



VETERANS' HOME PROGRAM ANNUAL FINANCIAL REPORT

ENTERPRISE FUNDS FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012



OREGON DEPARTMENT OF VETERANS' AFFAIRS

An Agency of the State of Oregon

Annual Financial Report

Veterans' Home Program

Enterprise Funds of the Oregon Department of Veterans' Affairs

An Agency of the State of Oregon

**For The Fiscal Years Ended
June 30, 2013 and June 30, 2012**



Cameron Smith
Director

Bruce Shriver, CPA
Chief Financial Officer

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With the assistance of the
Financial Services Division,
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INTRODUCTORY SECTION



Oregon

John A. Kitzhaber, MD, Governor

Department of Veterans' Affairs

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October 31, 2013

To the Honorable Governor John A. Kitzhaber, M.D. and Citizens of the State of Oregon:

We are pleased to provide you with the Annual Financial Report of the Oregon Department of Veterans' Affairs (*the "Department"*) Home Program Enterprise fund, for the fiscal years ended June 30, 2013, and June 30, 2012.

This report is organized and presented in five sections. The **Introductory Section** includes this transmittal letter and an organizational chart. The **Financial Section** includes the independent auditor's report, management's discussion and analysis, the financial statements and accompanying notes. The **Other Supplemental Section** includes the Department's Governmental and Fiduciary funds' financial statements for the purposes of additional analysis. The **Statistical Section** includes selected financial and programmatic information, much of which is presented on a multi-year basis. The **Other Reports** section includes the independent auditor's report on compliance and internal control over financial reporting.

Department management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Department has contracted with Merina and Company for the audit of the Department's Enterprise Fund for the years ended June 30, 2013 and June 30, 2012. Their unmodified opinion on the Enterprise Fund financial statements is included in the Financial Section of this report.

Management's discussion and analysis (*MD&A*) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

OREGON ECONOMY

Recent Trends – According to the September 2013 Oregon Economic and Revenue Forecast from the Oregon Office of Economic Analysis (OEA):

First, the good news: the economic recovery persists, with recent upward revisions to both output and job growth suggesting that the domestic economy remains on solid footing. Now, the bad news: growth continues to be lackluster, below historical averages and just strong enough to keep the economy moving in the right direction.

Much like the nation, Oregon's economy continues to improve, however, unlike the U.S., Oregon's private sector employment has accelerated in recent months. Since the labor market recovery began, Oregon's private sector jobs have been expanding at a rate just under 2 percent. Since the end of 2012, private employment growth has improved to approximately 2.5 percent. This increase is largely due to improving economies in regions of the state outside of the Portland metropolitan area. Portland's employment growth has remained steady, while the rest of the state, in particular the hardest hit areas of Bend and Medford, have stabilized and even begun adding jobs in the past year.

The recent acceleration in employment is expected to hold steady over the next two years before longer-run demographic trends weigh on growth. There is the potential for a temporary slowdown this fall as the tax law changes and sequester cuts impact underlying economic activity with a delay. However expectations overall are solidifying and our baseline economic outlook remains effectively unchanged. Furthermore, many forecasters are turning their attention more toward the quality of the recovery and the types of jobs being added and focusing less on probability of recession, which is considered lower today than a year ago.

Outlook

The improvement in the labor market largely matches the timing of our office's economic forecasts in the past year. Expectations were that at the end of 2012 or in early 2013 the employment picture would brighten as the two main economic drags in the recovery lessen and even turn to positives. These two drags being the housing market and state and local governments. New construction and housing activity continues to grow briskly, as discussed previously, while state and local governments have stabilized their employment in the past year. The outlook remains positive for both of these industries in Oregon.

On the public sector outlook, expectations are for stable employment in the coming months. There remains the potential for one more round of layoffs in local education – K-12 in particular – this coming school year, however that will not be known for two more months. Non-education employment for the state, counties and cities has stabilized and is projected to grow along with the overall population in the next few years.

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.

The **Veterans' Home Program** provides professional medical, nursing, rehabilitative, social and other support services primarily to veterans and their spouses residing in the Oregon Veterans' Home (OVH). Located in The Dalles, the OVH, which opened in November 1997, has the capacity to serve 151 residents and had occupancy of approximately 144 residents at June 30, 2013. The Department owns the OVH and as of October 1, 2008, has contracted with Veterans Care Centers of Oregon (VCCO), a non-profit organization, to provide the services needed by the residents.

During 2013, the OVH began implementing an electronic health records system. Additionally, a federal grant has been submitted to install a wandering patient management system for the memory-care unit. These upgrades will improve compliance documentation, better monitor diseases and other health risks and help ensure a more safe and secure environment for residents that also allows maximum freedom.

It is anticipated that by the Fall of 2014, the second Veterans' Home, currently being built in Linn County (Lebanon), will open. The Lebanon Home will have 154 beds and offer the same services as The Dalles Veterans' Home, however, it will be built using a "small house model". This type of design is more costly to build and operate, but provides a home-like setting for the residents.

The Oregon Department of Veterans' Affairs has also begun the grant application process with the Federal VA seeking funding for a third Veterans' Home, as authorized by Oregon Revised Statute 408.385.

FINANCIAL INFORMATION

Enterprise Fund - The Veterans' Home Program is an enterprise fund which is used to account for the Department's business-type activities.

At June 30, 2013, the Veterans' Home Program had approximately \$35 million in assets (*primarily consisting of cash and cash equivalents, securities lending cash collateral, receivables, and capital assets*) and approximately \$4.2 million in liabilities (*primarily consisting of short-term payables and obligations arising from securities lending*).

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, 2013, the Department's Home Program cash and cash equivalents (*excluding securities lending collateral*) totaled approximately \$13.2 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.

Acknowledgements - The preparation of this report reflects the combined efforts of the Department's staff. The professionalism, commitment, and effort of the individuals involved are very much appreciated.

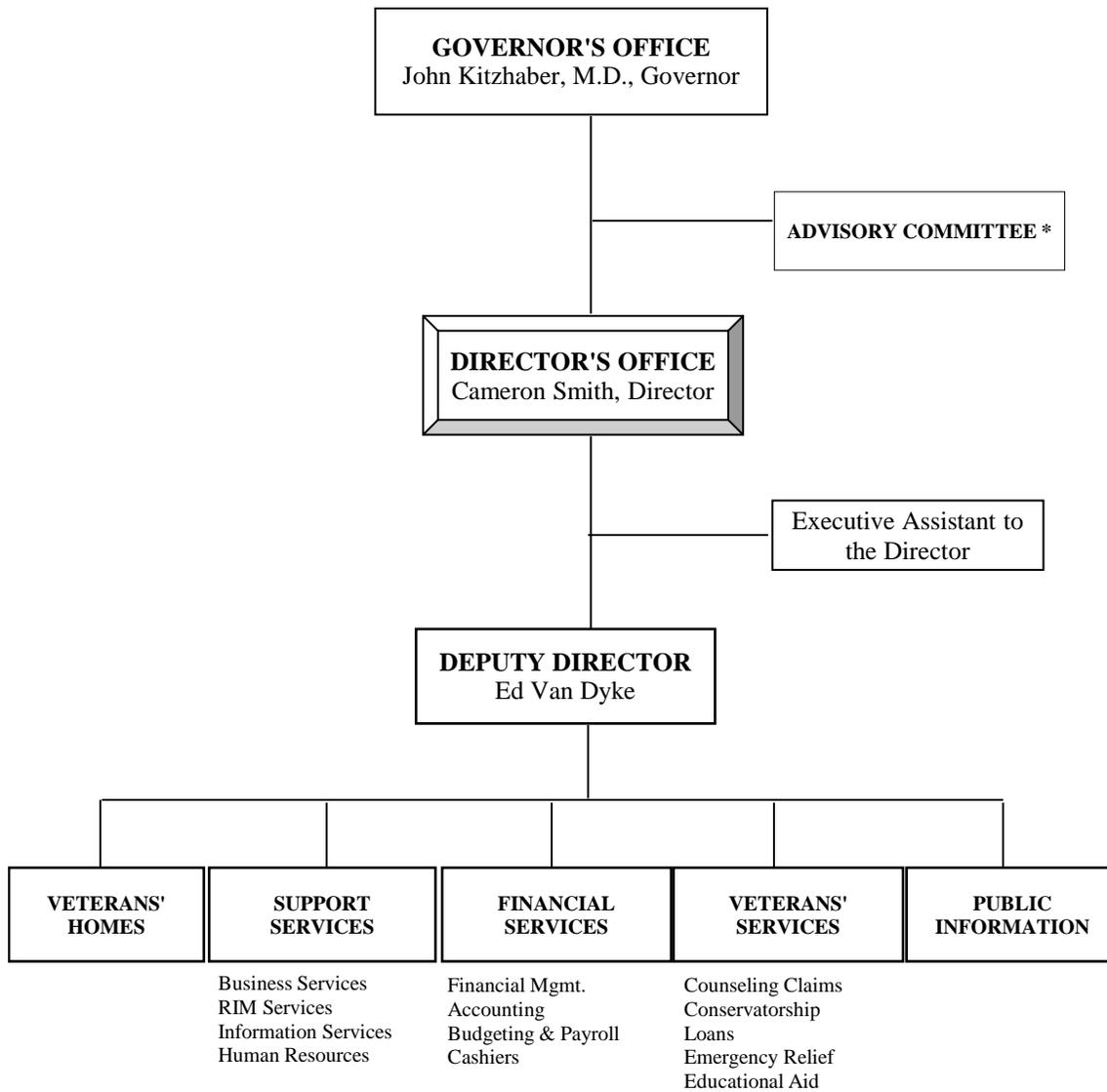
Respectfully submitted,



Cameron Smith
Director



Bruce 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.

