,852	289,619	445,508	545,245
-	-	618,633	63,602
59,460	118,200	(485,675)	(800,201)
(57,064)	(73,604)	(37,467,835)	(27,537,779)
12,974	10,346	6,279,386	2,920,501
-	-	34,867,098	35,684,380
-	-	958,080	1,029,220
(470,098)	(7,761)	(423,168)	(15,439)
-	-	64,905	355,409
571	-	(11,954)	(19,156)
-	-	(16,885,978)	17,935,811
143,112	(212,968)	442,676	(379,693)
(63,195)	(374,651)	(63,195)	(374,651)
(291)	291	335,138	99,494
2,815	(4,352)	8,023	27,674
(82,864)	(254,880)	(11,318,358)	29,534,417
$ (416,344)	$ (29,016)	$ (4,842,099)	$ 31,050,058
-	-	3,599,026	343,737
-	-	31,600	-
$ -	$ -	$ 3,630,626	$ 343,737

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 war veteran chosen on the basis of his or her executive and administrative ability. The Advisory Committee is a nine-member board, appointed by the Governor that acts in an advisory capacity to the director concerning all matters upon which the director requests counsel. The State Legislature has significant ability to influence funding, approve the Department's budget, and pass laws governing the Department.

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 scope of services increased in 1949 when the Oregon Legislative Assembly authorized the Department, acting through the Director, to provide social services and rehabilitative relief by assisting veterans, dependents, and survivors in applying for state and federal benefits. In 1964 the Department's responsibilities were increased again as the Legislative Assembly authorized the Director of the Department to act as a conservator to certain veterans and their survivors through the management of their financial affairs. The most recent expansion of services came in 1993 when the Legislative Assembly authorized the Department to provide skilled nursing care to veterans residing at the Oregon Veterans' Home.

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

The Veterans' Loan Program and the Veterans' Home Program are classified as proprietary fund activity. The basic financial statements and notes presented herein include only the proprietary fund activity of the Department. The Department has other programs, namely conservatorship duties and social services to veterans *(claims assistance & counseling)*, which are accounted for in other, non-proprietary funds. The financial activities of these programs have no material impact on proprietary fund activity and are presented in the **Other Supplemental Section**.

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 and the Veterans' Home Program are accounted for as Proprietary funds. The focus of Proprietary fund measurement is upon determination of operating income, changes in net assets, 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)*, the Financial Accounting Standards Board *(FASB)*, and the American Institute of Certified Public Accountants *(AICPA)*. Under the auspices of GASB Statement No. 20, the Department does not apply Financial Accounting Standards Board *(FASB)* pronouncements issued after November 30, 1989 for proprietary activities unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. Therefore, private-sector standards of accounting and financial reporting are followed in accompanying proprietary fund financial statements to the extent that those standards do not contradict guidance of the GASB.

Budgetary Process

The Oregon Legislature approves budgets for a biennial period. Operating expenses are subject to limitation and bond related expenses are subject to administrative limitation. Both types of limitations lapse at the end of the biennium. For budgetary purposes, these transactions are recognized when received or paid in cash as opposed to when they are susceptible to accrual.

Cash and Cash Equivalents

Cash and Cash Equivalents include: cash on hand, cash and investments held by the State Treasury in the Oregon Short-Term Fund *(OSTF)*, cash deposits held by the State's fiscal agent for payment of matured bonds and coupons, and cash deposits held by the agency's loan cancellation life insurance carrier. All monies held in the OSTF are considered to be cash equivalents, which is a cash and investment pool having characteristics of a demand deposit account.

Investments and Investment Income

The Department's investments are stated at fair value. Quoted market values were used to value investments except for non-participating interest-earning investments. Non-participating interest-earning investment contracts are exempt from fair value reporting and are shown on the financial statements at amortized cost.

Investment Income includes changes in the fair value of investments and is recognized as a revenue in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Realized gains based on the net increase in fair value of investments are included as a component of Investment Income.

Securities Lending Cash Collateral

The State Treasurer participates in securities lending with a portion of the OSTF. The Department's share of the cash collateral received from broker-dealers is disclosed in the Statement of Net Assets as Securities Lending Cash Collateral.

Receivables

Receivables are shown net of an allowance for uncollectible accounts. Receivables included are amounts due that represent revenues earned or accrued in the current period. Types included in this classification relate to interest, mortgage loans receivable, loan cancellation life insurance premiums, resident-care related *(for Veterans' Home residents)* and other miscellaneous receivables.

Real Estate Owned

Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or fair market value. Cost is defined as the outstanding principal balance of the mortgage loan or contract on the date of foreclosure.

Prepaid Expenses

Prepaid expenses consist of postage on hand at year-end.

Capital Assets

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method. Gain or loss on the sale of an asset is determined by taking the difference between the carrying value *(cost less depreciation)* and the sale price. The Veterans' Building and the Oregon Veterans' Home are depreciated over their useful lives *(50 years and 40 years, respectively)*. 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

Employees accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 300 hours per classified employee. Employees can be paid up to a maximum of 250 hours of accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for non-vesting, accumulated sick pay benefits.

Excess Interest and Arbitrage Rebate Payable

The Department recognizes a liability in its financial records for any excess mortgage interest and investment earnings arising from the use of tax-exempt bond proceeds. The Department records the excess mortgage interest and investment earnings as a reduction of revenue.

Invested in Capital Assets

This is the Capital Asset component of Net Assets *(equity)* net of accumulated depreciation.

Operating Revenues and Expenses

Operating revenues include interest and fees on program loans, charges for resident-related care as well as earnings on cash and investments related to Veterans' Loan and Veterans' Home programs. 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 nonoperating revenues and expenses.

Bond Expenses

Bond premiums and discounts associated with a particular bond issue are amortized over the life of the bond issue using the bonds outstanding method of amortization. These expenses are charged or credited to interest expense.

Miscellaneous bond expenses are primarily recorded as expenses when incurred. Amortization of Underwriter's discounts is also included as miscellaneous bond expenses. Included in bond expenses are fees related to Series 73 E, F, G & H, 83, 84, 85, 86, and 87C variable rate bonds, amortization of prepaid remarketing fees from fixed-rate conversions, expenses of the matured bond and coupon account with the State's Fiscal Agent, and bond attorney fees.

Expenses of Series 73 E, F, G & H, 83, 84, 85, 86 and 87C variable rate bonds include Standby Bond Purchase Agreement commitment fees and remarketing agent fees *(See Note 7)*. These fees are payable quarterly in arrears.

Comparative Data and Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DEPOSITS AND INVESTMENTS

Deposits

The Veterans' Loan Program book balance of cash and cash equivalents as of June 30, 2007 was $82,904,783 for current, unrestricted cash and cash equivalents; $4,199,669 for current, restricted cash and cash equivalents; and $402,707,726 in restricted, noncurrent cash and cash equivalents *(combined total was $489,812,178)*. The bank balance of these Veterans' Loan Program cash balances was $490,998,074 as of the same date. The Veterans' Home Program book balance of cash and cash equivalents as of June 30, 2007 was $1,105,989 for current, unrestricted cash and cash equivalents. The bank balance of these Veterans' Home Program cash balances was $1,055,643 as of the same date. The combined book balance of cash and cash equivalents of all types for both programs was $490,918,167 at June 30, 2007.

A combined total of $492,053,717 *(Veterans' Loan Program with $490,998,074 and the Veterans Home Program with $1,055,643)* at June 30, 2007 was held in demand accounts with the State Treasurer and invested in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool that is available for use by all state funds and eligible local governments. State Treasurer demand deposit accounts and time certificates of deposit investments of the Oregon Short-Term Fund held in state banks are insured or collateralized in excess of Federal Deposit Insurance Corporation *(FDIC)* coverage for a minimum of 25 percent in accordance with State statute. Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Statement of Net Assets as Cash and Cash Equivalents.

Earnings on the OSTF are allocated based on daily account balances and a variable interest rate determined periodically by the State Treasurer. Securities in the OSTF are primarily held by the State Treasurer's agent in the name of the State of Oregon. As of June 30, 2007, the OSTF consisted of 49 percent U.S. government securities; 31 percent short-term commercial paper; 18.8 percent corporate notes; and the remainder were time certificates of deposit. A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

In addition, the Department held $20,686,886 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. At June 30, 2007 the Department estimated that required balance to be $3,216,000. That amount is shown as Cash and Cash Equivalents – Noncurrent, Restricted. The remainder of the balance at the insurance carrier is unrestricted and is disclosed as Cash and Cash Equivalents – Current. For additional information on these monies *(also called the Loan Cancellation Life Insurance Contingency Fund)* see Note 5.

The Department held $4,199,669 at the State's Fiscal Agent for redemption of the Department's bonds and coupons that have matured, but have not yet been redeemed. These funds are deposited at the Bank of New York and are backed by the full faith and credit of the Bank of New York. Further, these funds, while not collateralized, are insured up to $100,000 per bondholder as specified by FDIC regulations. This money is shown as Cash and Cash Equivalents – Restricted, a current asset. On June 30, 2006, the matured bonds payable balance was $4,002,196.

At June 30, 2006 the Department had a book balance of Cash and Cash Equivalents of $493,572,810, which was composed of $70,310,067 in current, unrestricted cash; $4,002,196 in current, restricted cash; and $419,260,547 in noncurrent, restricted cash. The bank balance for cash at June 30, 2006 was $469,247,632.

Investments

The State Treasurer is the investment officer for funds on deposit in the State Treasury. The State's investment policies are governed by statute and are overseen by the Oregon Investment Council. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Under an agreement with the State Treasury, the Department's investments do not include common stock. As of June 30, 2007, the State Treasurer invested the Department's funds primarily in U.S. government securities, commercial paper, corporate bonds, and investment agreements.

