

Oregon

Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2011

Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011



John Kitzhaber, MD
Governor

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State Chief Operating Officer
Director, Department of Administrative Services

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State Controller's Division

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2011**

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Introductory Section



Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

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January 18, 2012

To the Honorable Governor John Kitzhaber, MD, and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the State of Oregon for the fiscal year ended June 30, 2011. This report is published to fulfill the requirement for annual financial statements in Oregon Revised Statute 291.040.

This report consists of management's representations concerning the finances of the State of Oregon (State). Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework. The framework is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe the information presented is accurate in all material respects.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the State's financial statements for the fiscal year ended June 30, 2011. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. Based on the audit, the auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for fiscal year 2011 are fairly presented in accordance with GAAP. The audit report is the first component in the financial section of this report.

The audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the needs of federal agencies that provide aid to the State. The standards governing single audit engagements require the auditor to report on the State's internal controls and compliance with legal requirements, particularly as they relate to federal awards. This information, also prepared by the Audits Division, will be available in a separately issued report on or about March 31, 2012.

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. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The State provides services to Oregon's citizens through a wide range of programs including education, human services, public safety, economic and community development, natural resources, transportation, consumer and business services, administrative support, legislative, and judicial programs. Oregon's primary government as reported in the accompanying financial statements consists of approximately 90 state agencies. In addition to the primary government, three entities are reported as discretely presented component units to emphasize that they are legally separate from the State. A more detailed discussion of the reporting entity can be found in Note 1 to the basic financial statements.

Oregon's Legislature adopts a budget on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. This biennial budget serves as the foundation for the State's financial planning and control. Appropriation bills approved through the legislative process include one or more appropriations which may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. Legislative authority is required to authorize the transfer of expenditure authority between appropriations. Management can reallocate within an appropriation without legislative approval. The following budgeted appropriated fund types have been established to account for the State's budgetary activities: general funds, federal funds, lottery funds, and other funds. Additional information about the budget process and budgetary monitoring are presented in the notes to the required supplementary information.

Local Economy

Oregon is the least populous of the three west coast states that also include California and Washington. Oregon has almost 2 million of the three states' 23.7 million workers. Oregon's largest metro area is centered in Portland, stretching west to Hillsboro and north across the Columbia River to Vancouver, Washington. The Portland area has the sixth largest number of workers of all metro areas in the three states. One-half of Oregon's jobs are located within the Oregon portion of the Portland metro area.

From late 2003 to mid-2006, Oregon gained jobs at roughly 3 percent per year. Oregon's nonfarm payroll jobs peaked in February 2008, two months after the start of the current national recession, and the State lost 8.5 percent of its jobs before reaching bottom in December 2009. Since that low point, seven of Oregon's 11 major industries have added back jobs lost during the recession for a net gain of 32,300 jobs. The financial activities, transportation, warehousing, and utilities, and wholesale trade sectors are the only private industries that have not added jobs since December 2009. Government was the only major sector to show significant over-the-year job losses in November 2011.

Oregon had the nation's highest or second highest state unemployment rate for 39 of the 40 months from May 2001 to August 2004. The State's population continued to grow despite the high unemployment rate. Rapid job growth from late 2003 to mid-2006 pulled the unemployment rate down to a low of 5 percent in early 2007. In the summer of 2008, the rate began rising rapidly in response to job losses in many industries. It hit a recent peak of 11.6 percent in spring 2009, the second highest in the nation. As of November 2011, it was down to 9.1 percent.

Oregon's major foreign-export-related industries include computers and electronic products, agricultural products, machinery, chemicals, and transportation equipment. The largest foreign consumers of Oregon's products are China, Malaysia, Canada, and Japan. Oregon also ships large values of goods to domestic markets. These shipments include wood, food, nursery products, transportation equipment, machinery, instruments, and plastic and paper products. Oregon also serves both foreign and domestic tourists.

Oregon's annual nonfarm employment level in 2011 should grow about 1.5 percent over 2010's level and is expected to grow another 1.3 percent in 2012, reflecting the modest recovery in jobs following the recession. Employment growth is expected to rise to 2.5 percent in 2012 and remain above 2 percent each year through 2016. The State's job growth mirrors the national trends, although Oregon's job growth is expected to be slightly faster. Job growth over this period is expected to be fastest in construction and professional and business services, as these industries recover from some of the jobs cut during the recession. Professional and business services and health care and social assistance will likely add the most jobs between 2011 and 2016. Overall, population could grow faster than employment in Oregon between 2011 and 2016.

Spending for education reported by the State's governmental funds during fiscal year 2011 was down \$325.7 million, or 7.6 percent, compared to fiscal year 2010, but was 18.9 percent higher than the amount spent on education ten years ago. However, as a percentage of total expenditures, the amount devoted to education was 6.7 percent lower in the current fiscal year than it was in fiscal year 2002. Governmental fund expenditures for administration in fiscal year 2011 were down \$35.2 million, or 8.1 percent, compared to fiscal year 2010. However, the amount spent on administration in the current year was 21.8 percent lower than in fiscal year 2002 and, as a percentage of total expenditures, was 2.2 percent lower. The decrease in expenditures for education and administration as a percentage of total expenditures reflects a shift in the allocation of expenditures to other program areas such as human services and debt service. Governmental fund expenditures related to debt service, for example, have increased as the State expands its use of low-

cost capital financing. Debt service expenditures in fiscal year 2011 were more than four times higher than the amount spent on debt service in fiscal year 2002 and, as a percentage of total expenditures, were 2.6 percent higher than ten years ago.