<u>Advisory Committee Members</u>	<u>Term Expires</u>	<u>Advisory Committee Members</u>	<u>Term Expires</u>
Irv Fletcher	December 31, 2014	Trisa Kelly	April 17, 2016
Dennis Guthrie	June 30, 2016	Gerard Lorang	March 7, 2016
Al Herrera	November 30, 2015	Mary Mayer	September 14, 2015
Ryan Howell	March 7, 2016	Kevin Owens	March 7, 2016
Michael Jones	November 30, 2016		



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable John Kitzhaber
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

Cameron Smith, Director
Oregon Department of Veterans' Affairs
700 Summer St NE
Salem, Oregon 97301-1285

We have audited the accompanying financial statements of the Lebanon and The Dalles Veterans' Homes of the Oregon Department of Veterans' Affairs' Home Program, (the Home Program), as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lebanon and The Dalles Veterans' Homes of the Oregon Department of Veterans' Affairs Home Program as of June 30, 2013 and June 30, 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Lebanon and The Dalles Veterans' Homes of the Oregon Department of Veterans' Affairs Home Program and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Oregon Department of Veterans' Affairs, as of June 30, 2013 and June 30, 2012, the changes in their financial position, or, where applicable, their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Home Program adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lebanon and The Dalles Veterans' Homes of the Oregon Department of Veterans' Affairs Home Program basic financial statements. The introductory, other supplementary and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of Home Program's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Home Program's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
West Linn, Oregon
October 31, 2013

State of Oregon
OREGON DEPARTMENT of VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
Management's Discussion and Analysis

This section of the Oregon Department of Veterans' Affairs' (*the "Department"*) Home Program Annual Financial Report presents our discussion and analysis of financial performance for the Department's Proprietary Fund during the fiscal year ended June 30, 2013. The selected financial data presented was derived primarily from the financial statements of the Department, which have been audited.

FINANCIAL HIGHLIGHTS

- Net position increased from approximately \$29.6 million at June 30, 2012, to approximately \$30.9 million at June 30, 2013, an increase of \$1.3 million, or 4.60%.
- Operating revenues increased from approximately \$13.8 million at June 30, 2012, to approximately \$14.4 million at June 30, 2013, an increase of \$600 thousand, or 4.46%.
- Operating expenses increased from approximately \$12.2 million at June 30, 2012, to approximately \$13.1 million at June 30, 2013, an increase of \$900 thousand or 7.07%.
- Capital assets increased from approximately \$13.7 million on June 30, 2012, to approximately \$18.6 million on June 30, 2013, an increase of \$4.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Veterans' Home Program's basic financial statements. The basic financial statements include proprietary fund financial statements and notes to the financial statements. The Veterans' Home Program's basic financial statements do not include department-wide financial statements since only the Veterans' Home Program proprietary fund is audited within this Annual Financial Report. The Department does have a Veterans' Loan Program and a minimal portion of governmental funds that are included in the State of Oregon Comprehensive Annual Financial Report located at <http://cms.oregon.gov/DAS/CFO/SARS/Pages/publications.aspx>. The audited Annual Financial Report on the Department's Veterans' Loan Program can be located at: <http://www.oregon.gov/odva/INFO/Pages/AnnualReports.aspx>.

- The Veterans' Home Program's proprietary fund financial statements include a major enterprise fund, which operates similarly to business activities and follow an accrual basis of accounting.
- The notes to the financial statements provide additional information essential to a full understanding of the data provided in the Veterans' Home Program's proprietary fund financial statements.

OVERVIEW OF THE PROPRIETARY FUNDS FINANCIAL POSITION & OPERATIONS

Total assets at June 30, 2013 were approximately \$35.1 million, an increase of \$1.9 million from June 30, 2012. The change in assets consists primarily of \$2.8 million decrease in cash and cash equivalents, a \$1.0 million decrease in securities lending cash collateral, and a \$4.9 million increase in capital assets.

Total liabilities at June 30, 2013, were \$4.2 million, an increase of \$600 thousand from June 30, 2012. The change in liabilities consists primarily of an increase of \$1.5 million in accounts payable, and a decrease of \$1.0 million in obligations under securities lending.

The Veterans' Home Program's proprietary fund financial position and operations for the past three years are summarized below based on the information included in the basic financial statements.

**Veterans' Home Program - Proprietary Fund
Statement of Net Position**

	Business Type Activity		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current and Other Assets	\$ 16,547,414	\$ 19,535,557	\$ 20,275,743
Capital Assets	18,557,039	13,651,571	12,266,462
Total Assets	\$ 35,104,453	\$ 33,187,128	\$ 32,542,205
Liabilities:			
Long Term Liabilities	\$ 205,147	\$ 2,681	\$ 2,242
Other Liabilities	3,986,443	3,630,191	5,746,613
Total Liabilities	\$ 4,191,590	\$ 3,632,872	\$ 5,748,855
Net Position:			
Invested in Capital Assets	\$ 18,557,039	\$ 13,651,571	\$ 12,266,462
Expendable, Restricted for			
Capital Construction	\$ 5,021,418	\$ 10,028,511	\$ 10,431,646
Unrestricted	7,334,406	5,874,174	4,095,242
Total Net Position	\$ 30,912,863	\$ 29,554,256	\$ 26,793,350

Cash and Cash Equivalents and Investments

Total cash and cash equivalents decreased by approximately \$2.8 million, or 17.6%, from June 30, 2012 to June 30, 2013. The decrease reflects the Department's use of restricted cash to continue construction on the second Veterans' Home in Lebanon.

Capital Assets

Capital asset activity during the year included finalization of the Community Center at the Oregon Veterans' Home, construction in progress for the Lebanon Veterans' Home, and the purchase of additional land for the Lebanon Veterans' Home.

Accounts Payable

Accounts Payable increased by approximately \$1.5 million from June 30, 2012 to June 30, 2013. The increase is primarily due to timing, as it relates to construction costs incurred in fiscal year 2013, but not invoiced or paid until after year-end.

Net Position

Total Net Position increased by approximately \$1.3 million in fiscal year 2013. Capital assets for the Department increased due to activity related to the second veterans' home and finalization of a community center, both projects resulted in a positive impact on net position.

The results of operations for the Veterans' Home Program's proprietary funds are presented below:

Veterans' Home Program - Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position

	Business Type Activities		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Resident Revenue (Net)	\$ 14,263,736	\$ 13,677,396	\$ 12,615,906
Investment Income	87,980	85,425	26,269
Other Fees and Charges	28,303	2,048	1,648
Total Operating Revenue	<u>\$ 14,380,019</u>	<u>\$ 13,764,869</u>	<u>\$ 12,643,823</u>
Operating Expenses:			
Salaries and Other Payroll	133,068	230,801	217,270
Securities Lending Investment Expense	2,895	4,187	3,861
Services and Supplies	160,526	82,462	121,569
Interest	2,218	-	-
Veterans' Home Operations	12,407,376	11,603,548	11,103,989
Depreciation	397,270	317,534	315,949
Total Operating Expenses	<u>\$ 13,103,353</u>	<u>\$ 12,238,532</u>	<u>\$ 11,762,638</u>
Net Transfers from Veterans' Home Trust Fund	\$ 13,534	\$ 177,700	\$ 947,478
Net Transfers to Dept. of Admin Services	(4,979)	(9,278)	(8,679)
Capital Contributions	107,687	1,066,147	12,722,770
Total Non-Operating Revenues (Expenses)	<u>\$ 116,242</u>	<u>\$ 1,234,569</u>	<u>\$ 13,661,569</u>
Change in Net Position	\$ 1,392,908	\$ 2,760,906	\$ 14,542,754
Net Position – Beginning	29,554,256	26,793,350	12,250,596
Prior Period Adjustment	(34,301)	-	-
Net Position - Beginning Restated	<u>29,519,955</u>	<u>26,793,350</u>	<u>12,250,596</u>
Net Position – Ending	<u>\$ 30,912,863</u>	<u>\$ 29,554,256</u>	<u>\$ 26,793,350</u>

The Veterans' Home Program's proprietary fund operating revenue is generated principally from resident-related revenues, including monies from the Federal VA, Medicare, Medicaid and resident private pay. In fiscal year 2013, revenue generated through the Veterans' Home Program's proprietary fund totaled approximately \$14.4 million, of which approximately 99% is from resident-related revenue. Expenses of the Veterans' Home Program's proprietary fund consist primarily of operational expenses. The total expenses for proprietary fund activities totaled approximately \$13.1 million, of which approximately 95% is from veterans' home operations.

The change in net position for the year ended June 30, 2013 resulted in an increase of approximately \$1.3 million compared to a \$2.8 million increase for the year ending June 30, 2012. The primary factors contributing is the continuing addition of capital assets for the Lebanon Veterans' Home and increased resident census at The Dalles Veterans' Home.

Requests for Information

This financial report is designed to provide a general overview of the Department of Veterans' Affairs' finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Oregon Department of Veterans' Affairs, 700 Summer Street N.E., Salem, Oregon 97301.

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Funds	
	<i>The Dalles Veterans' Home</i>	
	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 6,435,934	\$ 5,809,130
Cash and Cash Equivalents - Restricted	-	-
Securities Lending Cash Collateral	367,680	607,557
Resident Care Receivable	2,282,144	1,566,269
Due from Other Funds	8,560	-
Total Current Assets	9,094,318	7,982,956
Noncurrent Assets		
Resident Care Receivable (Net)	134,885	14,369
Capital Assets:		
Building, Property and Equipment	15,732,349	15,507,603
Improvements Other than Buildings	13,695	13,695
Land	600,073	600,073
Construction in Progress	-	-
Works of Art and Historical Treasures	89,998	70,000
Accumulated Depreciation	(4,895,076)	(4,497,806)
Total Noncurrent Assets	11,675,924	11,707,934
TOTAL ASSETS	\$ 20,770,242	\$ 19,690,890
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 1,389,624	\$ 1,316,836
Due to Other Funds	71,798	68,285
Unearned Revenue	23,835	124,746
Obligations under Securities Lending	367,680	607,557
Pension Related Debt	700	-
Compensated Absences Payable	3,994	3,046
Total Current Liabilities	1,857,631	2,120,470
Noncurrent Liabilities		
Contracts Payable - Retainage	-	-
Pension Related Debt	32,853	-
Compensated Absences Payable	2,151	1,569
Other Postemployment Benefits Obligation (Net)	2,162	1,112
Total Noncurrent Liabilities	37,166	2,681
TOTAL LIABILITIES	1,894,797	2,123,151
NET POSITION		
Invested in Capital Assets	11,541,039	11,693,565
Expendable, Restricted for Capital Construction	-	-
Unrestricted	7,334,406	5,874,174
TOTAL NET POSITION	\$ 18,875,445	\$ 17,567,739