A portion of the proceeds of Bond Series 77, 79A, and 80A are invested in specified accounts called Guaranteed Investment Contracts. These monies are held by institutions outside of the State Treasury. The Guaranteed Investment Contracts feature fixed rates of return over the length of the contracts. The Guaranteed Investment Contract accounts are currently uncollateralized but are subject to collateralization by the providers in the event that the debt rating of a provider falls below a specified level or transfer the agreement to a subsidiary or affiliate of the provider with a higher debt rating. In addition, Guaranteed Investment Contracts evidenced by contracts, rather than by securities, are uncategorized with regard to credit risk.

A portion of the proceeds of Bond Series 81 and 82 are invested in Repurchase Agreements. These investments are fully collateralized with permitted securities at a current level of 105% of the repurchase price. The Repurchase Agreements have fixed rates of return over the length of the contract. In the event of a rating downgrade of the seller, the collateralization levels may be increased.

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

- Category 1 includes investments that are insured or registered, or for which the securities are held by the Department or its agent in the Department's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Department's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Department's name.

The schedule below presents the credit risk and carrying amount *(fair value)* as of June 30, 2007. The Department's portion of securities lending balances in the OSTF is unclassified with regard to risk and is included in the investment schedule below. The Guaranteed Investment Contracts and the Repurchase Agreements are presented on an amortized cost basis and their reported value is not materially different from fair value. As of June 30, 2007 the carrying value of the other investments below are equal to the fair value.

	Category 1	Category 2	Category 3	Carrying Amount
Investments				
Investments Held By State Treasurer				
U.S. Government And Agency Securities	$ 14,977,477	$ -	$ -	$ 14,977,477
Commercial Paper	47,658,589	-	-	47,658,589
Corporate Bonds	52,564,582	-	-	52,564,582
Total Investments Held By State Treasurer	$ 115,200,648	$ -	$ -	$ 115,200,648
Repurchase Agreements	5,660,880	-	-	5,660,880
Total By Risk category	$ 120,861,528	$ -	$ -	$ 120,861,528
Investments - Not Categorized				
Guaranteed Investment Contracts				$ 6,830,864
Investments Held By Broker-Dealers Under Securities Loans With Cash Collateral:				
U.S. Government And Agency Securities				168,413,017
Securities Lending Short-Term Collateral Investment Pool (Oregon Short-Term Fund Only):				171,846,559
Less:				
Securities Lending Amounts				(340,259,576)
Total Investments-Restricted				$ 127,692,392

The schedule below presents the schedule of interest rate risk and credit quality disclosure as of June 30, 2007.

Investment type	S&P Credit rating	Investment Maturities (in years): Less than 1 year	1-5 years	6-10 years	More than 10 years	Total Fair Value
U.S. Treasury Obligations	-	$	$	$	$	$
U.S. Agency Securities	AAA	9,997,878	4,979,598	-	-	14,977,476
Commercial Paper	A-	47,658,589	-	-	-	47,658,589
Corporate Bonds	AAA	14,983,298	-	-	-	14,983,298
Corporate Bonds	AA	9,926,180	-	-	-	9,926,180
Corporate Bonds	AA-	20,111,562	4,998,700	-	-	25,110,262
Corporate Bonds	BBB		2,544,843	-	-	2,544,843
Guaranteed Investment Contracts and Repurchase Agreements	N/A		-	-	12,491,744	12,491,744
Total Investments		$ 102,677,507	$ 12,523,141	$ -	$12,491,744	$ 127,692,392

Concentration of Credit Risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2007, 10.53% of the Department's total investments were in Abbey National NA LLC, 9.79% in US Bank National Assn, 9.703% in UBS Financial, 9.35% in Hewlett Packard Co, 7.84% in Toyota Motor CR Corp, 7.83% in Federal Home Loan Mortgage Corp, 7.77% in Bank One N A, and 7.73% in Barclays US Fund.

Restricted Assets

Included in Cash and Cash Equivalents and Investments are amounts designated as restricted. Restrictions on the Department's cash and investments can arise from Oregon's constitutional provision or enabling legislation, federal tax law relating to bond proceeds, bond covenants and from certain other contractual arrangements. The primary purpose of the restricted assets will be to meet upcoming debt service requirements. As of June 30, 2007, the Department had restricted assets of $534,599,787. As of June 30, 2006, the Department had restricted assets of $552,826,532.

Securities Lending

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

During the year, State Street lent the Department's fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the security on loan. Oregon State Treasury did not impose any restrictions during the year on loans of the Department's fixed income securities. The Oregon State Treasury is fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return securities on loan. Both Oregon State Treasury and the broker-dealer borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral during the year generally do not match the maturities of their securities loans. On June 30, 2007, the Department had no securities on loan.

The Department's cash balances are invested in the OSTF, a cash and investment pool managed by the Oregon State Treasury which is available for use by all state funds and local governments. State Street is authorized to lend OSTF securities in return for U.S. dollar-denominated cash. State Street is also authorized by the Securities Lending Agreement to invest this cash collateral in a short-term investment pool maintained by State Street. As of June 30, 2007, the fair value of all securities on loan from the OSTF was $3,816,318,958. The total cash collateral received for the securites on loan from OSTF was $3,890,835,602. The fair value of all investments made with the cash collateral received for those securities on loan was $3,894,124,660.

Total cash collateral received for securities on loan for the Department's proprietary funds was $171,701,414. Total fair value of all investments made with cash collateral was $171,846,559. Total securities on loan (Department's share of OSTF securities on loan) was $168,413,016.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2007 and June 30, 2006:

		June 30, 2007		June 30, 2006
Veterans' Loan Program:				
Investment Income: Accrual Basis	$	27,810,063	$	24,944,443
Securities Lending Revenue		6,266,412		2,910,155
Increase/(Decrease) in Fair Value of Investments		3,599,025		343,737
Investment Income	$	37,675,500	$	28,198,335
Veterans' Home Program:				
Investment Income: Accrual Basis	$	44,089	$	63,258
Securities Lending Revenue		12,974		10,346
Investment Income	$	57,063	$	73,604

3. MORTGAGE LOANS AND CONTRACTS RECEIVABLE

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

The loan and contract receivable portfolio at June 30, 2007 is approximately $288 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 collectibility of the mortgage loans and contracts. In 2007 the Department determined the balance of the allowance account to be in excess of projected losses for the remaining loan and contract portfolio. Accordingly, the account balance was reduced at June 30, 2007 from $4.87 million to $4.32 million, or approximately 1.50 percent of gross loans and contracts receivable.

The following table details the mortgage loans and contracts receivable and allowance accounts as disclosed on the balance sheet for June 30, 2007 and June 30, 2006.

		June 30, 2007		June 30, 2006
Loans Receivable	$	281,915,318	$	262,390,301
Contracts Receivable		6,142,438		8,519,768
Total Loans and Contracts Receivable	$	288,057,756	$	270,910,069
Less: Allowance for Principal Losses		(4,321,000)		(4,876,000)
Net Loans and Contracts Receivable	$	283,736,756	$	266,034,069

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, 2007, there were 156 non-amortizing accounts with an aggregate principal balance of approximately $15,325,900. This represents 5.40 percent of the total net loans and contracts receivable.

Related Party Transactions: Home Loans to Employees

Department employees are entitled to apply for an ODVA home loan if they meet the eligibility criteria, namely military service and citizenship in the state, and also underwriting standards such as those related to credit history and income level. The interest rate on the home loan and other terms and conditions of these loans are identical to those home loans made to non-employees. During the fiscal year ended June 30, 2007, the department made one new home loan to an eligible veteran employee. At June 30, 2007 the balance of existing home loans was $470,494 based on loans made to three employees. This amount represents less than 0.2% of the total loans and contracts receivable. At June 30, 2006 the balance of existing home loans was $482,307 based on loans made to four employees.

Troubled Debt Restructurings

The Department makes every reasonable attempt to keep a borrower in the home purchased under the Veterans' Loan Program. In order to avoid foreclosure, one method of working with borrowers is to temporarily reduce loan payments for borrowers. This is allowed under ORS 407.095. It was not necessary for the Department to provide this relief to any borrowers for the year ended June 30, 2007. During the year ended June 30, 2006, the Department provided this relief to some borrowers and deferred loan interest income of approximately $1,000. This interest amount was subsequently capitalized on these loans. In total, $100,700 in loans were restructured in this fashion. From these restructured loans the Department received approximately $2,600 in mortgage interest income during the fiscal year.

4. CAPITAL ASSETS

The following table details the net capital assets of the Veterans' Loan and Veterans' Home Programs for the years ended June 30, 2007 and June 30, 2006:

		June 30, 2007		June 30, 2006
Veterans' Loan Program				
Building, Property, and Equipment	$	9,563,859	$	9,949,641
Less: Accumulated Depreciation		(5,269,006)		(5,647,415)
Building, Property and Equipment, Carrying Value	$	4,294,853	$	4,302,226
Works of Art and Historical Treasures, Non-Depreciating	$	85,170	$	85,170
Total Capital Assets, Net	$	4,380,023	$	4,387,396
Veterans' Home Program				
Building, Property and Equipment	$	12,562,282	$	12,540,540
Improvements Other than Buildings		7,250		7,250
Works of Art and Historical Treasures, Depreciating		30,000		30,000
Less: Accumulated Depreciation		(3,027,776)		(2,738,926)
Depreciable Capital Assets, Carrying Value	$	9,571,756	$	9,838,864
Works of Art and Historical Treasures, Non-Depreciating		40,000		40,000
Land		600,073		600,073
Total Capital Assets, Net	$	10,211,829	$	10,478,937
Total Capital Assets, Net	$	14,591,852	$	14,866,333

The following table provides detail on the balances and activities of the Department's Proprietary fund capital assets for the year ended June 30, 2007:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 600,073	$ -	$ -	$ 600,073
Works of Art and Historical Treasures	125,170	-	-	125,170
Total Capital Assets Not Being Depreciated	725,243	-	-	725,243
Capital Assets Being Depreciated:				
Buildings	19,594,818	94,297	-	19,689,115
Improvements Other than Buildings	7,250			7,250
Property and Equipment	2,895,362	82,296	(540,631)	2,437,027
Works of Art and Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	22,527,430	176,593	(540,631)	22,163,392
Less Accumulated Depreciation:				
Buildings	(5,606,686)	(365,067)	-	(5,971,753)
Improvements Other Than Buildings	(725)	(725)	-	(1,450)
Property and Equipment	(2,755,179)	(76,715)	535,064	(2,296,830)
Works of Art and Historical Treasures	(23,750)	(3,000)	-	(26,750)
Total Accumulated Depreciation	(8,386,340)	(445,507)	535,064	(8,296,783)
Total Capital Assets, Net	$ 14,866,333	$ (268,914)	$ (5,567)	$ 14,591,852

5. LOAN CANCELLATION LIFE INSURANCE

The Department offers Loan Cancellation Life Insurance *(LCLI)* to approved borrowers and their spouses through a contract with a private insurance company. 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. Annual accounting of premiums, claims, administrative costs, and interest earnings are provided by the insurance carrier for the fund once a year, at June 30. The balance of the LCLI Contingency Fund is disclosed in Note 2.