During this same ten-year period, tax revenues, while increasing in amount overall, decreased 8.3 percent as a percentage of total governmental fund revenues. The reason for this decline is the relative increase in governmental fund expenditures for federally supported programs (e.g., human services) versus governmental activities funded by taxes. As a percentage of total revenues, federal revenues were 10 percent higher than they were ten years ago, evidence of the State's increased participation in federal assistance programs.

Prolonged Recession Impacts Oregon's Budget

The legislatively adopted budget for the State of Oregon for the 2011-13 biennium is \$57.8 billion total funds, a decrease of \$4.4 billion, or 7.1 percent, from the 2009-11 legislatively approved budget of \$62.2 billion. Most of the decline is the result of decreases in federal funding, which dropped by \$3.3 billion, or 18.6 percent, between the two biennia. (Due to the one-time economic stimulus provided by the U.S. Congress during the 2009-11 biennium, the State's federally funded expenditures jumped from \$10.1 billion in the 2007-09 biennium to over \$17.7 billion in 2009-11.) The decline in the 2011-13 total funds adopted budget is the first biennial decline since the 1981-83 biennium.

The Oregon Legislature dealt with declining revenues throughout the 2009-11 biennium. From the time the 2009-11 budget was passed in June 2009 until release of the March 2011 economic and revenue forecast, General Fund revenues decreased by \$1.1 billion. Most of the revenue reductions, including another decline of \$15.7 million projected by the May 2011 forecast had been managed through a mixture of budget reductions and fund shifts, transfers to the General Fund, federal stimulus dollars, and utilization of emergency fund balances.

Following the release of the May 2011 forecast, final adjustments were made to the 2011-13 biennium budget. Combined General Fund and lottery funds expenditures for 2011-13 total \$14.6 billion, up \$1 billion from the legislatively approved budget for the 2009-11 biennium, an increase of 7.5 percent. General Fund appropriations increased by \$1 billion, or 8.7 percent, over the 2009-11 approved level, while the net lottery funds expenditure limitation decreased \$66 million, or 5.9 percent. Budget assumptions included a cap on personal services growth, elimination of the standard inflation factor, continuation of the allotment reduction cuts instituted during the 2009-11 biennium, and an additional 6.5 percent reduction in expenditures for services and supplies. Nonetheless, the General Fund and lottery funds budget is \$3.2 billion, or 18.1 percent, below the calculated 2011-13 "current service level" budget – the amount needed to continue all 2009-11 existing programs, services, and revenue sources for the next two budget years.

In February 2011, the State Debt Policy Advisory Commission updated its recommended capacity limits for the General Fund and lottery funds debt based upon the updated revenue forecast. At the time, debt service requirements already exceeded the State's target of 5 percent of revenues. Therefore, the Commission recommended that the Legislature and Governor refrain from using new General Fund supported debt for the 2011-13 biennium. To provide some capacity for 2011-13, the Legislature took action early in 2011 to remove the bonding authorization for approximately \$200 million in projects that had been approved for the 2009-11 biennium. Another \$52 million of debt authorized for 2009-11 was not issued.

Long-term Financial Planning

The 2011-13 legislatively adopted budget for capital construction is \$1.3 billion. This total includes \$264.6 million of capital construction and deferred maintenance projects for the Oregon University System (OUS). The projects will be funded through a variety of sources, including various categories of bonds, gifts, grants, donations, and other cash balances. No General Fund was appropriated to support OUS capital construction or deferred maintenance expenditures; all support comes from other funds.

The largest General Fund project includes \$62.7 million to continue work on a new facility to replace the current State Hospital which was constructed in 1893. The new 620-bed Salem campus is expected to be completed during fiscal year 2012. An additional \$5 million was approved for further planning and infrastructure development of both mental health and correctional facilities at Junction City.

The 2011-13 transportation budget includes \$600 million in highway revenue bond proceeds for bridge construction authorized under the Oregon Transportation Investment Act enacted by the Legislature in 2003; \$75 million in bond proceeds for the State Radio Replacement Project (formerly known as the Oregon Wireless Interoperability Network Project); and \$478.5 million for highway projects identified in the Legislature's enactment of the Jobs and Transportation Act of 2009.

The Legislature also authorized the sale of \$40 million of lottery revenue bonds for Connect Oregon (a 60 percent reduction from the prior biennium). This sale is in addition to the \$100 million Connect Oregon bond sale authorized in the 2005-07 biennium, the \$100 million Connect Oregon II bond sale in 2007-09, and the \$100 million Connect Oregon III bond sale in 2009-11. Launched to expand the State's investment in key non-highway facilities, Connect Oregon is a multi-modal transportation initiative that includes public transit and air, rail, and marine transportation infrastructure.

The December 2011 economic and revenue forecast projects \$13.8 billion of General Fund gross revenues for the 2011-13 biennium. The projected General Fund ending balance for 2011-13 is \$169.3 million. General Fund resources are forecasted to increase by 13.9 percent in the 2013-15 biennium and 12.1 percent in the 2015-17 biennium.

Relevant Financial Policies

The State currently administers two general reserve accounts, the Oregon Rainy Day Fund and the Education Stability Fund.

Established by the 2007 Legislature, the Oregon Rainy Day Fund is funded from the General Fund's ending balance up to one percent of General Fund appropriations for the prior biennium. The Legislature may deposit additional funds as it did to create the fund, using surplus corporate income tax revenues from the 2005-07 biennium. The Rainy Day Fund also earns interest on the moneys in the fund. Fund balance is capped at 7.5 percent of General Fund revenues in the prior biennium.

Amounts in the Rainy Day Fund may be spent only if approved by three-fifths of both chambers of the Legislature and if one of three specific economic triggers occurs. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question. During the 2009 legislative session, two bills were passed that affected the Rainy Day Fund. The first bill transferred \$225 million to the General Fund for the 2009-11 biennium. The second bill directed revenue collected from corporate income and excise tax rates above 6.6 percent to be deposited in the Rainy Day Fund beginning with the 2013-15 biennium. During the 2010 special session, the Legislature approved an additional \$10 million transfer to the General Fund. The Rainy Day Fund ended the 2009-11 biennium with a balance of \$10.4 million.