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

Enterprise Funds		Enterprise Funds	
<i>Lebanon Veterans' Home</i>		TOTAL	
June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
\$ -	\$ -	\$ 6,435,934	\$ 5,809,130
6,805,940	10,254,538	6,805,940	10,254,538
512,271	1,283,694	879,951	1,891,251
-	-	2,282,144	1,566,269
-	-	8,560	-
<u>7,318,211</u>	<u>11,538,232</u>	<u>16,412,529</u>	<u>19,521,188</u>
-	-	134,885	14,369
-	-	15,732,349	15,507,603
-	-	13,695	13,695
2,910,424	1,500,000	3,510,497	2,100,073
4,105,576	458,006	4,105,576	458,006
-	-	89,998	70,000
-	-	(4,895,076)	(4,497,806)
<u>7,016,000</u>	<u>1,958,006</u>	<u>18,691,924</u>	<u>13,665,940</u>
<u>\$ 14,334,211</u>	<u>\$ 13,496,238</u>	<u>\$ 35,104,453</u>	<u>\$ 33,187,128</u>
\$ 1,607,981	\$ 226,027	\$ 2,997,605	\$ 1,542,863
8,560	-	80,358	68,285
-	-	23,835	124,746
512,271	1,283,694	879,951	1,891,251
-	-	700	-
-	-	3,994	3,046
<u>2,128,812</u>	<u>1,509,721</u>	<u>3,986,443</u>	<u>3,630,191</u>
167,981	-	167,981	-
-	-	32,853	-
-	-	2,151	1,569
-	-	2,162	1,112
<u>167,981</u>	<u>-</u>	<u>205,147</u>	<u>2,681</u>
<u>2,296,793</u>	<u>1,509,721</u>	<u>4,191,590</u>	<u>3,632,872</u>
7,016,000	1,958,006	18,557,039	13,651,571
5,021,418	10,028,511	5,021,418	10,028,511
-	-	7,334,406	5,874,174
<u>\$ 12,037,418</u>	<u>\$ 11,986,517</u>	<u>\$ 30,912,863</u>	<u>\$ 29,554,256</u>

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION**
PROPRIETARY FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Funds	
	<i>The Dalles Veterans' Home</i>	
	June 30, 2013	June 30, 2012
OPERATING REVENUES		
Resident Revenue (Net)	\$ 14,263,736	\$ 13,677,396
Investment Income	35,394	27,712
Other Fees and Charges	28,303	2,048
TOTAL OPERATING REVENUES	14,327,433	13,707,156
OPERATING EXPENSES		
Salaries and Other Payroll	133,068	230,801
Securities Lending Investment Expense	1,210	1,345
Services and Supplies	160,526	82,462
Interest	2,218	-
Veterans' Home Operations	12,407,376	11,603,548
Depreciation	397,270	317,534
TOTAL OPERATING EXPENSES	13,101,668	12,235,690
OPERATING INCOME (LOSS)	1,225,765	1,471,466
NON-OPERATING REVENUES (EXPENSES):		
Net Transfers from Veterans' Home Trust Fund	13,534	177,700
Net Transfers to Dept. of Administrative Services	(4,979)	(9,278)
Capital Contributions	107,687	1,066,147
TOTAL NONOPERATING REVENUES (EXPENSES)	116,242	1,234,569
CHANGE IN NET POSITION	1,342,007	2,706,035
NET POSITION		
NET POSITION - Beginning	17,567,739	14,861,704
Prior Period Adjustment	(34,301)	-
NET POSITION - Beginning Restated	17,533,438	14,861,704
NET POSITION - Ending	\$ 18,875,445	\$ 17,567,739

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

Enterprise Funds		Enterprise Funds	
<i>Lebanon Veterans' Home</i>		TOTAL	
June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
\$ -	\$ -	\$ 14,263,736	\$ 13,677,396
52,586	57,713	87,980	85,425
-	-	28,303	2,048
<u>52,586</u>	<u>57,713</u>	<u>14,380,019</u>	<u>13,764,869</u>
-	-	133,068	230,801
1,685	2,842	2,895	4,187
-	-	160,526	82,462
-	-	2,218	-
-	-	12,407,376	11,603,548
-	-	397,270	317,534
<u>1,685</u>	<u>2,842</u>	<u>13,103,353</u>	<u>12,238,532</u>
<u>50,901</u>	<u>54,871</u>	<u>1,276,666</u>	<u>1,526,337</u>
-	-	13,534	177,700
-	-	(4,979)	(9,278)
-	-	107,687	1,066,147
-	-	116,242	1,234,569
<u>50,901</u>	<u>54,871</u>	<u>1,392,908</u>	<u>2,760,906</u>
<u>11,986,517</u>	<u>11,931,646</u>	<u>29,554,256</u>	<u>26,793,350</u>
-	-	(34,301)	-
<u>11,986,517</u>	<u>11,931,646</u>	<u>29,519,955</u>	<u>26,793,350</u>
<u>\$ 12,037,418</u>	<u>\$ 11,986,517</u>	<u>\$ 30,912,863</u>	<u>\$ 29,554,256</u>

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Funds	
	<i>The Dalles Veterans' Home</i>	
	June 30, 2013	June 30, 2012
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 13,326,435	\$ 13,532,353
Payments to Employees for Services	(229,694)	(230,707)
Payments to Suppliers	(11,529,354)	(10,627,556)
Payments to Other Funds for Services	(873,820)	(864,515)
Other Receipts (Payments)	28,301	1,861
Net Cash Provided (Used) in Operating Activities	721,868	1,811,436
Cash Flows from Noncapital Financing Activities:		
Pension-Related Debt Principal Payment	(748)	-
Transfers from Other Funds	13,534	437,700
Transfers to Other Funds	(4,979)	(269,278)
Net Cash Provided (Used) in Noncapital Financing Activities	7,807	168,422
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(244,743)	(1,244,638)
Capital Contributions	107,687	1,066,147
Net Cash Provided (Used) in Capital and Related Financing Activities	(137,056)	(178,491)
Cash Flows from Investing Activities:		
Interest on Investments and Cash Balances	34,185	26,367
Investment Income from Securities Lending	1,210	1,345
Investment Expense from Securities Lending	(1,210)	(1,345)
Net Cash Provided (Used) in Investing Activities	34,185	26,367
Net Increase (Decrease) in Cash and Cash Equivalents	626,804	1,827,734
Cash and Cash Equivalents - Beginning	5,809,130	3,981,396
Cash and Cash Equivalents - Ending	\$ 6,435,934	\$ 5,809,130
Reconciled to Statement of Net Position:		
Cash and Cash Equivalents - Current	\$ 6,435,934	\$ 5,809,130
Cash and Cash Equivalents - Current, Restricted	-	-
Cash and Cash Equivalents - Ending (shown above)	\$ 6,435,934	\$ 5,809,130

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

Enterprise Funds		Enterprise Funds	
<i>Lebanon Veterans' Home</i>		TOTAL	
June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
\$ -	\$ -	\$ 13,326,435	\$ 13,532,353
-	-	(229,694)	(230,707)
1,549,935	226,027	(9,979,419)	(10,401,529)
8,560	-	(865,260)	(864,515)
-	-	28,301	1,861
<u>1,558,495</u>	<u>226,027</u>	<u>2,280,363</u>	<u>2,037,463</u>
-	-	(748)	-
-	-	13,534	437,700
-	-	(4,979)	(269,278)
-	-	<u>7,807</u>	<u>168,422</u>
(5,057,994)	(458,006)	(5,302,737)	(1,702,644)
-	-	107,687	1,066,147
<u>(5,057,994)</u>	<u>(458,006)</u>	<u>(5,195,050)</u>	<u>(636,497)</u>
50,901	54,871	85,086	81,238
1,685	2,842	2,895	4,187
(1,685)	(2,842)	(2,895)	(4,187)
<u>50,901</u>	<u>54,871</u>	<u>85,086</u>	<u>81,238</u>
(3,448,598)	(177,108)	(2,821,794)	1,650,626
10,254,538	10,431,646	16,063,668	14,413,042
<u>\$ 6,805,940</u>	<u>\$ 10,254,538</u>	<u>\$ 13,241,874</u>	<u>\$ 16,063,668</u>
\$ -	\$ -	\$ 6,435,934	\$ 5,809,130
6,805,940	10,254,538	6,805,940	10,254,538
<u>\$ 6,805,940</u>	<u>\$ 10,254,538</u>	<u>\$ 13,241,874</u>	<u>\$ 16,063,668</u>

(Continued on next page)

STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Enterprise Funds	
	<i>The Dalles Veterans' Home</i>	
	June 30, 2013	June 30, 2012
 (Continued from prior page)		
 Reconciliation of Operating Income to Net Cash Provided (Used)		
by Operating Activities:		
Operating Income	\$ 1,225,765	\$ 1,471,466
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)		
by Operating Activities:		
Depreciation and Amortization of Capital Assets	397,270	317,534
Interest Received on Investments Reported		
as Operating Revenue	(35,395)	(27,726)
Investment Expense	1,210	1,359
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	(836,392)	(177,286)
Due From Other Funds	(8,560)	-
Accounts Payable	72,788	191,800
Due to Other Funds	3,513	2,138
Deposit Liabilities	-	(187)
Unearned Revenue	(100,911)	32,244
Compensated Absences Payable	1,530	(524)
Post Employment Benefits	1,050	618
Total Adjustments	(503,897)	339,970
Net Cash Provided (Used) by Operating Activities	\$ 721,868	\$ 1,811,436

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

Enterprise Funds		Enterprise Funds	
<i>Lebanon Veterans' Home</i>		TOTAL	
<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
\$ 50,901	\$ 54,871	\$ 1,276,666	\$ 1,526,337
-	-	397,270	317,534
(52,586)	(57,713)	(87,981)	(85,439)
1,685	2,842	2,895	4,201
-	-	(836,392)	(177,286)
-	-	(8,560)	-
1,549,935	226,027	1,622,723	417,827
8,560	-	12,073	2,138
-	-	-	(187)
-	-	(100,911)	32,244
-	-	1,530	(524)
-	-	1,050	618
<u>1,507,594</u>	<u>171,156</u>	<u>1,003,697</u>	<u>511,126</u>
<u>\$ 1,558,495</u>	<u>\$ 226,027</u>	<u>\$ 2,280,363</u>	<u>\$ 2,037,463</u>

**STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
PROPRIETARY FUNDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Department is a part of the State of Oregon reporting entity. The Department operates under the provisions of the Oregon Constitution Article XI-A and primarily Oregon Revised Statutes (ORS) chapters 406, 407, and 408. The Department's Director is appointed by the Governor with input from the Advisory Committee and is subject to confirmation by the Oregon Senate. The Director must be a veteran chosen on the basis of his or her executive and administrative ability. The Advisory Committee is a nine-member board, appointed by the Governor that acts in an advisory capacity to the Director concerning all matters upon which the Director requests counsel. The State Legislature has significant ability to influence funding, approve the Department's budget, and pass laws governing the Department.