6. BONDS PAYABLE AND DEBT SERVICE

The table below provides a summary of general obligation bond transactions of the Department for the fiscal years ended June 30, 2006 and June 30, 2007:

Bonds Payable (Par) at June 30, 2005	$	802,125,000
Bonds Issued		49,000,000
Bonds Retired		(87,190,000)
Bonds Payable *(Par)* at June 30, 2006	$	763,935,000
Bonds Issued		58,630,000
Bonds Retired		(83,465,000)
Bonds Payable *(Par)* at June 30, 2007	$	739,100,000

Shown below are the components of net bonds payable as disclosed on the balance sheet for June 30, 2007:

		Current		Noncurrent		Total
Bonds Payable (Par)	$	61,380,000	$	677,720,000	$	739,100,000
Premium on Bonds Sold		31,699		2,912		34,611
Discount on Bonds Sold		(58,547)		(647,692)		(706,239)
Net Bonds Payable	$	61,353,152	$	677,075,220	$	738,428,372

The following schedule summarizes future debt service requirements to maturity as of June 30, 2007:

Fiscal Year	***Principal***	***Interest (1)***	***Total***
2008	$ 61,380,000	$ 31,747,388	$ 93,127,388
2009	41,235,000	26,773,178	68,008,178
2010	1,280,000	24,786,102	26,066,102
2011	1,225,000	24,721,731	25,946,731
2012	1,230,000	24,711,201	25,941,201
2013-2017	101,930,000	120,371,533	222,301,533
2018-2022	306,230,000	65,995,874	372,225,874
2023-2027	43,520,000	43,943,174	87,463,174
2028-2032	54,715,000	33,145,906	87,860,906
2033-2037	62,415,000	21,077,464	83,492,464
2038-2042	61,570,000	6,963,121	68,533,121
2042-2043	2,370,000	396,473	2,766,473
TOTAL	$ 739,100,000	$ 424,633,152	$ 1,163,733,152

Shown below are the outstanding bond issues and their final maturities *(in fiscal years)* as of June 30, 2007:

Series	Dated	Original Coupon Rates From	To	Issued	Outstanding	Final Maturity
LXI (61)	January 1, 1980	7.000	15.000%	300,000,000	40,000,000	2009
LXII (62)	April 1, 1980	8.500	11.250%	300,000,000	30,000,000	2008
LXIII (63)	July 1, 1980	7.300	20.000%	300,000,000	30,000,000	2008
73 (1)	December 1, 1985	6.875	7.000%	740,000,000	370,000,000	2019
77	April 1, 1998	3.850	5.300%	40,000,000	16,925,000	2029
78A	March 1, 2000	4.000	5.500%	10,000,000	180,000	2007
78B	July 6, 2000	5.800	5.800%	10,000,000	1,305,000	2012
79A	March 1, 2000	4.550	6.000%	22,000,000	5,895,000	2032
80A	August 15, 2000	4.300	5.700%	35,000,000	14,170,000	2032
81	September 1, 2001	5.125	5.250%	60,150,000	33,665,000	2042
82	June 1, 2002	5.375	5.500%	60,000,000	29,330,000	2042
83(1)	December 15, 2004	Variable		30,000,000	30,000,000	2039
84(1)	June 29, 2005	Variable		30,000,000	30,000,000	2040
85(1)	June 21, 2006	Variable		49,000,000	49,000,000	2041
86	December 1, 2006	Variable		31,320,000	31,320,000	2040
87A	December 1, 2006	3.85	4.500%	13,265,000	13,265,000	2041
87B	December 1, 2006	4.70		5,000,000	5,000,000	2041
87C	December 1, 2006	Variable		9,045,000	9,045,000	2028
Total Bonds Outstanding as of June 30, 2007:					$ 739,100,000	

(1) $370,000,000 of Series 73E,F,G and H; $30,000,000 of Series 83; $30,000,000 of Series 84; $49,000,000 of Series 85; $31,320,000 of Series 86; and $9,045,000 of Series 87C are Variable Demand Rate bonds and are included at an assumed interest rate at June 30, 2007, of 3.75%, 3.75%, 3.75%, 3.90%, 3.90%, and 3.90% respectively. See Note 7 for further information on these bonds.

7. DEMAND BONDS

SERIES 73 E, F, G & H

Included in long-term debt at June 30, 2007 is $370,000,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G & H. The bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. These bonds may be tendered by the bondholder on specified dates at a price equal to principal plus accrued interest.

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

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement *(SBPA)*. Under the SBPA, JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company, will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2007. If a tender advance did occur, it would accrue interest at the bank's base rate *(either a prime lending rate or the federal funds rate plus ½ of 1%, whichever is higher)*. If the tender advance is in default, interest would accrue at the bank's base rate plus 1%. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years following the last day of the applicable purchase period. Tender advances could be paid off earlier if the Department elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days of accrued interest calculated at a rate of 14 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. As of June 30, 2007, the Department is required to pay a yearly commitment fee, which is payable quarterly in arrears, at a rate of 0.080 percent per annum, applied to the purchase commitment discussed above. Effective July 1, 2007, the commitment fee will be 0.085 percent per annum.

The present purchase commitments by the banks will generally remain in effect to the earlier of *(a)* June 30, 2010 for JP Morgan Chase Bank and November 30, 2015 for Bayerische Landesbank *(scheduled expiration dates)*, unless extended at the option of the bank; *(b)* the conversion of all outstanding bonds of a given series to either a variable rate period ending after the scheduled expiration date or a fixed rate; *(c)* the date on which no bonds of a given series are outstanding; *(d)* the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA; or upon the occurrence of an event of default. However, Bayerische Landesbank does have the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2010.

SERIES 83, 84, 85, 86, AND 87C

Included in long-term debt at June 30, 2007 is $30,000,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Bonds, Series 83, $30,000,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Bonds, Series 84, $49,000,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Bonds, Series 85, $31,320,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Bonds, Series 86, and $9,045,000 of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Bonds, Series 87C. The bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. These bonds may be tendered by the bondholder on specified dates at a price equal to principal plus accrued interest.

The Department's Remarketing Agent *(Bear, Stearns & Co. Inc.)* on the applicable bonds is authorized to use its best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis for Series 83 & 84 and on a daily basis for Series 85, 86 & 87C. The Remarketing Agent for such bonds will determine the interest rate borne by the bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement *(SBPA)*. Under the SBPA, Dexia Credit Local, will commit to purchase any Series 83, 84, 85, 86, and 87C unremarketed bonds, subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2007. If a tender advance did occur, it would accrue interest at the bank's base rate *(either a prime lending rate or the federal funds rate plus ½ of 1%, whichever is higher*) for the time period up to 91 days; at the bank's base rate plus 1% for the time period covering 92 days up to the day before the end of the purchase commitment period; at the bank's base rate plus 2% for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 2.5%. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off 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 or indexed rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

The bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 34 days of accrued interest calculated at a rate of 12 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of the bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. As of June 30, 2007, the Department is required to pay a yearly commitment fee, which is payable quarterly in arrears, at a rate of .0925 percent per annum, applied to the purchase commitment defined above.

The present purchase commitment by the bank will generally remain in effect to the earlier of *(a)* December 31, 2013 *(scheduled termination date)*, unless extended at the option of the bank; (b) the date in which all of the applicable bonds are no longer outstanding; *(c)* the business day prior to the conversion of all or a portion of the applicable bonds to a fixed or indexed interest rate; (*d)* 30 days following the Department's receipt from the bank of a notice to terminate its purchase commitment arising from an event of default; *(e)* the business day prior to the effective date of delivery of a substitute alternative liquidity facility; (f) the date on which the purchase commitment with respect to the applicable bonds has been terminated in accordance with the SBPA; and (g) upon the effective date of an occurrence of a special event of default.

8. SHORT TERM DEBT

The Department entered into a revolving line of credit agreement on December 29, 2006 to help preserve certain refunding opportunities that may be used to finance veterans' housing loans. The revolving line of credit is with KeyBank National Association and interest rates on draws are based on a LIBOR index *(London InterBank Offered Rate)* or the bank's prime rate. Draws on the revolving line of credit are used to refund certain bonds. A subsequent long term bond issue then refunds the draws. The borrowing limit on the revolving line of credit cannot exceed $45 million. As of June 30, 2007, the Department had an outstanding balance of $30,835,000 from its revolving line of credit.

Beginning Balance	Issued	Repaid	Ending Balance
$ 1,000,000	$ 41,865,000	$ 12,030,000	$ 30,835,000

9. INTERFUND TRANSACTIONS

At June 30, 2007, the Veterans' Loan Program had outstanding interfund receivables of $73,850, which consisted of $55,909 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $17,941 due from the Department's Conservatorship Trust Fund. The balances are shown as a "Due from Other Funds" on the Statement of Net Assets.

At June 30, 2006, the Veterans' Loan Program had outstanding interfund receivables of $138,755, which consisted of $119,104 due from the Veterans' Home Program for services performed by department employees related to the operation of the Oregon Veterans' Home and $19,651 due from the Department's Conservatorship Trust Fund.