The Education Stability Fund is the State's second general reserve fund. Its current reserve structure and mechanics are the result of a constitutional amendment in 2002. This fund receives 18 percent of lottery earnings, deposited on a quarterly basis. The fund does not retain interest earnings. The withdrawal triggers are similar to the Rainy Day Fund, except for the two-thirds cap on withdrawals. Fund balance is capped at five percent of General Fund revenues collected in the prior biennium. The Education Stability Fund can also be used if the Governor declares an emergency that is approved by three-fifths of both chambers of the Legislature.

As the result of two bills, one passed by the 2009 regular session and the other by the 2010 special session, a total of \$200 million was transferred from the two reserve funds to the State School Fund for the 2009-11 biennium; the Rainy Day Fund transferred \$115.7 million, with \$84.3 million coming from the Education Stability Fund. An additional transfer of \$96.4 million from the Education Stability Fund to the State School Fund was authorized during the 2011 legislative session in order to balance the 2009-11 budget and to address federal post-secondary education maintenance of effort requirements. The Education Stability Fund ended the 2009-11 biennium with a balance of \$5.1 million.

The 2011 Legislature approved prospective transfers from the Education Stability Fund to the State School Fund: \$100 million in June 2012 as part of the 2011-13 budget and \$82.2 million in May 2013 to be used for several education-related programs in the 2011-13 legislatively adopted budget, including an enhancement of the State School Fund's initial funding level. In addition, the General Fund ending balance for 2009-11 of \$35.2 million was deposited in the Rainy Day Fund at the beginning of the 2011-13 biennium.

After taking all of these transfers into account, the December 2011 economic and revenue forecast projects the Rainy Day Fund will end 2011-13 with a balance of \$45.9 million. The Education Stability Fund is expected to end the biennium with a balance of \$10.7 million, including deposits of \$188 million based on lottery sales and scheduled withdrawals of \$182.7 million.

Major Initiatives

Of the major projects and related efforts included in the 2011-2013 legislatively adopted budget, several are of particular interest due to their overall cost, complexity and risk, importance to public safety and health, and/or cross-biennium timeframes. These projects include:

- Oregon Judicial Department's eCourt Program
- Oregon Department of Transportation's State Radio Project (formerly known as the Oregon Wireless Interoperability Network Project)
- Oregon Health Authority's Health Insurance Exchange Project

The Judicial Department's 2011-13 budget includes \$10.5 million of other funds for development costs related to the eCourt Program that will be financed with bond proceeds and repaid with General Fund debt service, as well as \$2 million of General Fund for program operations and maintenance. The Legislature asked the Judicial Department to remediate 37 key program deficiency areas as a condition of issuance of additional bond funding in the February 2012 regular session.

The Legislature directed the leadership of the State Radio Project to scale back the project to the first goal established in the original 2005 legislation, which was to simply upgrade all existing state radios and infrastructure to assure the continued proper operation of an "integrated statewide radio network." The scaled back project is estimated to cost a total of \$209 million of which \$121.4 million will be expended in the 2011-13 biennium and \$43 million in the 2013-15 biennium.

Due to the complexity of the Health Insurance Exchange Project and the short federal timeframes for completing the work required by a \$48 million federal grant, the Legislature directed the Oregon Health Authority to develop a detailed project plan that identifies the key activities, milestones, and performance measures necessary to ensure the project proceeds according to schedule and budget. Oregon resources dedicated to the project are approximately \$55 million. (A health insurance exchange is a set of state-regulated and standardized health care plans from which individuals may purchase health insurance that is eligible for federal subsidies. All exchanges must be fully certified and operational by January 1, 2014 under federal law.)

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Oregon for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the nineteenth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The State Controller's Division takes great pride in the preparation of the Oregon Comprehensive Annual Financial Report. We greatly appreciate the professionalism, commitment, and effort of Statewide Accounting and Reporting Services and the other individuals involved. We also want to thank all state agencies for their continuing support in planning and conducting the financial operations of the State in a professionally responsible manner. Without the participation and cooperation of the agencies' fiscal units, the preparation of this report would not have been possible. In addition, we appreciate the contributions of the Office of

Economic Analysis, the Budget and Management Division, the Office of the State Treasurer, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joy Sebastian". The signature is written in a cursive style with a large initial "J".

Joy Sebastian, Acting Administrator
State Controller's Division
State of Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