In 1993 the Legislative Assembly authorized the Department to provide nursing and memory care to veterans and their spouses through an Oregon Veterans' Home. Opened in 1997, the first Oregon Veterans' Home was located in The Dalles. The single-story 75,000 square foot facility offers care in a home-like environment, complementing the philosophy of personal independence to some of Oregon's most vulnerable veterans.

In 1995, the Legislative Assembly authorized a second Oregon Veterans' Home. Through a competitive-bid process, the location for the second Oregon Veterans' Home was selected to be in Lebanon, with construction commencing in the spring of 2013 and projected completion in the fall of 2014.

The *Veterans' Home Program* is classified as a proprietary fund activity. The basic financial statements and notes presented herein include only the proprietary fund activities of the Veterans' Home Program.

Measurement Focus of Accounting and Basis of Presentation

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

The Veterans' Home Program is accounted for as a Proprietary fund. The focus of Proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to private-sector business. Proprietary funds are presented using the accrual basis of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liabilities are incurred.

The basic financial statements and notes presented have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). During the year, the Department implemented GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial*

Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The implementation of these statements had no change in position on the Department's position, requiring only terminology changes in financial statement presentation.

Budgetary Process

The Oregon Legislature approves budgets for a biennial period. Operating expenses are subject to limitation. 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 and cash held by the State Treasury in the Oregon Short-Term Fund (*OSTF*). 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. Investment income is derived from interest earned in the OSTF.

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 Position 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 resident-care related and other miscellaneous receivables.

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 Oregon Veterans' Home is depreciated over its useful life (*40 years*). Building-related assets are capitalized and then depreciated over the remaining estimated life of the building. Furniture, equipment, depreciable works of art, land improvements, and data processing hardware and software costing \$5,000 or more are capitalized and then depreciated over a useful life of five years (*10 years for art work and land improvements*).

Compensated Absences Payable

State policy allows employees to accrue vacation leave at various accrual rates with a maximum accumulation of 350 hours per management employee and 325 hours per classified employee. Due to state cost reduction measures, effective March 1, 2009, management employees' vacation accrual limit increased to 425 hours through December 31, 2009. Effective January 1, 2010, the vacation accrual limit for management employees returned to 350 hours and employees no longer accrued hours over 350. Employees with more than 350 hours of accrued vacation leave on January 1, 2010, had until June 30, 2013, to reduce their vacation accrual to no more than 350 hours. Employees can be paid up to a maximum of 250 hours of accrued vacation leave at separation from state service.

Accumulated vacation leave and compensatory time (*comp time*) leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for non-vesting, accumulated sick pay benefits.

Invested in Capital Assets

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

Operating Revenues and Expenses

Operating revenues include charges for resident-related care as well as earnings on cash. Administrative expenses, such as veterans' home operations, services and supplies, and depreciation related to capital assets, are considered operating expenses. All revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

Comparative Data and Reclassifications

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation. Current year presentation includes a Prior Period Adjustment (see Note 11), which is not reflected in the prior year.

2. DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents for the Veterans' Home Program as of June 30, 2013 and June 30, 2012 are included in the table below:

	The Dalles	Lebanon	TOTAL	TOTAL
	<u>Veterans' Home</u>	<u>Veterans' Home</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Book Balance - Cash & Cash Equivalents				
Current unrestricted	\$ 6,435,934	\$ -	\$ 6,435,934	\$ 5,809,130
Current restricted	-	6,805,940	6,805,940	10,254,538
Combined Book Balance	\$ 6,435,934	\$ 6,805,940	\$ 13,241,874	\$ 16,063,668
Bank Balance - Cash & Cash Equivalents	\$ 6,444,113	\$ 6,805,940	\$ 13,250,053	\$ 16,059,255

As of June 30, 2013, the *Veterans' Home Program* had a combined total of \$13,250,053 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 *OSTF* held in state banks are insured up to the Federal Deposit Insurance (*FDIC*) amount of \$250,000 for the combined total of all savings deposits. Where interest-bearing balances exceed the *FDIC* amount, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Oregon Office of the State Treasurer in the Public Funds Collateralization Program (*PFCP*). Because the pool operates as a demand deposit account, each fund type's portion of this pool is classified on the Statement of Net Position 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. Additional information about the OSTF can be found at [http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx) or by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97301-3896.

Restricted Assets

Included in Cash and Cash Equivalents are amounts designated as restricted. Restrictions on the Department's cash can arise from Oregon's constitutional provisions or enabling legislation, deposit liabilities and from certain other contractual arrangements. The primary purpose of the restricted assets will be monies reserved for construction of the second Veterans' Home. As of June 30, 2013 and 2012, the Veterans' Home Program had restricted assets of \$6,805,940 and \$10,254,538 respectively.

Securities Lending

In accordance with State of Oregon investment policies, state agencies may participate in securities lending. The Department is currently involved in securities lending only with cash balances invested in the Oregon Short-Term Fund (OSTF). As of June 30, 2013, the amount of the fair value of all securities on loan from OSTF allocated to the Department's Home Program was \$1,229,470. OSTF securities on loan in total included U.S. Agency securities (81.06%), U.S. Treasury securities (4.08%) and domestic fixed income securities (14.86%). The amount allocated to the Department's Home Program of the fair value of all investments made with the cash collateral received for those securities on loan was \$879,952. The amount of total collateral received for the securities on loan from OSTF allocated to the Department's Home Program was \$879,951. Additional information about the OSTF and securities lending can be found in the OSTF financial statements at: <http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-%28OSTF%29.aspx#stat>.

Investment Income

The following table details the components of Investment Income for the years ended June 30, 2013 and June 30, 2012:

	The Dalles Veterans' Home	Lebanon Veterans' Home	TOTAL June 30, 2013	TOTAL June 30, 2012
Investment Income: Accrual Basis	\$ 34,184	\$ 50,901	\$ 85,085	\$ 81,238
Securities Lending Revenue	<u>1,210</u>	<u>1,685</u>	<u>2,895</u>	<u>4,187</u>
Investment Income	<u>\$ 35,394</u>	<u>\$ 52,586</u>	<u>\$ 87,980</u>	<u>\$ 85,425</u>

3. RESIDENT-CARE RECEIVABLES

The following table provides detail on the balances of the resident-care receivables by payor category for the fiscal years ended June 30, 2013 and 2012:

	TOTAL June 30, 2013	TOTAL June 30, 2012
Federal VA	\$ 1,567,976	\$ 916,681
Medicare Related	330,593	273,015
Medicaid Related	453,679	353,037
Resident Private Pay	64,781	37,905
Total Current Receivables	\$ 2,417,029	\$ 1,580,638

4. CAPITAL ASSETS

The following table provides detail on the balances and activities of the Department's capital assets for the year ended June 30, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 2,100,073	\$ 1,410,424	\$ -	\$ 3,510,497
Construction in Progress	458,006	3,647,570	-	4,105,576
Works of Art & Historical Treasures	40,000	19,998	-	59,998
Total Capital Assets Not Being Depreciated	\$ 2,598,079	\$ 5,077,992	\$ -	\$ 7,676,071
Capital Assets Being Depreciated:				
Buildings, Property & Equipment	\$15,507,603	\$ 224,746	\$ -	\$15,732,349
Improvements Other than Buildings	13,695	-	-	13,695
Works of Art & Historical Treasures	30,000	-	-	30,000
Total Capital Assets Being Depreciated	\$15,551,298	\$ 224,746	\$ -	\$15,776,044
Less Accumulated Depreciation:				
Buildings, Property & Equipment	\$ (4,461,549)	\$ (395,901)	\$ -	\$ (4,857,450)
Improvements Other than Buildings	(6,257)	(1,369)	-	(7,626)
Works of Art & Historical Treasures	(30,000)	-	-	(30,000)
Total Accumulated Depreciation	\$ (4,497,806)	\$ (397,270)	\$ -	\$ (4,895,076)
Total Capital Assets Being Depreciated, Net	\$11,053,492	\$ (172,524)	\$ -	\$10,880,968
Total Capital Assets, Net	\$13,651,571	\$ 4,905,468	\$ -	\$18,557,039

Depreciation expense at June 30, 2013 and 2012 was \$397,270 and \$317,534 respectively.

5. CHANGES IN LONG TERM LIABILITIES

The following table provides detail on the long-term liability activity as of June 30, 2013:

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Contracts Payable - Retainage	\$ -	\$ 167,981	\$ -	\$ 167,981	\$ -
Pension-Related Debt	34,301	-	(748)	33,553	700
Compensated Absences Payable	4,615	1,530	-	6,145	3,994
OPEB Obligation (Net)	1,112	1,050	-	2,162	-
Total Long-Term Liabilities	<u>\$ 40,028</u>	<u>\$ 170,561</u>	<u>\$ (748)</u>	<u>\$ 209,841</u>	<u>\$ 4,694</u>

*Restated, includes prior period adjustment for Pension-Related Debt.

6. INTERFUND TRANSACTIONS

At June 30, 2013 and 2012, there were outstanding interfund payables due Other Funds for services performed by Department employees related to the operation of the Veterans' Home Program. The Dalles Veterans' Home had a due to the Veterans' Loan Program of \$71,798 and \$68,285 for the respective fiscal years. The Lebanon Veterans' Home had a due to The Dalles Veterans' Home of \$8,560 for fiscal year 2013. The balances are shown as a "Due from Other Funds" and "Due to Other Funds" on the Statement of Net Position.

7. EMPLOYEE RETIREMENT PLAN

The Oregon Public Employees Retirement System (*PERS*) provides retirement plans for Department employees. PERS is administered by the Public Employees Retirement Board (*Board*), as required by Chapters 238 and 238A of the Oregon Revised Statutes (*ORS*). 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.