10. EMPLOYEE RETIREMENT PLAN

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003 become part of OPSRP, unless membership was previously established in the Oregon Public Employee's Retirement System (PERS). OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Beginning January 1, 2004, PERS member contributions were deposited into the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions will be deposited in the member's IAP account, not into the member's PERS account. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from Fiscal Services Division, PERS, PO Box 23700, Tigard, Oregon 97281-3700.

Oregon Public Employee's Retirement System (PERS)
The Department's employees who were plan members before August 29, 2003 participate in the Oregon Public Employee's Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board

under the guidelines of Oregon Revised Statutes, chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from several retirement benefit options. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2007 was 8.69 percent. Employer contributions for the years ending June 30, 2007, 2006, and 2005 were $310,340, $295,696 and $162,536, respectively, equal to the required contributions for each year.

Oregon Public Service Retirement Plan (OPSRP)
The Pension Program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of Oregon Public Service retirement Plan (OPSRP). The Pension Program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. The Pension Program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than $200, or the monthly death benefit payable to the beneficiary of a deceased member is less than $200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS (the agency). Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for fiscal year 2007 was 4.43 percent. Employer contributions for the year ending June 30, 2007 and 2006 were $158,206 and $150,740, respectively, equal to the required contributions for each year.

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. State agencies currently pay the 6.0 percent member contribution for their employees. Employer contributions for the years ending June 30, 2007 and 2006 were $214,274 and $204,163 respectively, equal to the required contributions for each year.

11. LEASE COMMITMENT AND RECEIVABLES

The Department leases office space to state agency tenants at its headquarters in Salem. For the fiscal year ended June 30, 2007, the total rental income received from tenants was $666,243. Effective July 1, 2007, renewed lease agreements became effective with each of the four tenants, with no change in the lease payment. One lease term will expire December 31, 2007. A lease with a second tenant will expire February 29, 2008. Two additional leases will expire June 30, 2009. The total future rental income for all four leases is $1,072,761. Future rental income may increase to a higher rental rate due to inflation. The approximate historical cost of this office space is $2,186,054 with a carrying value of $1,267,739 *(historical cost less accumulated depreciation of $918,315)*.

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 years ended June 30, 2007 and June 30, 2006 there has been no significant reductions in insurance coverage in any risk category. Also, for the past six fiscal years *(July 1, 2000 through June 30, 2006)* there have been no claims that exceeded the Department's property or liability coverage.

13. ALLOWANCES IN PROPRIETARY FUND VETERANS' HOME PROGRAM

Revenues in the Veterans' Home Program are reported net of discounts and allowances in the accompanying financial statements. The amounts netted against Resident Related Revenues are $59,460 for fiscal year 2007 and $118,200 for fiscal year 2006.

14. SUBSEQUENT EVENTS

The following subsequent event occurred after June 30, 2007:

On September 20, 2007, the Department issued the following general obligation bonds:

Series 88A	$9,650,000
Series 88B	$30,000,000
Series 89A	$10,365,000
Series 89B	$10,000,000

On September 27, 2007, the Department made a principal payment of $29,835,000 on the revolving line of credit.

On October 1, 2007, the Department called the following general obligation bonds:

	Amount Called
Series 77	$1,365,000
Series 78B	$1,160,000
Series 79A	$825,000
Series 80A	$1,015,000

On December 1, 2007, the Department called the following general obligation bonds:

	Amount Called
Series 82	$5,420,000

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OTHER SUPPLEMENTAL SECTION

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Governmental Funds

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

Special Revenue Funds
Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Veterans' Trust Accounts - The Department accepts donations that can be used to operate the Oregon Veterans' Home in Wasco County, Oregon, and to provide its residents with amenities to enhance their quality of life. The fund is composed of donations and interest earnings. In addition, the Department maintains other veteran-related trust accounts.

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007 and JUNE 30, 2006

	General Fund		Special Revenue Fund Veterans' Home Trust	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ -	$ -	$ 880,527	$ 591,656
Securities Lending Cash Collateral	-	-	323,456	75,381
Receivables:				
Due from State General Fund	602,397	462,450	-	-
Due from Other Funds	-	-	1,453	3,512
Prepaid Items	329	103	-	-
Total Current Assets	602,726	462,553	1,205,436	670,549
TOTAL ASSETS	$ 602,726	$ 462,553	$ 1,205,436	$ 670,549
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 602,397	$ 462,450	$ -	$ -
Obligations under Securities Lending	-	-	323,456	75,381
Total Current Liabilities	602,397	462,450	323,456	75,381
TOTAL LIABILITIES	$ 602,397	$ 462,450	$ 323,456	$ 75,381
FUND BALANCES				
Reserved for Prepaid Items	$ 329	$ 103	$ -	$ -
Unreserved, Undesignated Fund Balance	-	-	881,980	595,168
TOTAL FUND BALANCES	$ 329	$ 103	$ 881,980	$ 595,168
TOTAL LIABILITIES AND FUND BALANCES	$ 602,726	$ 462,553	$ 1,205,436	$ 670,549

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
$ 87,273	$ 94,049	$ 967,800	$ 685,705
32,076	11,970	355,532	87,351
-	-	602,397	462,450
-	-	1,453	3,512
-	-	329	103
119,349	106,019	1,927,511	1,239,121
$ 119,349	$ 106,019	$ 1,927,511	$ 1,239,121
$ -	$ -	$ 602,397	$ 462,450
32,076	11,970	355,532	87,351
32,076	11,970	957,929	549,801
$ 32,076	$ 11,970	$ 957,929	$ 549,801
$ -	$ -	$ 329	$ 103
87,273	94,049	969,253	689,217
$ 87,273	$ 94,049	$ 969,582	$ 689,320
$ 119,349	$ 106,019	$ 1,927,511	$ 1,239,121

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMBINED STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and JUNE 30, 2006

	General Fund		**Special Revenue Fund**	
			Veterans' Home Trust	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenues				
Donations	$ -	$ -	$ 254,338	$ 124,966
Interest Income	-	-	47,828	25,271
Total Revenues	-	-	302,166	150,237
Expenditures				
Veterans' Services				
Personal Services	657,960	647,660	-	-
Services and Supplies	236,331	58,531	-	16,794
Dues and Subscriptions	-	-	-	726
Securities Lending Investment Expense	-	-	-	5,505
Other Professional Services	-	-	10,881	3,561
State Treasury Charges	-	-	-	-
Trust Fund Grants	-	-	-	-
Special Payments	2,060,308	1,894,537	-	-
Total Expenditures	2,954,599	2,600,728	10,881	26,586
Other Financing Sources (Uses)				
State Appropriations	2,954,599	2,600,728	-	-
Operating Transfer In from DMV	-	-	20,551	19,172
Operating Transfer Out to Veterans Home	-	-	(25,024)	(25,483)
Operating Transfer Out Intra-fund	-	-	-	-
Total Other Financing Sources (Uses)	2,954,599	2,600,728	(4,473)	(6,311)
Net Change in Fund Balance	-	-	286,812	117,340
Beginning Fund Balance	103	270	595,168	477,828
Change in Reserve for Prepaid Items	226	(167)	-	-
Ending Fund Balance	$ 329	$ 103	$ 881,980	$ 595,168

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
$ 200	$ 500	$ 254,538	$ 125,466
5,925	4,621	53,753	29,892
6,125	5,121	308,291	155,358
-	-	657,960	647,660
-	-	236,331	75,325
-	-	-	726
-	-	-	5,505
1,348	651	12,229	4,212
121	121	121	121
11,432	14,260	11,432	14,260
-	-	2,060,308	1,894,537
12,901	15,032	2,978,381	2,642,346
-	-	2,954,599	2,600,728
-	-	20,551	19,172
-	-	(25,024)	(25,483)
-	(3,261)	-	(3,261)
-	(3,261)	2,950,126	2,591,156
(6,776)	(13,172)	280,036	104,168
94,049	107,221	689,320	585,319
-	-	226	(167)
$ 87,273	$ 94,049	$ 969,582	$ 689,320

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
SCHEDULE OF LEGISLATIVE AUTHORIZATION (NON-GAAP BUDGETARY BASIS)
COMPARED TO ACTUAL EXPENDITURES SUBJECT TO BUDGET
GOVERNMENTAL FUND
FOR THE BIENNIUM ENDING JUNE 30, 2007

	General Fund				
	2005-2007 Original Budget	2005-2007 Final Budget	First Year Actual June 30, 2006	Second Year Actual June 30, 2007	Variance Favorable/ (Unfavorable)
General Fund:					
Veterans' Services Division - Appropriation	$ 6,320,178	$ 6,385,313	$ 2,592,795	$ 2,957,611	$ 834,907
Total General Fund	$ 6,320,178	$ 6,385,313	$ 2,592,795	$ 2,957,611	$ 834,907

Fiduciary Fund

Private Purpose Trust Fund

Private Purpose Trust Funds, a type of Fiduciary Fund, account for trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Conservatorship Private Purpose Trust Fund - The Department acts as conservator of estates of approximately 186 veterans, survivors, and minor or helpless children of veterans who the court has determined are unable to manage their own financial affairs. Revenue sources include Social Security monies, U.S. Department of Veterans' Affairs benefits, investment income, and other sources of income.