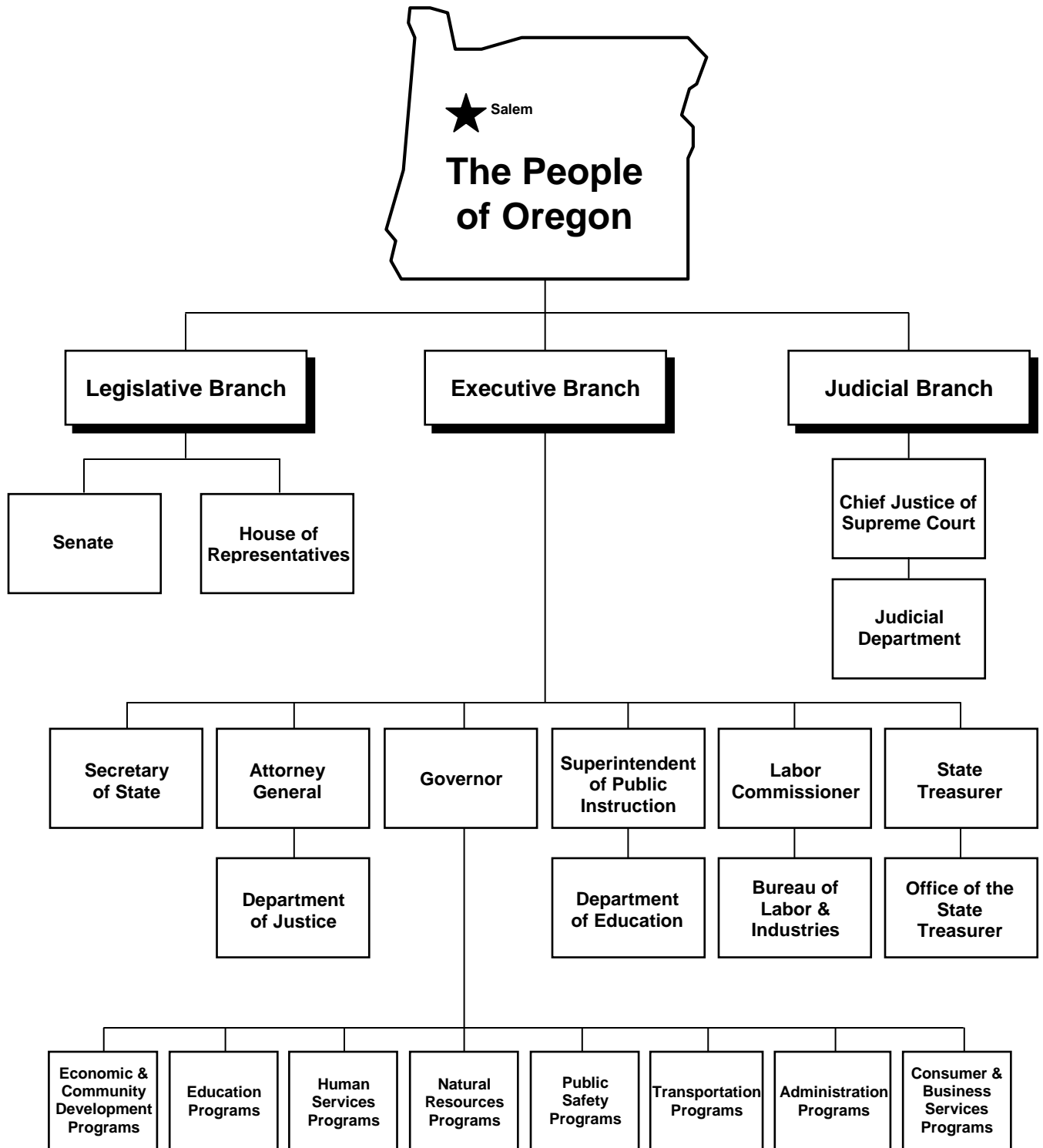
Linda C. Davison

President

Jeffrey R. Emer

Executive Director

STATE OF OREGON ORGANIZATION CHART



Principal State Officials



EXECUTIVE

John A. Kitzhaber, MD, Governor

Kate Brown, Secretary of State

Ted Wheeler, State Treasurer

John R. Kroger, Attorney General

Brad Avakian, Commissioner, Labor and Industries

Susan Castillo, Superintendent of Public Instruction

LEGISLATIVE

Peter Courtney, Senate President

Bruce Hanna, Co-speaker of the House of Representatives

Arnie Roblan, Co-speaker of the House of Representatives

JUDICIAL

Paul J. DeMuniz, Chief Justice of the Supreme Court



Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

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The Honorable John Kitzhaber
Governor of Oregon

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of and for the year ended June 30, 2011, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. We also did not audit the financial statements of the University System, the Veterans' Loan Fund, or the Public Employees Retirement System. The University System and Veterans' Loan Fund represent 48 percent, 40 percent, and 30 percent, of the assets, net assets, and revenues, respectively, of the business-type activities. The Public Employees Retirement System represents 85 percent, 90 percent, and 69 percent, respectively, of the assets, net assets, and additions/revenues of the aggregate remaining funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, the University System, the Veterans' Loan Fund, and the Public Employees Retirement System, is based on the reports of the other auditors.

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 of material misstatement. The financial statements of the Oregon University System Foundations, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. As part of our audit, we performed audit procedures related to the Common School Fund, a major governmental fund. The State Land Board was created to manage lands dedicated to the Common School Fund with the objective of obtaining the greatest benefit for the people of Oregon. The Oregon Constitution designates the Secretary of State as both a member of the State Land Board and Auditor of Public Accounts. To minimize this impairment, auditors who did not have any known personal impairments in relation to the Common School Fund performed the audit. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the year ended June 30, 2011, the State implemented Governmental Accounting Standards Board *Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we also issue a separate report on our consideration of the State of Oregon'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* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and the schedule of funding progress, as listed in table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The introductory section, combining fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

OREGON AUDITS DIVISION



Kate Brown
Secretary of State

January 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Oregon (State) Comprehensive Annual Financial Report presents a discussion and analysis of the financial performance of the State (primary government) during the fiscal year ended June 30, 2011. This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

We encourage readers to consider the information presented in this analysis in conjunction with the transmittal letter beginning on page 2 of this report.