PERS Pension

Employees of the Department who were plan members before August 29, 2003 participate in the PERS Pension, a cost-sharing multiple-employer defined benefit pension plan. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options as established by ORS Chapter 238. Options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits.

Oregon Public Service Retirement Plan

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (*OPSRP*), also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program (*defined benefit*) and the Individual Account Program (*defined contribution*). Department employees hired after August 28, 2003, participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits as established by ORS Chapter 238A.

Beginning January 1, 2004, PERS members became members of the Individual Account Program (*IAP*) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute a percentage of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Department does.

For the PERS Pension and the OPSRP Pension, the Department is required by ORS 238.225 and ORS 238A.220, respectively, to contribute actuarially computed amounts as determined by the Board. The funding policies provide for monthly employer and contributions. Rates are subject to change as a result of subsequent actuarial valuations.

The required State employee contributions and the required state employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans are as follows: the Employee rate is 6.00%; the PERS Pension Employer rate is 9.55%; and the OPSRP rate is 8.05%.

Combined employer contributions for the years ended June 30, 2013, 2012, and 2011 were approximately \$10,900, \$12,100, and \$4,800 respectively, equal to the required contributions each year.

Combined employee contributions for the years ended June 30, 2013, 2012, and 2011 were approximately \$9,100, \$9,000, and \$8,800 respectively.

8. OTHER POSTEMPLOYMENT BENEFIT PLANS

Department employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (*OPEB*). *OPEB* plans are offered through the Public Employees Retirement System (*PERS*) as established by Oregon Revised Statutes (*ORS*) 238.410 and the Public Employees Benefit Board (*PEBB*) as established by *ORS* 243.302. 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

Retirement Health Insurance Account

The Retirement Health Insurance Account (*RHIA*) is a cost-sharing multiple-employer *OPEB* plan which provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the *RHIA* subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health insurance plan.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2013

was 0.59% for Tier 1 and Tier 2 employees and 0.50% for OPSRP employees, which is embedded within the total PERS contribution rate.

Combined employer contributions for the years ended June 30, 2013, 2012, and 2011 were approximately \$760, \$750 and \$280 respectively, equal to the required contributions each year.

The Legislature has the sole authority to amend the benefit provisions and funding policy for the RHIA plan.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (*RHIPA*) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year ended June 30, 2013 was 0.16% for Tier 1 and Tier 2 employees and 0.11% for OPSRP employees, which is embedded within the total PERS contribution rate. The Department's actual contribution for the years ended June 30, 2013 and 2012 were approximately \$170 and \$160 respectively, which was equal to the actuarial required contribution.

The Legislature has the sole authority to amend the benefit provisions and funding policy for the RHIPA plan.

Public Employees Benefit Board Plan

The PEBB plan is an agent multiple-employer plan, which offers medical, dental, and vision benefits to eligible retired employees. Retired employees not eligible for Medicare are eligible for PEBB coverage if the retiree is receiving a service or disability benefit from PERS or another state system, is eligible to receive a retirement allowance from PERS and has reached the earliest retirement age under ORS Chapter 238, or is eligible to receive a service allowance or pension under any system offered by the state and has attained the earliest retirement age under that system. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

ORS 243 assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. As the administrator of the PEBB Plan, PEBB has the authority to determine postretirement benefit increases and decreases.

9. 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, 2013 and June 30, 2012 there has been no significant reductions in insurance coverage in any risk category. Also, for the past ten fiscal years (*July 1, 2003 through June 30, 2013*) there have been no claims that exceeded the Department's property or liability coverage.

10. ALLOWANCES IN PROPRIETARY FUND VETERANS' HOME PROGRAM

Revenues are reported net of discounts and allowances in the accompanying financial statements. The amounts netted against Resident Related Revenues are \$68,704 for fiscal year 2013 and \$26,611 for fiscal year 2012.

11. PRIOR PERIOD ADJUSTMENT

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002. The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately from the SLGRP and is reduced by contributions and increased for interest charges at the assumed interest rate. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The pension-related debt liability balance as of June 30, 2012 was \$34,301, which was recorded as a prior period adjustment effective June 30, 2013. A current and non-current liability is also recorded on the Statement of Net Position, effective June 30, 2013.

12. SUBSEQUENT EVENTS

On September 11, 2013, the United States Department of Veterans Affairs (USDVA) awarded the Department a grant in the amount of \$26,203,125 for construction of the Lebanon Veterans' Home. The grant is based on 65% reimbursement of the total construction cost.



OTHER SUPPLEMENTAL SECTION

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, general fund dollars cover a portion of the cost for counseling, conservatorship and other services to veterans. In addition, the General Fund makes available educational aid and emergency assistance 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' Homes 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, 2013 and JUNE 30, 2012

	General Fund		Special Revenue Fund	
	June 30, 2013	June 30, 2012	Veterans' Home Trust	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
ASSETS				
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ -	\$ -	\$ 1,046,219	\$ 806,098
Securities Lending Cash Collateral	-	-	69,523	94,906
Receivables:				
Due from State General Fund	620,669	508,066	-	-
Due from Other Funds			12,949	6,026
Prepaid Items	655	932	-	-
Total Current Assets	621,324	508,998	1,128,691	907,030
TOTAL ASSETS	\$ 621,324	\$ 508,998	\$ 1,128,691	\$ 907,030
 LIABILITIES				
<u>Current Liabilities</u>				
Accounts Payable	\$ 620,669	\$ 508,066	\$ -	\$ -
Obligations under Securities Lending	-	-	69,523	94,906
Total Current Liabilities	620,669	508,066	69,523	94,906
TOTAL LIABILITIES	\$ 620,669	\$ 508,066	\$ 69,523	\$ 94,906
 FUND BALANCES				
Nonspendable Fund Balance - Prepaids	\$ 655	\$ 932	\$ -	\$ -
Restricted Fund Balance - Donor/Other External Party	-	-	1,059,168	812,124
TOTAL FUND BALANCES	\$ 655	\$ 932	\$ 1,059,168	\$ 812,124
TOTAL LIABILITIES AND FUND BALANCES	\$ 621,324	\$ 508,998	\$ 1,128,691	\$ 907,030

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
\$ 92,286	\$ 98,505	\$ 1,138,505	\$ 904,603
6,133	11,597	75,656	106,503
-	-	620,669	508,066
-	-	12,949	6,026
-	-	655	932
<u>98,419</u>	<u>110,102</u>	<u>1,848,434</u>	<u>1,526,130</u>
<u>\$ 98,419</u>	<u>\$ 110,102</u>	<u>\$ 1,848,434</u>	<u>\$ 1,526,130</u>
\$ -	\$ -	\$ 620,669	\$ 508,066
6,133	11,597	75,656	106,503
<u>6,133</u>	<u>11,597</u>	<u>696,325</u>	<u>614,569</u>
<u>\$ 6,133</u>	<u>\$ 11,597</u>	<u>\$ 696,325</u>	<u>\$ 614,569</u>
\$ -	\$ -	\$ 655	\$ 932
<u>92,286</u>	<u>98,505</u>	<u>1,151,454</u>	<u>910,629</u>
<u>\$ 92,286</u>	<u>\$ 98,505</u>	<u>\$ 1,152,109</u>	<u>\$ 911,561</u>
<u>\$ 98,419</u>	<u>\$ 110,102</u>	<u>\$ 1,848,434</u>	<u>\$ 1,526,130</u>

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, 2013 and JUNE 30, 2012

	General Fund		Special Revenue Fund	
	June 30, 2013	June 30, 2012	Veterans' Home Trust June 30, 2013	June 30, 2012
Revenues				
Donations	\$ -	\$ -	\$ 187,114	\$ 135,800
Interest Income	-	-	5,655	4,233
Total Revenues	-	-	192,769	140,033
Expenditures				
Veterans' Services				
Personal Services	781,110	779,968	-	-
Services and Supplies	256,807	208,055	-	-
Securities Lending Investment Expense	-	-	188	210
State Treasury Charges	-	-	-	-
Trust Fund Distributions	-	-	-	-
Special Payments	2,231,272	2,332,079	-	-
Total Expenditures	3,269,189	3,320,102	188	210
Other Financing Sources (Uses)				
State Appropriations	3,269,189	3,320,102	-	-
Operating Transfer In from DMV	-	-	67,997	60,995
Operating Transfer Out to Veterans' Home	-	-	(13,534)	(177,700)
Total Other Financing Sources (Uses)	3,269,189	3,320,102	54,463	(116,705)
Net Change in Fund Balance	-	-	247,044	23,118
Beginning Fund Balance	932	647	812,124	789,006
Change in Reserve for Prepaid Items	(277)	285	-	-
Ending Fund Balance	\$ 655	\$ 932	\$ 1,059,168	\$ 812,124

Special Revenue Fund		Governmental Funds	
Other Veterans' Trust Accounts		TOTAL	
<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
\$ 1,266	\$ 44,516	\$ 188,380	\$ 180,316
564	571	6,219	4,804
<u>1,830</u>	<u>45,087</u>	<u>194,599</u>	<u>185,120</u>
-	-	781,110	779,968
-	-	256,807	208,055
17	146	205	356
127	25	127	25
7,905	29,374	7,905	29,374
-	-	<u>2,231,272</u>	<u>2,332,079</u>
<u>8,049</u>	<u>29,545</u>	<u>3,277,426</u>	<u>3,349,857</u>
-	-	3,269,189	3,320,102
-	-	67,997	60,995
-	-	<u>(13,534)</u>	<u>(177,700)</u>
-	-	<u>3,323,652</u>	<u>3,203,397</u>
<u>(6,219)</u>	<u>15,542</u>	<u>240,825</u>	<u>38,660</u>
98,505	82,963	911,561	872,616
-	-	<u>(277)</u>	<u>285</u>
<u>\$ 92,286</u>	<u>\$ 98,505</u>	<u>\$ 1,152,109</u>	<u>\$ 911,561</u>