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND

JUNE 30, 2007 and JUNE 30, 2006

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2007	June 30, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 22,613,347	$ 21,930,882
Investments	1,471,676	1,515,437
Security Lending Cash Collateral	8,470,052	2,850,927
Receivables:		
Accrued Interest	97,170	87,748
Other	6,375	5,550
Total Current Assets	32,658,620	26,390,544
Noncurrent Assets		
Contract Receivables	45,163	45,163
Conservatorship Real Property	3,317,776	3,397,982
Conservatorship Personal Property	346,873	350,818
Total Noncurrent Assets	3,709,812	3,793,963
TOTAL ASSETS	$ 36,368,432	$ 30,184,507
LIABILITIES		
Current Liabilities		
Due to Other Funds	$ 17,941	$ 19,651
Obligations under Securities Lending	8,470,052	2,850,927
Total Current Liabilities	8,487,993	2,870,578
Noncurrent Liabilities		
Mortgages on Conservatorship Real Property	1,899,250	1,763,350
Total Noncurrent Liabilities	1,899,250	1,763,350
TOTAL LIABILITIES	10,387,243	4,633,928
NET ASSETS		
Net Assets Held in Trust for Individuals	25,981,189	25,550,579
TOTAL NET ASSETS	$ 25,981,189	$ 25,550,579

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT OF CHANGES IN

FIDUCIARY NET ASSETS

FIDUCIARY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and JUNE 30, 2006

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2007	June 30, 2006
ADDITIONS		
Contributions:		
Veterans' Benefits	$ 7,283,067	$ 7,221,851
Investment Income:		
Interest Income	1,503,271	1,039,932
Valuation Changes and Redemptions of Investments	(191,683)	(136,694)
TOTAL ADDITIONS	$ 8,594,655	$ 8,125,089
DEDUCTIONS		
Veterans' Services: Beneficiary Care	$ 7,822,040	$ 9,355,268
Securities Lending Investment Expense	342,005	146,530
TOTAL DEDUCTIONS	8,164,045	9,501,798
Net Increase/ (Decrease)	430,610	(1,376,709)
CHANGE IN NET ASSETS	430,610	(1,376,709)
BEGINNING NET ASSETS	25,550,579	26,927,288
ENDING NET ASSETS	$ 25,981,189	$ 25,550,579

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STATISTICAL SECTION

UNAUDITED

STATE OF OREGON

DEPARTMENT OF VETERANS' AFFAIRS

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND - VETERANS' LOAN PROGRAM only

FOR THE FISCAL YEARS ENDED 1998 - 2007

	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
OPERATING REVENUES				
Mortgage Loan Interest Income	$ 17,526,662	$ 17,561,219	$ 21,225,116	$ 26,789,783
Contract Interest Income	593,760	806,376	1,188,374	1,698,531
Investment Income *(2)*	37,683,095	28,209,288	18,013,534	13,338,726
Gain on Sale of Foreclosed Property	-	7,551	139,199	493,409
Loan Cancellation Life Insurance Premiums *(3)*	1,626,287	1,962,357	2,523,140	2,704,444
Loan Cancellation Life Insurance Processing Fees	180,000	180,000	220,834	425,004
Other Fees and Charges	2,131,847	1,941,079	947,834	939,950
Conservatorship Fees	333,974	354,808	334,340	345,750
TOTAL OPERATING REVENUES	$ 60,075,625	$ 51,022,678	$ 44,592,371	$ 46,735,597
OPERATING EXPENSES				
Bond Interest Expense	$ 34,581,972	$ 35,121,631	$ 37,103,554	$ 44,537,191
Interest on Taxable Line of Credit	279,906	525,600	159,267	-
Salaries and Other Payroll Expenses	5,445,234	5,239,879	4,793,870	5,875,969
Bond Expenses	1,051,433	1,129,971	1,324,123	1,155,355
Securities Lending Investment Expense	6,266,412	2,910,155	2,199,165	1,899,175
Real Estate Owned Expense	2,267	9,485	47,490	52,526
Services and Supplies	2,133,903	2,174,420	1,776,839	2,140,262
Claims Expense - Loan Cancellation Life Insurance *(3)*	2,717,581	2,952,064	4,637,009	4,927,874
Depreciation Expense	156,656	255,626	359,441	408,883
Bad Debt Expense	(545,135)	(918,401)	(1,104,080)	(1,656,784)
Special Payments	-	-	-	-
Other Expenses	645,158	332,471	170,187	-
TOTAL OPERATING EXPENSES	$ 52,735,387	$ 49,732,901	$ 51,466,865	$ 59,340,451
OPERATING INCOME (LOSS)	$ 7,340,238	$ 1,289,777	$ (6,874,494)	$ (12,604,854)
Extraordinary Items and Transfers:				
Net Transfers to Dept. of Administrative Services	$ (5,567)	$ -	$ -	$ -
Gain/(Loss) on Early Extinguishment of Debt	(530,499)	-	-	-
Gain from Litigation	-	-	-	-
CHANGE IN NET ASSETS	$ 6,804,172	$ 1,289,777	$ (6,874,494)	$ (12,604,854)
NET ASSETS				
Beginning Net Assets *(1)*	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 121,165,110	$ 119,875,333	$ 126,749,827	$ 139,354,681
Ending Net Assets	$ 127,969,282	$ 121,165,110	$ 119,875,333	$ 126,749,827

(1) Prior to the fiscal year ended June 30, 2002, the term "Retained Earnings" was used. It has the same meaning as "Net Assets."

(2) Investment income includes change in fair value, as required by GASB Statement 31, beginning in the fiscal year ending June 30, 1998. Gain or loss on sale of investments is not reported under GASB Statement 31.

(3) Starting in fiscal year 2003, the Department included the activity of the Loan Cancellation Life Insurance program in the Statement of Revenues, Expenses, And Changes In Fund Net Assets.

June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999	June 30, 1998
$ 36,742,510	$ 43,749,526	$ 50,861,579	$ 57,259,424	$ 68,967,805	$ 84,739,050
2,535,147	3,522,372	4,562,401	5,648,408	7,603,132	10,413,658
24,675,139	35,956,850	57,521,901	38,492,961	48,834,865	80,184,016
39,121	172,472	9,052	16,892	32,324	106,330
3,642,487	-	-	-	-	-
425,004	425,004	425,004	399,937	327,540	433,763
1,189,691	1,447,451	1,342,762	1,402,798	1,055,894	932,092
364,510	338,136	353,417	345,554	322,973	334,784
$ 69,613,609	$ 85,611,811	$ 115,076,116	$ 103,565,974	$ 127,144,533	$ 177,143,693
$ 58,066,877	$ 68,560,732	$ 85,455,556	$ 93,957,700	$ 117,276,619	$ 153,677,775
7,500	580,883	-	-	-	-
6,838,554	6,974,557	6,932,307	6,886,703	6,829,801	6,952,431
909,379	868,243	925,722	819,421	952,673	1,478,508
630,893	522,316	1,156,100	2,006,704	1,607,492	1,588,540
80,757	73,308	57,863	42,230	49,096	50,806
2,958,497	2,480,268	2,741,678	2,679,295	3,055,525	3,473,771
5,121,239	-	-	-	-	-
431,391	538,555	453,159	360,840	317,751	338,820
(1,744,700)	(906,906)	(1,078,111)	(1,227,068)	(3,346,273)	(2,934,825)
51,000	-	-	-	-	-
210,232	180,045	74,888	42,749	42,477	53,475
$ 73,561,619	$ 79,872,001	$ 96,719,162	$ 105,568,574	$ 126,785,161	$ 164,679,301
$ (3,948,010)	$ 5,739,810	$ 18,356,954	$ (2,002,600)	$ 359,372	$ 12,464,392
$ -	$ -	$ -	$ -	$ -	$ -
-	-	(17,231)	(11,888)	(12,271,433)	(3,870,466)
-	-	-	-	654,385	-
$ (3,948,010)	$ 5,739,810	$ 18,339,723	$ (2,014,488)	$ (11,257,676)	$ 8,593,926
$ 143,302,691	$ 94,931,080	$ 76,591,357	$ 78,605,845	$ 89,863,521	$ 78,681,347
-	42,556,801	-	-	-	-
-	75,000	-	-	-	2,588,248
$ 143,302,691	$ 137,562,881	$ 76,591,357	$ 78,605,845	$ 89,863,521	$ 81,269,595
$ 139,354,681	$ 143,302,691	$ 94,931,080	$ 76,591,357	$ 78,605,845	$ 89,863,521

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND - VETERANS' HOME PROGRAM only
FOR THE FISCAL YEARS ENDED 1998 - 2007