FINANCIAL HIGHLIGHTS

- On June 30, 2011, the assets of the State exceeded its liabilities by \$15.1 billion (net assets). Of this amount, \$2.5 billion were classified as unrestricted net assets, while \$3.3 billion were restricted for specific uses. The remaining \$9.3 billion were invested in capital assets, net of related debt.
- The State's total net assets increased \$1.5 billion compared to the prior year. The net assets for governmental activities increased 9.6 percent, while the net assets for business-type activities increased 13.6 percent.
- As of June 30, 2011, the State's governmental funds reported combined ending fund balances of \$4.9 billion. Of this total, approximately 5.6 percent was considered nonspendable and included amounts related to inventories, prepaid amounts, and permanent fund principal.
- Over 81.1 percent of ending fund balances was classified as restricted and included amounts that were subject to constraints imposed by external parties, such as creditors, grantors, or the laws and regulations of other governments (including the federal government), or imposed by constitutional provisions or enabling legislation. Restricted fund balances totaled \$4 billion.
- The remaining 13.3 percent of ending fund balances was classified as unrestricted and included the fund balance categories designated as committed, assigned and unassigned. Committed fund balances are available for spending only with legislative approval. Assigned and unassigned fund balance may be spent at the government's discretion. Total unrestricted fund balances equaled \$660.1 million. Additional information on the classification of governmental fund balances may be found in Notes 1 and 21 in the notes to the financial statements.
- At fiscal year end, unrestricted fund balance (committed, assigned and unassigned categories) in the General Fund was \$127.4 million.
- Outstanding debt (bonds and certificates of participation) increased by \$161.7 million during fiscal year 2011. On May 18, 2011, the State completed the inaugural sale of bonds issued under the authority of Article XI-Q of the State Constitution. Oregon voters approved a constitutional amendment in November 2010 authorizing the use of general obligation bonds to finance (or refinance) the costs of acquiring, constructing, and equipping real or personal property. Article XI-Q bonds are expected to replace the Certificate of Participation program and result in significant savings in borrowing costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements*, *required supplementary information*, and the *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. A *statistical section* follows the combining fund statements.

The basic financial statements contain three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the State's finances in a manner similar to a private-sector business. All of the State's activities are reported in the government-wide statements except for activities accounted for in fiduciary funds because resources of those funds are not available to support the State's own programs.

- The *statement of net assets* presents information on all of the State's assets and liabilities, with the difference between the two reported as *net assets*.
- The *statement of activities* presents information showing how the State's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

Net assets are one measure of the State's financial health, or financial position. Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the State's financial position is improving or deteriorating. However, to assess the overall health of the State, the reader needs to consider additional non-financial factors such as changes in Oregon's income tax base and changes in Oregon's economy.

The activities reported in the government-wide financial statements are divided into three categories:

- *Governmental activities*. This category includes the basic services provided by the State to its citizens, such as K-12 schools and community colleges, public assistance programs, public safety, and public transportation. Income taxes and federal grants finance most of these activities. The State's internal service funds, which provide services to other state agencies, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.
- *Business-type activities*. The State charges fees to customers to help cover the costs of certain services it provides. For example, the State administers loan programs to provide housing to citizens with low incomes and those who are elderly or disabled. The operation of the State's lottery and the Oregon University System are also reported under business-type activities.
- *Component units*. The State includes three other entities in its report: SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations. Although legally separate, these entities are reported as component units either because the State is financially accountable for them or because of the nature and significance of their relationship to the State. Financial information for the component units is reported separately from the financial information of the primary government.

The government-wide financial statements can be found on pages 28–31 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (not the State as a whole). Funds are accounting mechanisms the State uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the State uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. Some funds are required by state law (such as the Lottery Operations Fund) or by bond covenants. The State establishes other funds to control and manage money for particular purposes, such as health and social services, or to show that it is properly using certain taxes and grants, such as gas taxes for transportation.

All of the State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the State's basic services are included in governmental funds, which focus on (1) how cash and other financial resources that can be readily converted to cash flow in and out and (2) the balances remaining at year end that are available to spend. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the State's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information has been provided following each governmental fund statement that reconciles the government-wide focus to the governmental fund focus.

The State maintains twenty-one individual governmental funds. Information is presented separately in the governmental fund financial statements for the six major governmental funds, including the General Fund. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining statements presented later in this report. The basic governmental fund financial statements can be found on pages 32–39 of this report.

Proprietary funds. Services for which the State charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long-term and short-term financial information. The State's enterprise funds (one type of proprietary fund) are the same as the business-type activities reported in the government-wide statements, except that the fund statements provide more detail and additional information, such as cash flows. The State also uses internal service funds (the other type of proprietary fund). The Central Services Fund, for example, is used to report activities that provide services to other agencies.

The proprietary fund financial statements provide separate information for the State's five major proprietary funds. Data from the other nine proprietary funds are combined into a single, aggregated presentation. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of the nonmajor proprietary funds and for each of the internal service funds is provided in the combining statements presented later in this report. The basic proprietary fund financial statements can be found on pages 40–49 of this report.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The State is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that, due to a trust arrangement, can be used only for the trust beneficiaries. Fiduciary funds are accounted for in a manner similar to proprietary funds. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities have been excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

The basic fiduciary fund financial statements include the private purpose trust fund, the investment trust fund, the agency fund, and aggregated data for the State's pension and other employee benefit trust funds. Individual fund data for each of the pension and other employee benefit trust funds is provided in the combining statements presented later in this report. The basic fiduciary fund financial statements can be found on pages 50–51 of this report.

Discretely Presented Component Units

Combining statements that report the activities of the State's discretely presented component units, SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations, can be found on pages 53–55 of this report. In the government-wide statements, the activities of the component units are aggregated into a single column; the combining statements presented later in this report provide greater detail for each component unit.

Notes to the Financial Statements

The basic financial statements also include notes that provide additional information essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57–153 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents a section of *required supplementary information* (RSI), beginning on page 155, which contains budget-to-actual comparison schedules for all of the State’s budgeted appropriated funds as well as accompanying notes. This section also includes a Schedule of Funding Progress and accompanying notes for the Retiree Health Insurance Premium Account, a defined benefit single-employer postemployment healthcare benefit plan, and the Public Employees Benefit Board Plan, an agent multiple-employer postemployment healthcare benefit plan.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 167 of this report. These combining statements provide details about the nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, each of which has been aggregated and presented in a single column in the basic financial statements. The combining financial statements also provide details about the pension and other employee benefit trust funds.