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, 2013
 AS OF JUNE 30, 2013

	General Fund				
	2011-2013 Original Budget	2011-2013 Final Budget	First Year Actual June 30, 2012	Second Year Actual June 30, 2013	Variance Favorable/ (Unfavorable)
General Fund:					
Veterans' Services Division - Appropriation	\$ 6,675,314	\$ 6,562,195	\$ 3,186,491	\$ 3,269,189	\$ 106,515
 Total General Fund	 \$ 6,675,314	 \$ 6,562,195	 \$ 3,186,491	 \$ 3,269,189	 \$ 106,515

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 147 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 NET POSITION
FIDUCIARY FUND

JUNE 30, 2013 and JUNE 30, 2012

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2013	June 30, 2012
ASSETS		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 19,527,878	\$ 20,286,691
Investments	1,553,895	861,222
Securities Lending Cash Collateral	1,297,669	2,388,447
Receivables:		
Accrued Interest	8,815	10,068
Total Current Assets	22,388,257	23,546,428
<u>Noncurrent Assets</u>		
Conservatorship Real Property	4,313,960	4,272,660
Conservatorship Personal Property	423,632	471,963
Total Noncurrent Assets	4,737,592	4,744,623
TOTAL ASSETS	\$ 27,125,849	\$ 28,291,051
LIABILITIES		
<u>Current Liabilities</u>		
Due to Other Funds	\$ -	\$ 857
Mortgages on Conservatorship Real Property	84,144	80,364
Obligations under Securities Lending	1,297,669	2,388,447
Total Current Liabilities	1,381,813	2,469,668
<u>Noncurrent Liabilities</u>		
Mortgages on Conservatorship Real Property	1,789,425	1,960,501
Total Noncurrent Liabilities	1,789,425	1,960,501
TOTAL LIABILITIES	3,171,238	4,430,169
NET POSITION		
Net Position Held in Trust for Individuals	23,954,611	23,860,882
TOTAL NET POSITION	\$ 23,954,611	\$ 23,860,882

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
**STATEMENT OF CHANGES IN
NET POSITION
FIDUCIARY FUND**

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 and JUNE 30, 2012

	Private Purpose Trust Fund	
	Conservatorship Program	
	June 30, 2013	June 30, 2012
ADDITIONS		
Contributions:		
Veterans' Benefits	\$ 7,200,411	\$ 7,273,136
Investment Income:		
Interest Income	118,690	119,202
Valuation Changes and Redemptions of Investments	433,882	24,690
TOTAL ADDITIONS	\$ 7,752,983	\$ 7,417,028
 DEDUCTIONS		
Veterans' Services: Beneficiary Care	\$ 7,655,349	\$ 9,689,618
Securities Lending Investment Expense	3,905	5,843
TOTAL DEDUCTIONS	7,659,254	9,695,461
Net Increase/ (Decrease)	93,729	(2,278,433)
CHANGE IN NET POSITION	93,729	(2,278,433)
BEGINNING NET POSITION	23,860,882	26,139,315
ENDING NET POSITION	\$ 23,954,611	\$ 23,860,882

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STATISTICAL SECTION

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET POSITION
PROPRIETARY FUND - VETERANS' HOME PROGRAM (THE DALLES VETERANS' HOME only)
FOR THE FISCAL YEARS ENDED 2004 - 2013

ASSETS	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Current Assets				
Cash and Cash Equivalents	\$ 6,435,934	\$ 5,809,130	\$ 3,981,396	\$ 2,422,398
Securities Lending Cash Collateral	367,680	607,557	4,459,350	939,799
Resident Care Receivable	2,282,144	1,566,269	1,376,424	1,484,378
Other Receivable	-	-	-	-
Due from Other Funds	8,560	-	-	-
Prepaid Expenses	-	-	-	-
Total Current Assets	\$ 9,094,318	\$ 7,982,956	\$ 9,817,170	\$ 4,846,575
Noncurrent Assets				
Resident Care Receivable (Net)	\$ 134,885	\$ 14,369	\$ 26,927	\$ 70,750
Capital Assets:				
Building, Property and Equipment	15,732,349	15,507,603	12,718,076	12,643,416
Improvements Other than Buildings	13,695	13,695	13,695	7,250
Land	600,073	600,073	600,073	600,073
Construction in Progress	-	-	1,566,650	-
Works of Art and Historical Treasures	89,998	70,000	70,000	70,000
Accumulated Depreciation	(4,895,076)	(4,497,806)	(4,202,032)	(3,895,082)
Total Noncurrent Assets	\$ 11,675,924	\$ 11,707,934	\$ 10,793,389	\$ 9,496,407
TOTAL ASSETS	\$ 20,770,242	\$ 19,690,890	\$ 20,610,559	\$ 14,342,982
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ 1,389,624	\$ 1,316,836	\$ 1,125,035	\$ 1,017,734
Due to Other Funds	71,798	68,285	66,147	66,674
Deposit Liabilities	-	-	187	6,076
Unearned Revenue	23,835	124,746	92,502	55,186
Obligations Under Securities Lending	367,680	607,557	4,459,350	939,799
Pension-Related Debt (1)	700	-	-	-
Compensated Absences Payable	3,994	3,046	3,392	4,565
Total Current Liabilities	\$ 1,857,631	\$ 2,120,470	\$ 5,746,613	\$ 2,090,034
Noncurrent Liabilities				
Pension-Related Debt (1)	\$ 32,853	\$ -	\$ -	\$ -
Compensated Absences Payable	2,151	1,569	1,748	2,352
Other Post Employment Benefits Obligation (Net)	2,162	1,112	494	-
Claims and Judgements Payable	-	-	-	-
Total Noncurrent Liabilities	\$ 37,166	\$ 2,681	\$ 2,242	\$ 2,352
TOTAL LIABILITIES	\$ 1,894,797	\$ 2,123,151	\$ 5,748,855	\$ 2,092,386
NET POSITION				
Invested in Capital Assets	\$ 11,541,039	\$ 11,693,565	\$ 10,766,462	\$ 9,425,657
Unrestricted	7,334,406	5,874,174	4,095,242	2,824,939
TOTAL NET POSITION	\$ 18,875,445	\$ 17,567,739	\$ 14,861,704	\$ 12,250,596
TOTAL LIABILITIES AND NET POSITION	\$ 20,770,242	\$ 19,690,890	\$ 20,610,559	\$ 14,342,982

(1) Starting in fiscal year 2013, pension-related debt reported separately as required by GASB Statement 27.

	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
\$	1,982,432	\$ 1,653,358	\$ 1,105,989	\$ 1,474,963	\$ 1,414,057	\$ 726,735
	907,514	818,718	387,988	189,105	248,379	342,687
	1,398,921	1,136,487	1,158,387	707,089	818,414	661,432
	-	-	-	51,800	-	-
	-	-	-	-	5,405	-
	-	-	-	571	553	553
\$	<u>4,288,867</u>	<u>3,608,563</u>	<u>2,652,364</u>	<u>2,423,528</u>	<u>2,486,808</u>	<u>1,731,407</u>
\$	138,125	\$ 6,693	\$ 13,754	\$ 2,614	\$ 3,572	\$ 3,572
	12,715,158	12,708,097	12,562,282	12,540,540	12,517,677	12,517,677
	7,250	7,250	7,250	7,250	7,250	-
	600,073	600,073	600,073	600,073	600,073	600,073
	-	-	-	-	-	-
	70,000	70,000	70,000	70,000	70,000	70,000
	(3,653,406)	(3,339,812)	(3,027,776)	(2,738,926)	(2,449,306)	(2,161,834)
\$	<u>9,877,200</u>	<u>10,052,301</u>	<u>10,225,583</u>	<u>10,481,551</u>	<u>10,749,266</u>	<u>11,029,488</u>
\$	<u>14,166,067</u>	<u>13,660,864</u>	<u>12,877,947</u>	<u>12,905,079</u>	<u>13,236,074</u>	<u>12,760,895</u>
\$	963,037	\$ 889,510	\$ 855,175	\$ 705,069	\$ 873,212	\$ 958,079
	71,991	63,499	55,909	119,104	493,755	-
	7,990	361	361	652	361	-
	131,604	-	-	-	-	-
	907,514	818,718	387,988	189,105	248,379	342,687
	-	-	-	-	-	-
	9,945	5,345	2,277	437	3,455	16,073
\$	<u>2,092,081</u>	<u>1,777,433</u>	<u>1,301,710</u>	<u>1,014,367</u>	<u>1,619,162</u>	<u>1,316,839</u>
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -
	4,898	2,632	1,121	146	1,481	-
	-	-	-	-	-	-
	-	-	-	6,994	-	-
\$	<u>4,898</u>	<u>2,632</u>	<u>1,121</u>	<u>7,140</u>	<u>1,481</u>	<u>-</u>
\$	<u>2,096,979</u>	<u>1,780,065</u>	<u>1,302,831</u>	<u>1,021,507</u>	<u>1,620,643</u>	<u>1,316,839</u>
\$	9,739,075	\$ 10,045,608	\$ 10,211,829	\$ 10,478,937	\$ 10,745,694	\$ 11,025,916
	2,330,013	1,835,191	1,363,287	1,404,635	869,737	418,140
\$	<u>12,069,088</u>	<u>11,880,799</u>	<u>11,575,116</u>	<u>11,883,572</u>	<u>11,615,431</u>	<u>11,444,056</u>
\$	<u>14,166,067</u>	<u>13,660,864</u>	<u>12,877,947</u>	<u>12,905,079</u>	<u>13,236,074</u>	<u>12,760,895</u>

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - VETERANS' HOME PROGRAM (THE DALLES VETERANS' HOME only)
FOR THE FISCAL YEARS ENDED 2004 - 2013