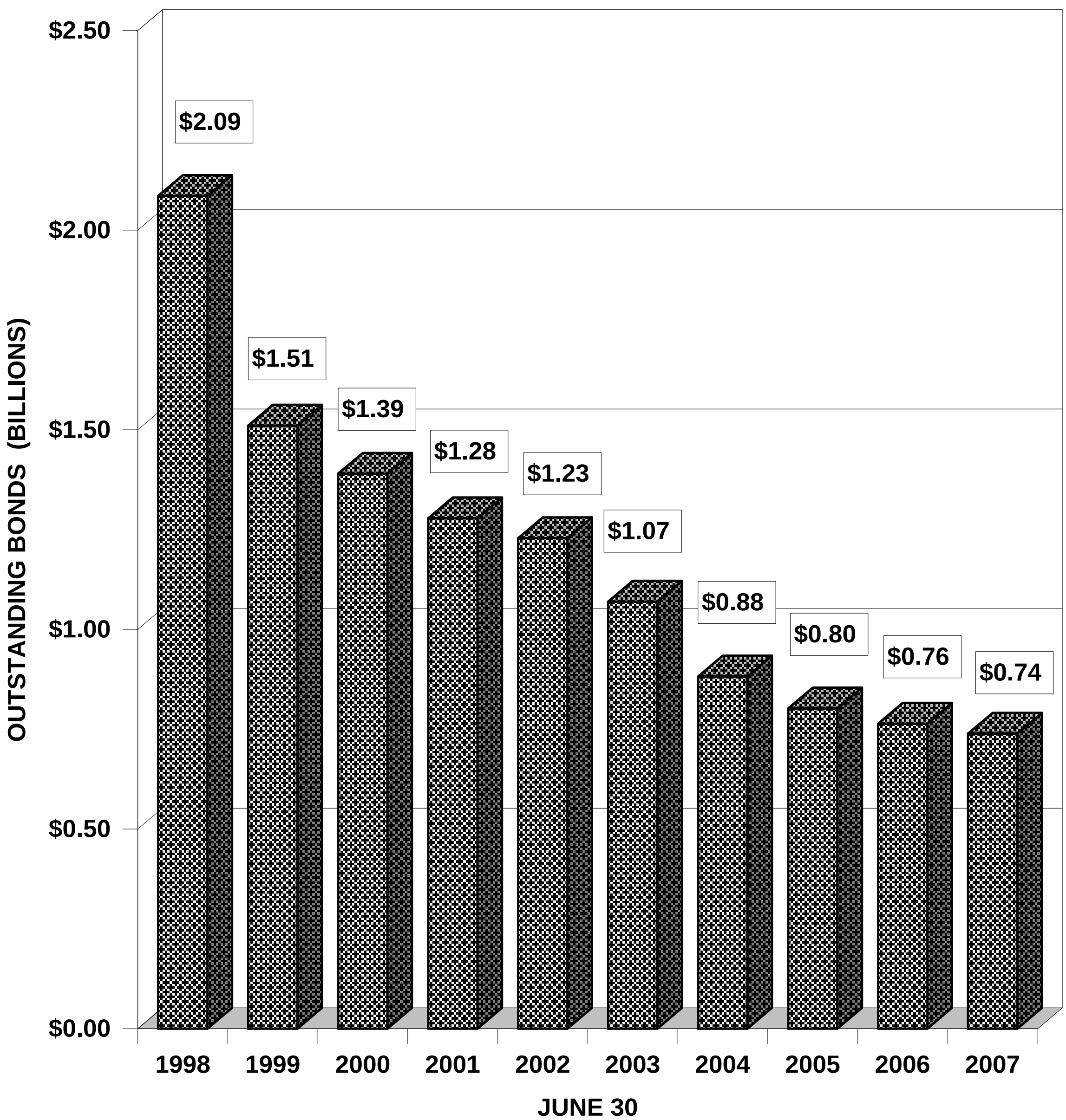
	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
OPERATING REVENUES				
Investment Income	$ 57,064	$ 73,604	$ 24,217	$ 8,390
Resident Revenue (Net)	10,223,934	9,809,017	8,674,907	6,157,225
Other Fees and Charges	2,066	1,946	2,825	2,134
TOTAL OPERATING REVENUES	$ 10,283,064	$ 9,884,567	$ 8,701,949	$ 6,167,749
OPERATING EXPENSES				
Salaries and Other Payroll Expenses	$ 98,888	$ 80,684	$ 512,025	$ 213,063
Securities Lending Investment Expense	12,974	10,346	4,349	1,846
Services and Supplies	583,527	157,869	208,319	107,766
Veterans' Home Operations	9,632,303	9,120,185	7,596,750	6,181,784
Depreciation Expense	288,852	289,619	287,472	288,918
TOTAL OPERATING EXPENSES	$ 10,616,544	$ 9,658,703	$ 8,608,915	$ 6,793,377
OPERATING INCOME (LOSS)	$ (333,480)	$ 225,864	$ 93,034	$ (625,628)
Contributions and Transfers:				
Net Transfers from Veterans' Home Trust Fund	$ 25,024	$ 25,483	$ 71,091	$ 298,257
Capital Contributions	-	16,794	7,250	9,000
CHANGE IN NET ASSETS	$ (308,456)	$ 268,141	$ 171,375	$ (318,371)
NET ASSETS				
Beginning Net Assets	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427
Prior Period Adjustment	-	-	-	-
Cumulative Effect of Change in Accounting Principle	-	-	-	-
Beginning Net Assets, Restated	$ 11,883,572	$ 11,615,431	$ 11,444,056	$ 11,762,427
Net Contributed Construction Capital	-	-	-	-
Ending Net Assets	$ 11,575,116	$ 11,883,572	$ 11,615,431	$ 11,444,056

Note: Resident Revenue is shown net of any related bad debt expense.

June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999	June 30, 1998
$ 8,487	$ 13,983	$ 38,155	$ 23,186	$ 5,071	$ 48,778
5,043,010	5,465,696	5,194,921	4,557,751	3,515,679	525,972
-	-	23,828	-	45	-
$ 5,051,497	$ 5,479,679	$ 5,256,904	$ 4,580,937	$ 3,520,795	$ 574,750
$ 205,262	$ 218,460	$ 203,790	$ 181,504	$ 144,965	$ 105,910
654	590	1,917	1,969	344	4,846
134,843	54,645	313,874	180,485	162,834	1,059,288
4,732,459	5,238,567	4,773,004	3,945,157	3,088,796	1,086,621
353,480	331,368	329,069	329,069	329,069	207,848
$ 5,426,698	$ 5,843,630	$ 5,621,654	$ 4,638,184	$ 3,726,008	$ 2,464,513
$ (375,201)	$ (363,951)	$ (364,750)	$ (57,247)	$ (205,213)	$ (1,889,763)
$ 17,709	$ 1,380	$ 16,503	$ 14,798	$ 9,960	$ 28,218
-	-	-	-	-	-
$ (357,492)	$ (362,571)	$ (348,247)	$ (42,449)	$ (195,253)	$ (1,861,545)
$ 12,114,469	$ 11,873,382	$ 12,102,071	$ 12,111,240	$ 12,195,253	$ 12,719,647
5,450	563,658	-	-	-	-
-	40,000	-	-	-	-
$ 12,119,919	$ 12,477,040	$ 12,102,071	$ 12,111,240	$ 12,195,253	$ 12,719,647
-	-	119,558	33,280	111,240	1,337,151
$ 11,762,427	$ 12,114,469	$ 11,873,382	$ 12,102,071	$ 12,111,240	$ 12,195,253

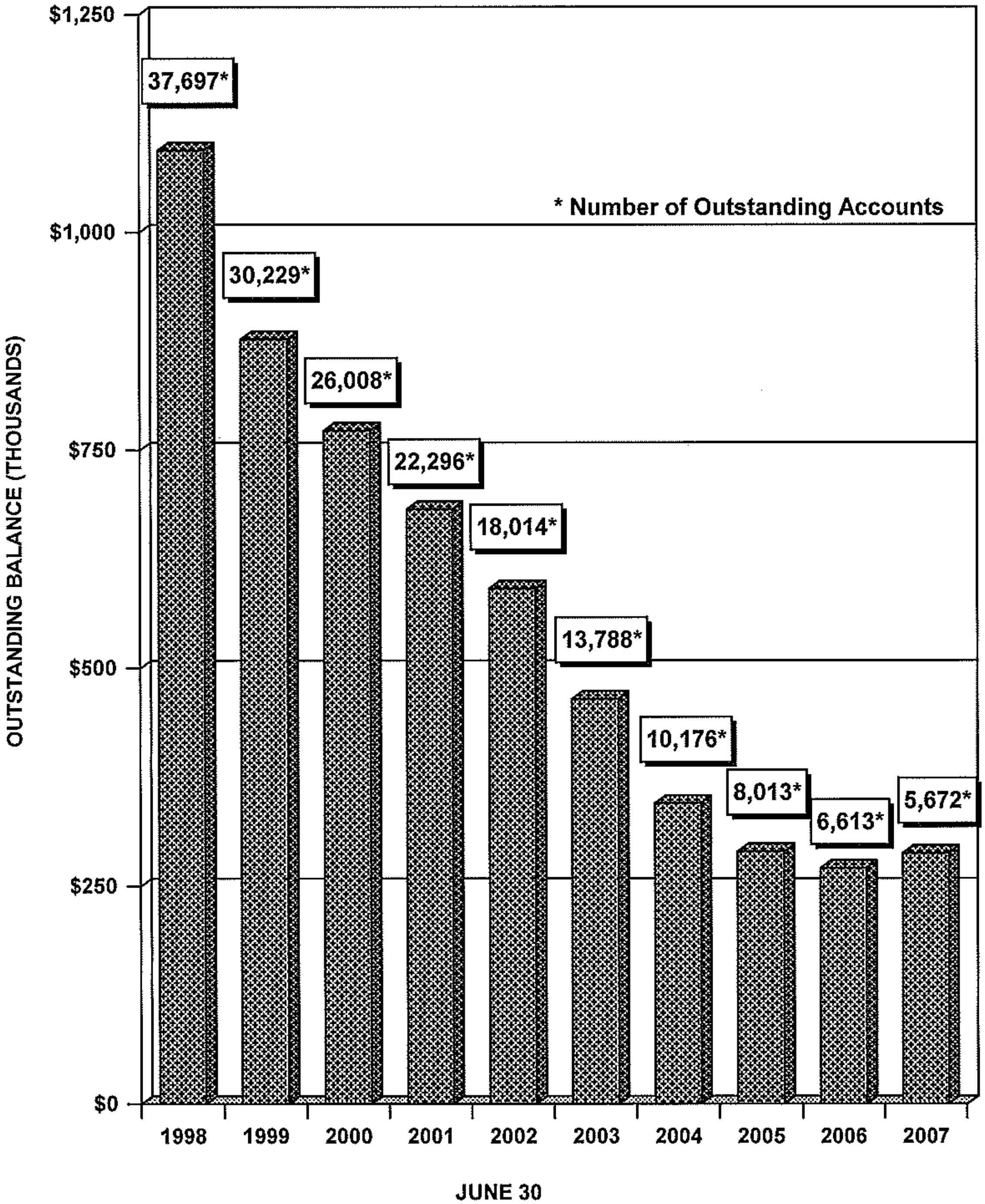
UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