A statistical section containing information regarding financial trends, revenue capacity, and debt capacity, as well as demographic, economic, and operating information follows immediately after the combining statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The State’s *combined* net assets at June 30, 2011, were approximately \$15.1 billion as shown in Table 1. Most of this balance was invested in capital assets, with infrastructure being the largest component. The amount invested in capital assets, net of related debt, was \$9.3 billion. Restricted net assets represent resources that are subject to external restrictions on how they may be used. At June 30, 2011, restricted net assets totaled \$3.3 billion. The remaining balance of \$2.5 billion was classified as unrestricted net assets.

Table 1
State of Oregon’s Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 10,180.9	\$ 9,956.1	\$ 6,844.1	\$ 6,862.3	\$ 17,025.0	\$ 16,818.4
Capital assets	11,690.4	11,271.1	2,841.0	2,293.1	14,531.4	13,564.2
Total assets	21,871.3	21,227.2	9,685.1	9,155.4	31,556.4	30,382.6
Long-term liabilities	8,173.6	8,178.0	4,156.5	4,015.0	12,330.1	12,193.0
Other liabilities	2,868.9	3,171.7	1,283.8	1,405.1	4,152.7	4,576.8
Total liabilities	11,042.5	11,349.7	5,440.3	5,420.1	16,482.8	16,769.8
Net assets:						
Invested in capital assets, net of related debt	8,107.7	8,672.4	1,195.6	977.2	9,303.3	9,649.6
Restricted	2,582.7	1,287.4	670.7	556.6	3,253.4	1,844.0
Unrestricted	138.4	(82.3)	2,378.4	2,201.5	2,516.8	2,119.2
Total net assets	\$ 10,828.8	\$ 9,877.5	\$ 4,244.7	\$ 3,735.3	\$ 15,073.5	\$ 13,612.8

Changes in net assets. The State's total net assets increased \$1.5 billion compared to the prior year. The net assets of governmental activities increased 9.6 percent, while the net assets of business-type activities increased 13.6 percent.

Total ending net assets of governmental activities for fiscal year 2011 were \$10.8 billion compared to \$9.9 billion reported in fiscal year 2010. As shown in Table 2, operating grants and contributions were up \$633.7 million, reflecting the increase in federal revenues received for health and social service programs. Both personal and corporate income tax revenues were significantly higher in fiscal year 2011 due in part to two bills voters approved in January 2010. The first bill increased the State's corporate income tax rate and established a new corporate minimum tax. The second bill increased the State's personal income tax rate on high income filers and phased out the subtraction for federal taxes. Strong growth in investment income in 2010, as well as enhanced collection efforts, also contributed to the rise in tax revenues. Finally, capital grants and contributions increased \$52.3 million, up 115.2 percent over the prior year. State matching requirements for capital construction projects and the Build America Bond interest subsidy were the two major contributing factors.

Due to recent economic conditions and state budget reductions, spending on education and administration was down in fiscal year 2011. However, the prolonged recession and the State's high unemployment rate increased the need for spending in the area of human services, up \$673.1 million, or 9.8 percent. Transportation expenses were down \$292.5 million due to the capitalization of costs associated with major highway and bridge construction and improvements. Interest expense on long-term debt related to governmental activities increased 17.4 percent, an indication of the State's reliance on low-cost capital financing.

As shown in Table 2, total ending net assets of business-type activities for fiscal year 2011 were \$4.2 billion compared to \$3.7 billion reported in fiscal year 2010. Although federal funding for unemployment benefits (which is reported under operating grants and contributions) decreased year over year, it was more than offset by a reduction in unemployment benefit payments. Together, these two changes reflect Oregon's slowly improving unemployment rate and, in some cases, the expiration of extended benefits.

During fiscal year 2011, it was determined that the Standard Retiree Health Insurance Account, which had previously been reported in a fiduciary fund, should be reported in a proprietary fund. As a consequence, both charges for services and other expenses under business-type activities saw significant, but offsetting, increases. The rise in charges for services also includes supplementary revenues collected by the Employment Department due to a temporary surcharge added to agency assessments.