	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
OPERATING REVENUES				
Resident Revenue (Net) (1)	\$ 14,263,736	\$ 13,677,396	\$ 12,615,906	\$ 11,833,514
Investment Income	35,394	27,712	20,719	12,655
Other Fees and Charges	28,303	2,048	1,648	2,167
TOTAL OPERATING REVENUES	\$ 14,327,433	\$ 13,707,156	\$ 12,638,273	\$ 11,848,336
OPERATING EXPENSES				
Salaries and Other Payroll	\$ 133,068	\$ 230,801	\$ 217,270	\$ 202,012
Securities Lending Investment Expense	1,210	1,345	3,861	1,188
Services and Supplies	160,526	82,462	121,569	119,113
Interest	2,218	-	-	-
Veterans' Home Operations	12,407,376	11,603,548	11,103,989	11,050,913
Depreciation	397,270	317,534	315,949	313,419
TOTAL OPERATING EXPENSES	\$ 13,101,668	\$ 12,235,690	\$ 11,762,638	\$ 11,686,645
OPERATING INCOME (LOSS)	\$ 1,225,765	\$ 1,471,466	\$ 875,635	\$ 161,691
NONOPERATING REVENUE (EXPENSES)				
Net Transfers from Veterans' Home Trust Fund	\$ 13,534	\$ 177,700	\$ 947,478	\$ 20,514
Net Transfers to Dept. of Administrative Services	(4,979)	(9,278)	(8,679)	(7,519)
Capital Contributions	107,687	1,066,147	796,674	-
TOTAL NONOPERATING REVENUES (EXPENSES)	116,242	1,234,569	1,735,473	12,995
CHANGE IN NET POSITION	\$ 1,342,007	\$ 2,706,035	\$ 2,611,108	\$ 174,686
NET POSITION				
Beginning Net Position	\$ 17,567,739	\$ 14,861,704	\$ 12,250,596	\$ 12,069,088
Prior Period Adjustment	(34,301)	-	-	6,822
Beginning Net Position, Restated	\$ 17,533,438	\$ 14,861,704	\$ 12,250,596	\$ 12,075,910
Ending Net Position	\$ 18,875,445	\$ 17,567,739	\$ 14,861,704	\$ 12,250,596

(1) Resident Revenue is shown net of any related bad debt expense.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
\$	11,709,871	\$ 10,985,553	\$ 10,223,934	\$ 9,809,017	\$ 8,674,907	\$ 6,157,225
	34,591	62,149	57,064	73,604	24,217	8,390
	<u>1,708</u>	<u>2,191</u>	<u>2,066</u>	<u>1,946</u>	<u>2,825</u>	<u>2,134</u>
\$	<u>11,746,170</u>	<u>11,049,893</u>	<u>10,283,064</u>	<u>9,884,567</u>	<u>8,701,949</u>	<u>6,167,749</u>
\$	145,500	\$ 120,273	\$ 98,888	\$ 80,684	\$ 512,025	\$ 213,063
	3,087	15,600	12,974	10,346	4,349	1,846
	64,966	81,099	583,527	157,869	208,319	107,766
	-	-	-	-	-	-
	11,044,368	10,365,986	9,632,303	9,120,185	7,596,750	6,181,784
	<u>313,593</u>	<u>315,110</u>	<u>288,852</u>	<u>289,619</u>	<u>287,472</u>	<u>288,918</u>
\$	<u>11,571,514</u>	<u>10,898,068</u>	<u>10,616,544</u>	<u>9,658,703</u>	<u>8,608,915</u>	<u>6,793,377</u>
\$	<u>174,656</u>	<u>151,825</u>	<u>(333,480)</u>	<u>225,864</u>	<u>93,034</u>	<u>(625,628)</u>
\$	18,060	\$ 153,858	\$ 25,024	\$ 25,483	\$ 71,091	\$ 298,257
	(4,427)	-	-	-	-	-
	-	-	-	16,794	7,250	9,000
	<u>13,633</u>	<u>153,858</u>	<u>25,024</u>	<u>42,277</u>	<u>78,341</u>	<u>307,257</u>
\$	<u>188,289</u>	<u>305,683</u>	<u>(308,456)</u>	<u>268,141</u>	<u>171,375</u>	<u>(318,371)</u>
\$	11,880,799	\$ 11,575,116	\$ 11,883,572	\$ 11,615,431	\$ 11,444,056	\$ 11,762,427
	-	-	-	-	-	-
\$	11,880,799	\$ 11,575,116	\$ 11,883,572	\$ 11,615,431	\$ 11,444,056	\$ 11,762,427
\$	<u>12,069,088</u>	<u>11,880,799</u>	<u>11,575,116</u>	<u>11,883,572</u>	<u>11,615,431</u>	<u>11,444,056</u>

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
ASSETS, LIABILITIES AND NET POSITION
PROPRIETARY FUND - VETERANS' HOME PROGRAM (LEBANON VETERANS' HOME only)
FOR THE FISCAL YEARS ENDED 2011 - 2013

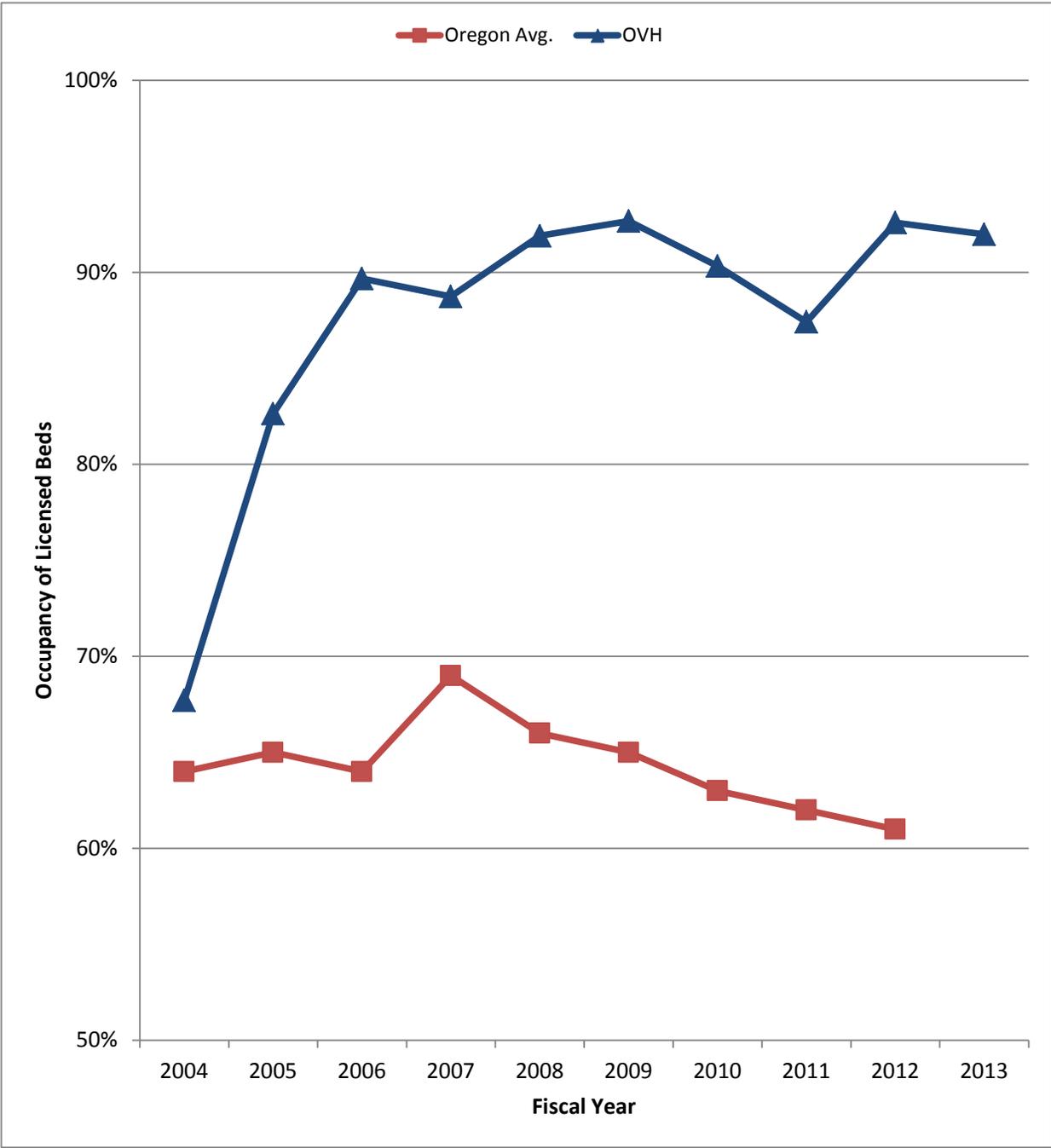
ASSETS	June 30, 2013	June 30, 2012	June 30, 2011
<u>Current Assets</u>			
Cash and Cash Equivalents - Restricted	\$ 6,805,940	\$ 10,254,538	\$ 10,431,646
Securities Lending Cash Collateral	512,271	1,283,694	-
Total Current Assets	\$ 7,318,211	\$ 11,538,232	\$ 10,431,646
<u>Noncurrent Assets</u>			
Capital Assets:			
Land	\$ 2,910,424	\$ 1,500,000	\$ 1,500,000
Construction in Progress	4,105,576	458,006	-
Total Noncurrent Assets	\$ 7,016,000	\$ 1,958,006	\$ 1,500,000
TOTAL ASSETS	\$ 14,334,211	\$ 13,496,238	\$ 11,931,646
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$ 1,607,981	\$ 226,027	\$ -
Due to Other Funds	8,560	-	-
Obligations Under Securities Lending	512,271	1,283,694	-
Total Current Liabilities	\$ 2,128,812	\$ 1,509,721	\$ -
<u>Noncurrent Liabilities</u>			
Contracts Payable - Retainage	\$ 167,981	\$ -	\$ -
Total Noncurrent Liabilities	\$ 167,981	\$ -	\$ -
TOTAL LIABILITIES	\$ 2,296,793	\$ 1,509,721	\$ -
<u>NET POSITION</u>			
Invested in Capital Assets	\$ 7,016,000	\$ 1,958,006	\$ 1,500,000
Expendable, Restricted for Capital Construction	5,021,418	10,028,511	10,431,646
TOTAL NET POSITION	\$ 12,037,418	\$ 11,986,517	\$ 11,931,646
TOTAL LIABILITIES AND NET POSITION	\$ 14,334,211	\$ 13,496,238	\$ 11,931,646

UNAUDITED
STATE OF OREGON
DEPARTMENT OF VETERANS' AFFAIRS
REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - VETERANS' HOME PROGRAM (LEBANON VETERANS' HOME only)
FOR THE FISCAL YEARS ENDED 2011 - 2013