COMPARATIVE SUMMARY OF BONDS OUTSTANDING



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

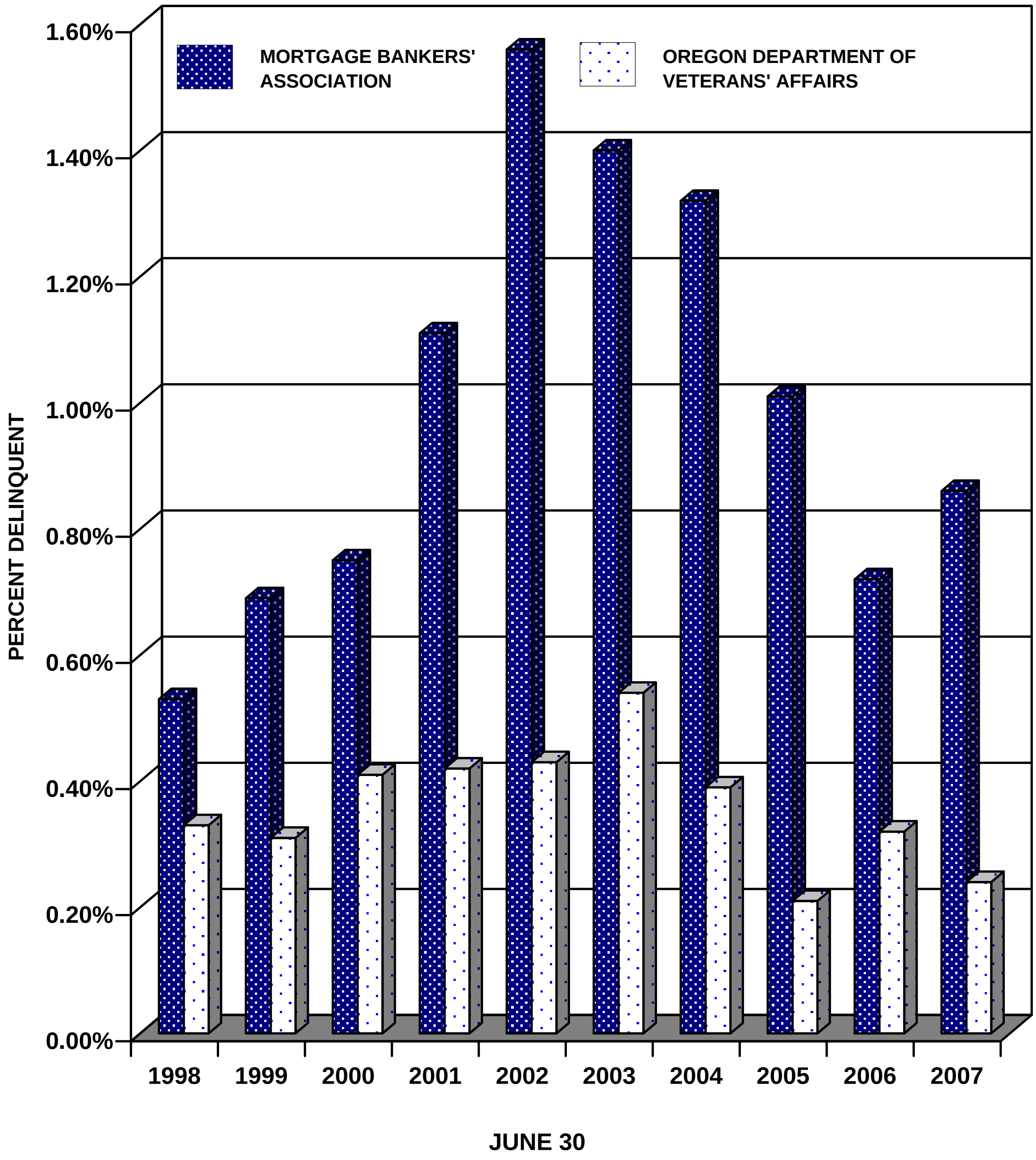
UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
COMPARATIVE SUMMARY OF LOANS AND CONTRACTS
OUTSTANDING



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

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

COMPARATIVE SUMMARY OF 90+ DAY DELINQUENCIES



Sources: National Delinquency Survey (Oregon, All Loans) - Mortgage Bankers Association and the Oregon Department of Veterans' Affairs. 90+ Day Delinquencies includes past due loans and loans in foreclosure.

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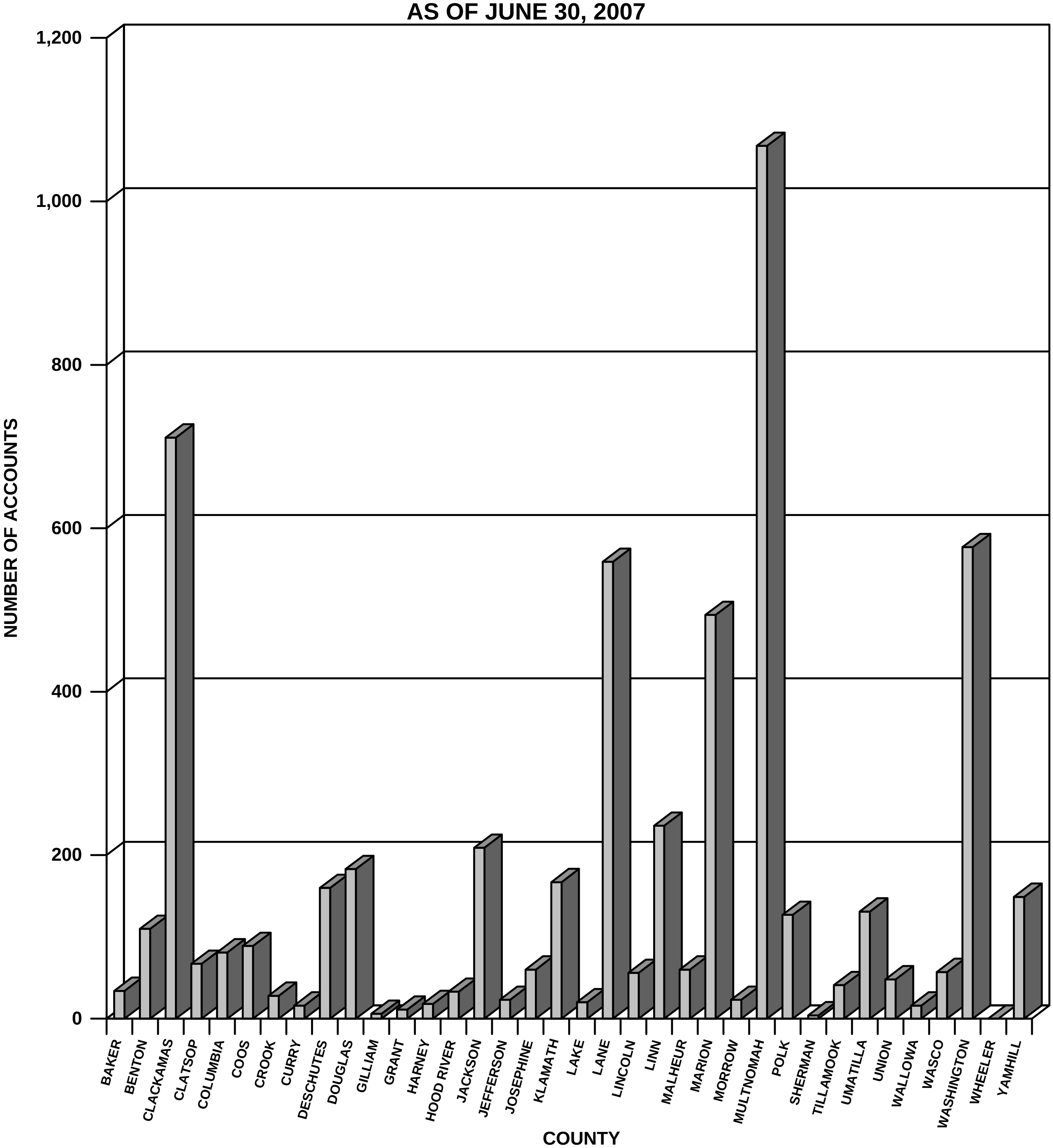
OREGON DEPARTMENT OF VETERANS' AFFAIRS

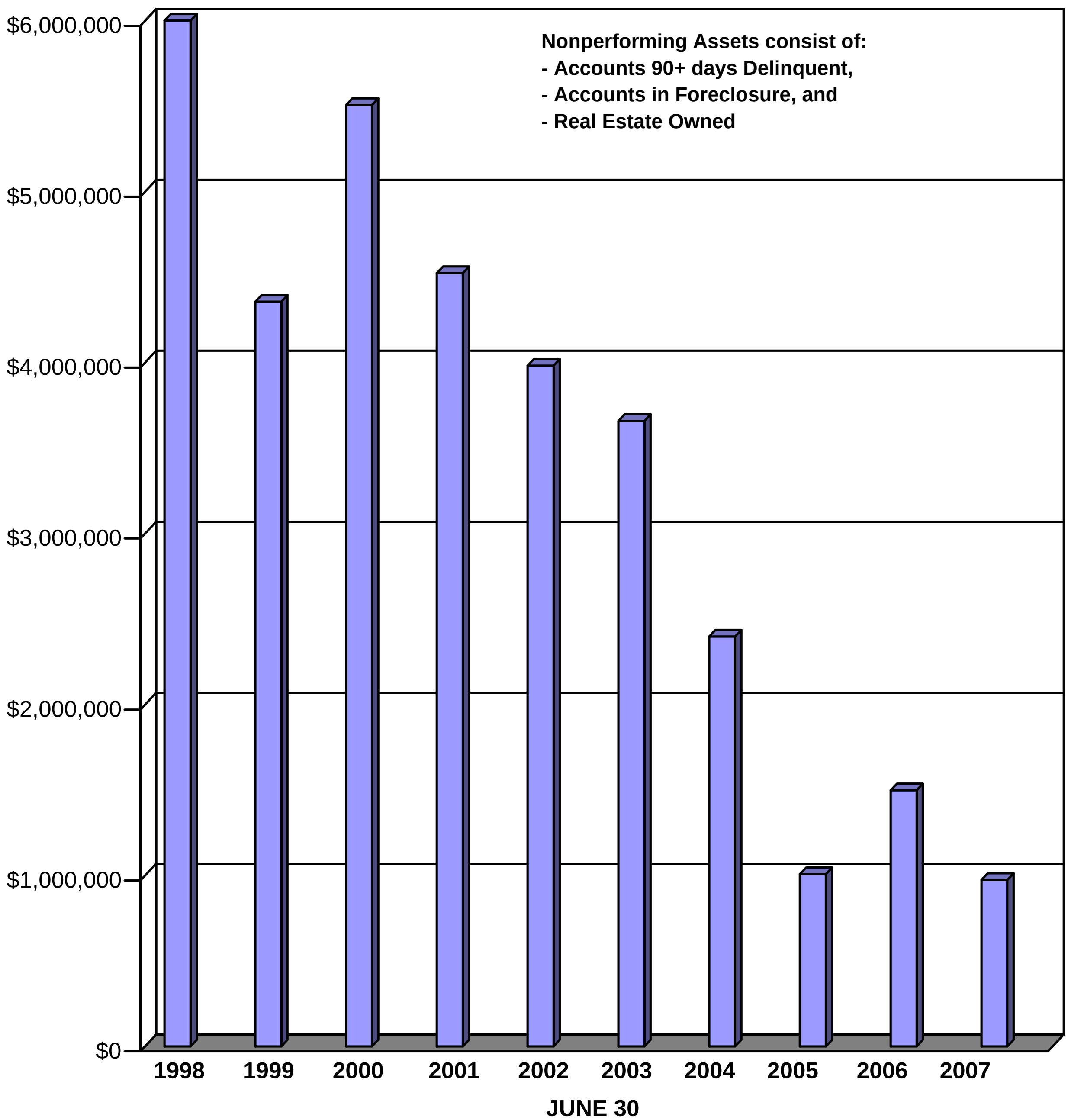
OUTSTANDING LOAN AND CONTRACT ACCOUNTS BY COUNTY
AS OF JUNE 30, 2007



Source: Oregon Department of Veterans' Affairs.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