Table 2
State of Oregon's Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,403.7	\$ 1,309.4	\$ 4,224.1	\$ 3,737.3	\$ 5,627.8	\$ 5,046.7
Operating grants & contributions	8,324.8	7,691.1	1,986.4	2,238.2	10,311.2	9,929.3
Capital grants & contributions	97.7	45.4	60.1	108.3	157.8	153.7
General revenues:						
Personal income taxes	5,597.8	4,958.6	-	-	5,597.8	4,958.6
Corporate income taxes	502.9	387.6	-	-	502.9	387.6
Other taxes	1,924.0	1,786.6	16.2	16.8	1,940.2	1,803.4
Unrestricted investment earnings	3.3	3.2	-	-	3.3	3.2
Total revenues	17,854.2	16,181.9	6,286.8	6,100.6	24,141.0	22,282.5
Expenses:						
Education	3,979.5	4,303.1	-	-	3,979.5	4,303.1
Human services	7,535.1	6,862.0	-	-	7,535.1	6,862.0
Public safety	1,180.4	1,199.6	-	-	1,180.4	1,199.6
Economic & community development	480.2	455.5	-	-	480.2	455.5
Natural resources	629.2	593.1	-	-	629.2	593.1
Transportation	1,566.2	1,858.7	-	-	1,566.2	1,858.7
Consumer and business services	424.5	463.5	-	-	424.5	463.5
Administration	376.8	474.6	-	-	376.8	474.6
Legislative	37.8	33.0	-	-	37.8	33.0
Judicial	313.9	308.6	-	-	313.9	308.6
Interest on long-term debt	351.7	299.5	-	-	351.7	299.5
Housing and community services	-	-	78.2	84.3	78.2	84.3
Veterans' loan	-	-	19.4	19.7	19.4	19.7
Lottery operations	-	-	510.4	518.1	510.4	518.1
Unemployment compensation	-	-	2,306.5	3,020.4	2,306.5	3,020.4
University system	-	-	2,146.9	2,003.7	2,146.9	2,003.7
State hospitals	-	-	248.0	222.3	248.0	222.3
Liquor control	-	-	325.4	312.9	325.4	312.9
Other business-type activities	-	-	269.2	89.5	269.2	89.5
Total expenses	16,875.3	16,851.2	5,904.0	6,270.9	22,779.3	23,122.1
Increase (decrease) before contributions, special and extraordinary items, and transfers	978.9	(669.3)	382.8	(170.3)	1,361.7	(839.6)
Contributions to permanent funds	-	0.3	-	-	-	0.3
Transfers	(62.9)	129.0	62.9	(129.0)	-	-
Increase (decrease) in net assets	916.0	(540.0)	445.7	(299.3)	1,361.7	(839.3)
Net assets – beginning	9,877.5	10,122.0	3,735.3	3,973.3	13,612.8	14,095.3
Prior period adjustments	35.3	295.5	63.7	61.3	99.0	356.8
Cumulative effect of accounting change	-	-	-	-	-	-
Net assets – beginning – as restated	9,912.8	10,417.5	3,799.0	4,034.6	13,711.8	14,452.1
Net assets – ending	\$10,828.8	\$ 9,877.5	\$ 4,244.7	\$ 3,735.3	\$ 15,073.5	\$13,612.8

Figure 1 below illustrates fiscal year 2011 revenues of the State as a whole, by source. Approximately 42.7 percent of total revenue comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 25.3 percent comes from personal and corporate income taxes and 23.3 percent comes from charges for services provided.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2011

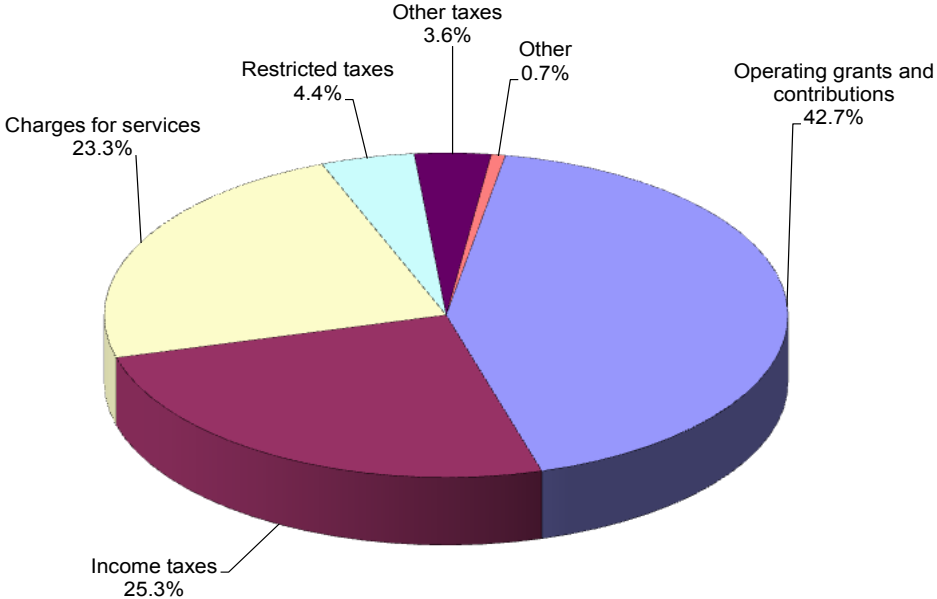
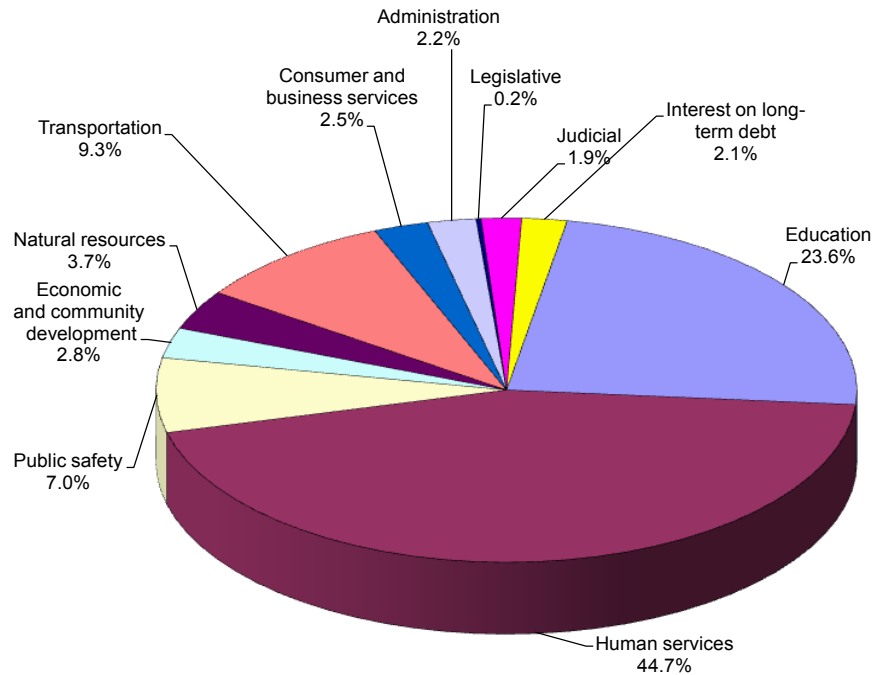


Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest area of expenses is human services provided for Oregon's citizens in need of assistance at 44.7 percent, with elementary and secondary education the second largest at 23.6 percent of total governmental activity expenses.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2011



FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State of Oregon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* financial resources. In governmental funds, such information may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2011, the State's governmental funds reported combined ending fund balances of \$4.9 billion, up \$424.6 million over the prior year. Additional information concerning governmental funds and the effects of Governmental Accounting Standards Board Statement No. 54 may be found in Notes 1 and 21 in the notes to the financial statements.