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
OPERATING REVENUES			
Investment Income	\$ 52,586	\$ 57,713	\$ 5,550
TOTAL OPERATING REVENUES	<u>\$ 52,586</u>	<u>\$ 57,713</u>	<u>\$ 5,550</u>
OPERATING EXPENSES			
Securities Lending Investment Expense	\$ 1,685	\$ 2,842	\$ -
TOTAL OPERATING EXPENSES	<u>\$ 1,685</u>	<u>\$ 2,842</u>	<u>\$ -</u>
OPERATING INCOME (LOSS)	<u>\$ 50,901</u>	<u>\$ 54,871</u>	<u>\$ 5,550</u>
NONOPERATING REVENUE (EXPENSES)			
Capital Contributions	\$ -	\$ -	\$ 11,926,096
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,926,096</u>
CHANGE IN NET POSITION	<u>\$ 50,901</u>	<u>\$ 54,871</u>	<u>\$ 11,931,646</u>
NET POSITION			
Beginning Net Position	\$ 11,986,517	\$ 11,931,646	\$ -
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Beginning Net Position, Restated	\$ 11,986,517	\$ 11,931,646	\$ -
Ending Net Position	<u>\$ 12,037,418</u>	<u>\$ 11,986,517</u>	<u>\$ 11,931,646</u>

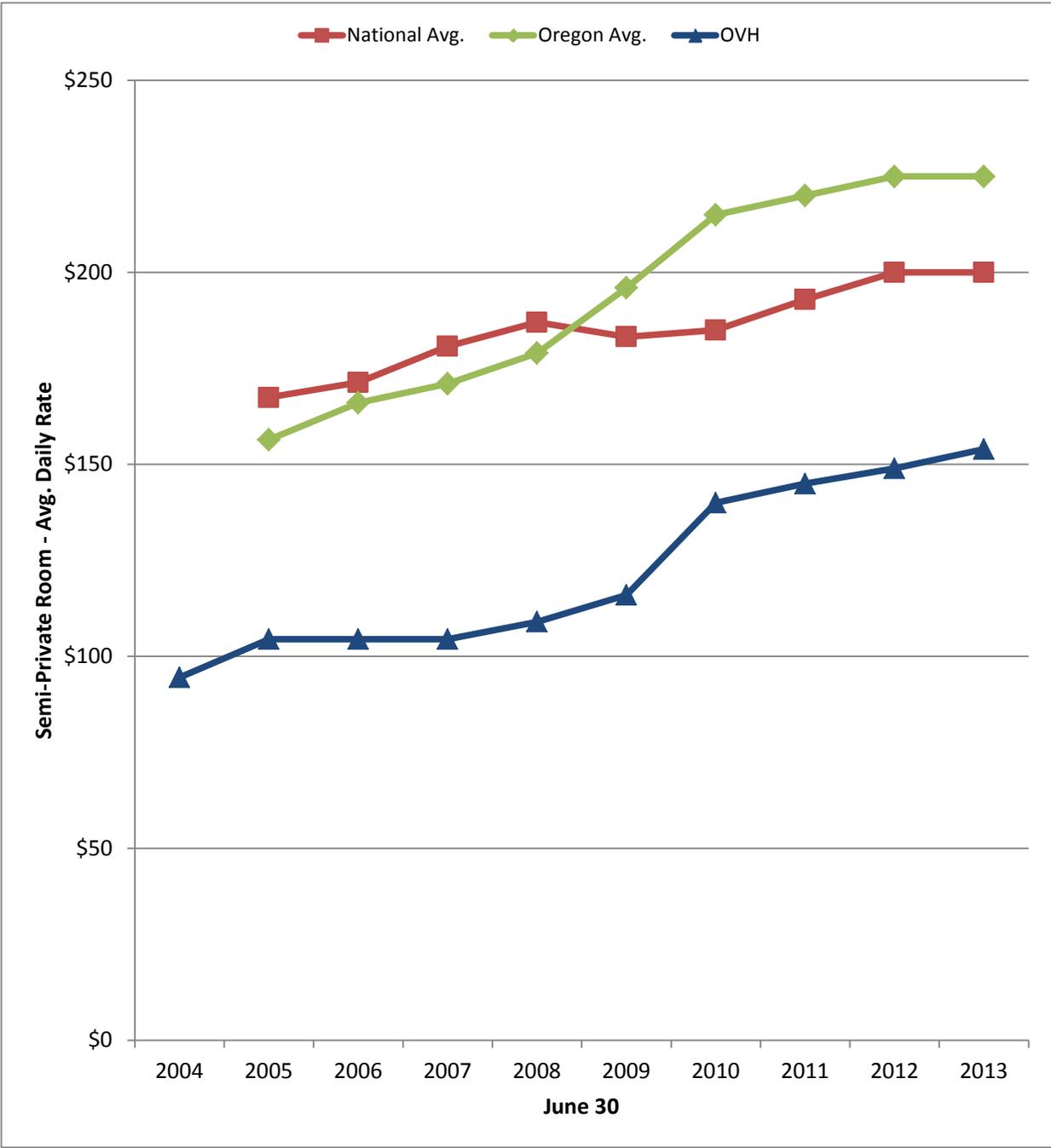
**UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM**

AVERAGE OCCUPANCY RATE



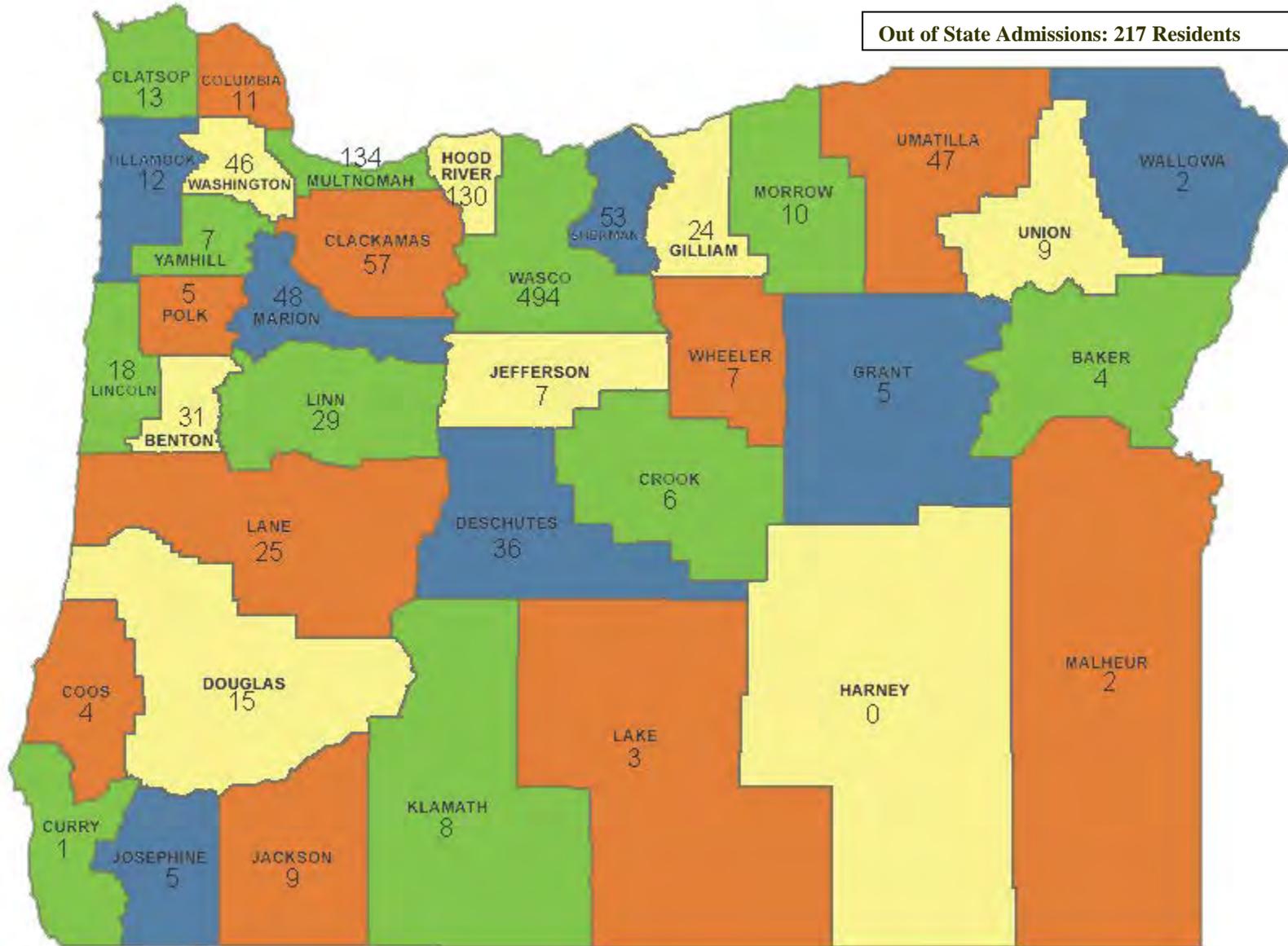
Source: Statistical Reports of the Oregon Department of Veterans' Affairs.

UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
VETERANS' HOME PROGRAM
RESIDENT PRIVATE PAY RATES



Source: Genworth Financial Reports and Statistical Reports of the Oregon Department of Veterans' Affairs.
 Note: Prior to 2005, data for the National and Oregon average is not available.

**UNAUDITED
OREGON DEPARTMENT OF VETERANS' AFFAIRS
CUMULATIVE RESIDENT ADMISSIONS BY COUNTY
NOVEMBER 1, 1997 THROUGH JUNE 30, 2013**



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



OTHER REPORTS

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

The Honorable John Kitzhaber
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

Cameron Smith, Director
Oregon Department of Veterans' Affairs
700 Summer St NE
Salem, OR 97301-1285

We have audited, 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, financial statements of the Lebanon and The Dalles Veterans' Homes of the Oregon Department of Veterans' Affairs' Home Program, (the Home Program), as of and for the years ended June 30, 2012 and June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013.

The financial statements present only the Home Program and are not intended to present fairly the financial position and cash flows of the State of Oregon or the Oregon Department of Veterans' Affairs and the results of their operations in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Home Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Home Programs' internal control. Accordingly, we do not express an opinion on the effectiveness of the Home Programs' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Home Programs' 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
West Linn, Oregon
October 31, 2013

**OREGON DEPARTMENT
OF VETERANS' AFFAIRS**

700 Summer St. NE, Salem, OR 97301-1285

PHONE 503-373-2373 | FAX 503-373-2001 | TTY 503-373-2217

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

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