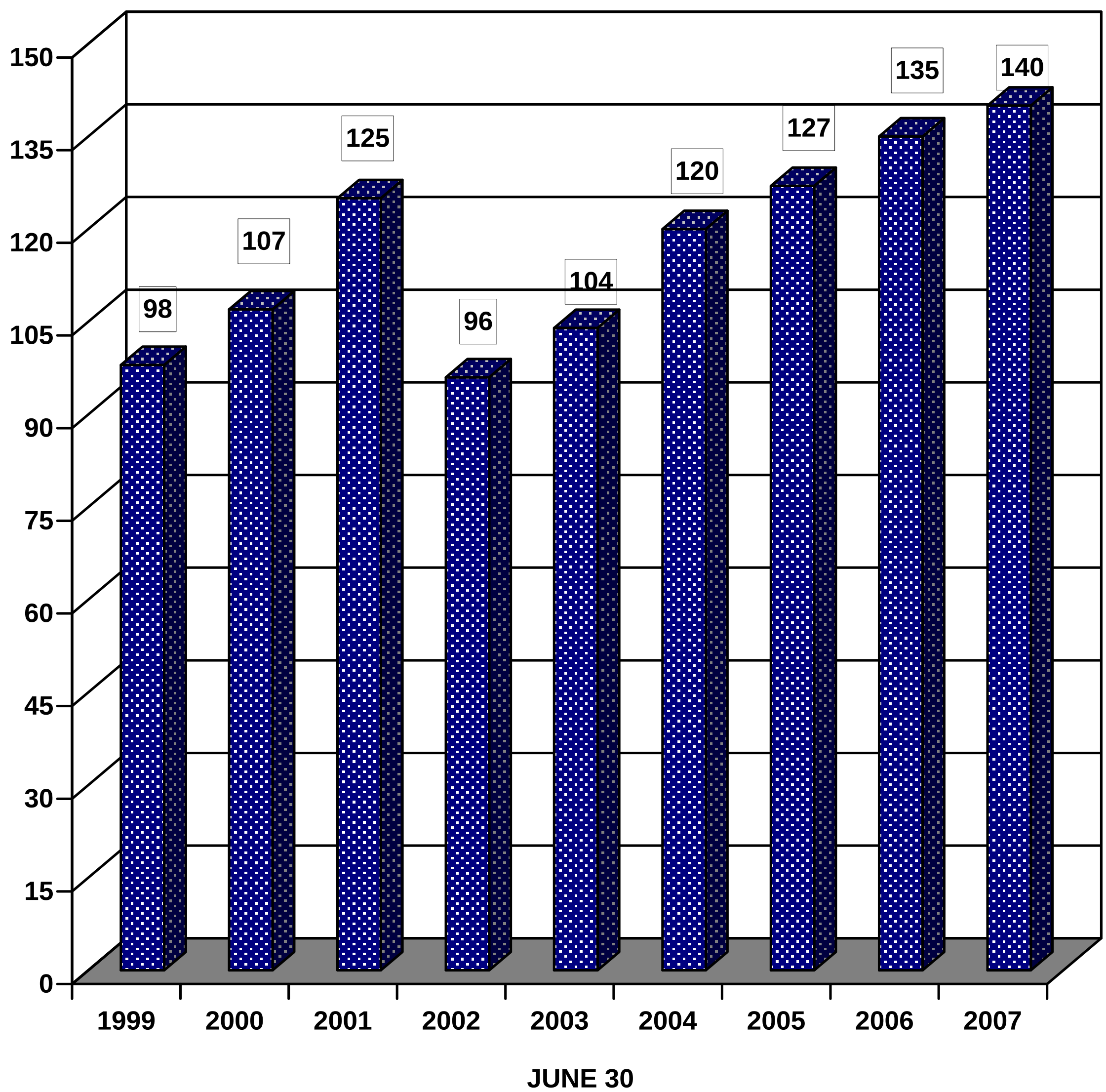
COMPARATIVE SUMMARY OF NONPERFORMING ASSETS



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

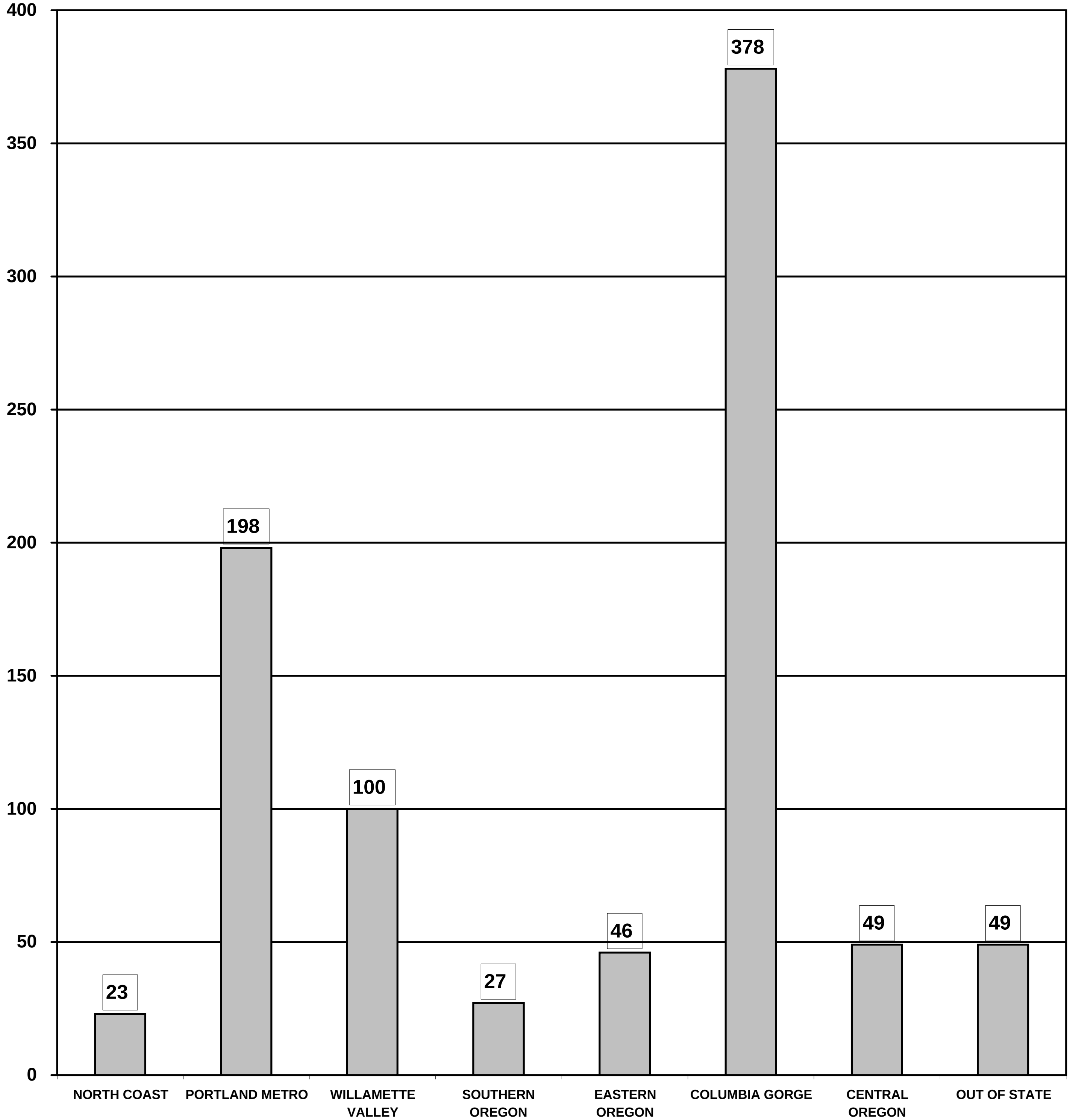
UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS

RESIDENT CENSUS AT THE OREGON VETERANS' HOME



Source: Oregon Department of Veterans' Affairs.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
CUMULATIVE RESIDENT ADMISSIONS BY GEOGRAPHIC AREA
NOVEMBER 1, 1997 THROUGH JUNE 30, 2007



Source: Oregon Department of Veterans' Affairs.

OTHER REPORTS

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA

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 Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

Jim Willis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97301-1285

We have audited the accompanying financial statements of the enterprise funds for the State of Oregon, Department of Veterans' Affairs (Department), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon Department of Veterans' Affairs' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oregon Department of Veterans' Affairs' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Merina & Company, LLP

Merina & Company, LLP
West Linn, Oregon
December 14, 2007