Nonspendable balances of \$275.5 million, or 5.6 percent, included amounts that were either not in spendable form or were legally or contractually required to be maintained intact, while restricted fund balances of \$4 billion, or 81.1 percent, were restricted for specific purposes. These restrictions included, for example, vehicle-related taxes that must be used for transportation purposes; federal funding that must be spent in accordance with the underlying grants; and lottery revenues restricted by the Oregon Constitution for job

creation, economic development, financing public education, and restoring and protecting Oregon's parks and beaches.

Committed fund balances of \$514 million comprised 10.4 percent of total fund balances. This category represents amounts committed to specific purposes, such as residential assistance and community protection programs, as the result of constraints imposed by legislation. These amounts may not be used for other purposes unless the legislation is modified or rescinded by passing additional legislation. The assigned fund balance category of \$37 million represents amounts constrained by the State's intent to be used for specific purposes. Legislative authority is not required to create or modify an assignment. The remaining unassigned balance of \$109.1 million in the General Fund had not been restricted, committed, or assigned to a specific purpose.

In the General Fund, which is the operating fund of the State, total ending fund balance for fiscal year 2011 was up \$751.5 million, or 148.1 percent, from the prior year. Several factors contributed to this large increase. As explained in Note 1, due to the implementation of GASB Statement No. 54, certain activities that were previously reported in special revenue funds are now reported in the General Fund. This shift resulted in a \$264.5 million restatement of beginning fund balance. In addition, personal income tax revenues increased \$591.1 million over the prior year, or 11.9 percent, while corporate income tax revenues jumped \$101.4 million, or 26.6 percent. These gains were due to earlier legislation that raised the income tax rates on corporations and high income filers, increased collection efforts, and a healthy rise in investment income in 2010.

The Health and Social Services Fund saw a slight decrease in fund balance for fiscal year 2011. Total revenues were up \$339.8 million, or 7 percent; healthcare provider taxes rose 21.7 percent, while federal funding increased 7.3 percent. However, the demand for spending on human services programs and the shift of certain activities to the General Fund more than offset the increase in revenues.

In the Public Transportation Fund, ending fund balance decreased \$260.8 million, or 25.4 percent. Although revenues from the collection of motor fuels, weight-mile, and vehicle registration taxes grew due to increases in the underlying tax rates, expenditures in the fund exceeded revenues by \$116 million. Other factors contributing to the decline in fund balance included a 10.9 percent increase in transfers to other funds and a major decrease in long-term debt issues, which dropped \$483.9 million, or 83.4 percent, compared to the prior year.

Ending fund balance in the Common School Fund was up 28 percent for fiscal year 2011. Two factors played a major role. First, strong financial asset performance resulted in investment income of \$207.5 million, a 72.8 percent increase over the prior year. Secondly, the fund recognized revenue related to unclaimed property of \$50.8 million, which represented an increase of 270.6 percent over the \$13.7 million reported in fiscal year 2010.

Due to the implementation of GASB Statement No. 54, the Oregon Rainy Day Fund is now reported as part of the General Fund. Its beginning fund balance was \$125.6 million. However, after taking into account investment income of \$547 thousand and transfers to the State School Fund of \$115.7 million, only \$10.4 million of the General Fund's ending fund balance was attributable to the Oregon Rainy Day Fund.

Proprietary funds. The State's enterprise funds provide the same type of information presented for business-type activities in the government-wide financial statements, but in greater detail.

Housing and Community Services finances home ownership and multi-family units for elderly, disabled, and low to moderate income persons through the issuance of bonds. The Veterans' Loan Program provides home purchase and home improvement loans at favorable interest rates to eligible veterans. For fiscal year 2011, both funds saw minor changes in net assets. The Housing and Community Services Fund reported operating income of \$171 thousand, investment income of \$3.3 million, and transfers to other funds of \$174 million, resulting in an increase in net assets of \$3.2 million, or 1.6 percent. The Veterans' Loan Fund experienced an operating loss of \$4.4 million that was almost entirely offset by investment income of \$4 million. The net result was a small decrease in ending net assets of \$821 thousand.

Net assets in the Lottery Operations Fund decreased \$23.1 million for fiscal year 2011. Overall, net product sales increased \$10.3 million, or 1 percent. This increase was primarily attributable to an increase in Video

LotterySM revenue. Although the national and local economic recession continued to impact consumer spending on entertainment such as lottery games, Video LotterySM revenue increased after two consecutive years of decline. Investment income, however, decreased \$7.7 million due to the combined effects of a decrease in the market value of investments and lower interest earnings on cash balances. The Lottery also transferred \$555.2 million to other funds, an increase of \$9.4 million compared to the prior fiscal year. Of the total amount transferred to other funds, the Economic Development Fund received \$547 million.

For fiscal year 2011, the Unemployment Compensation Fund reported assessments of \$1 billion, an increase of 30 percent. This increase was the result of an administrative decision by the Employment Department to add a temporary surcharge to agency assessments. Although federal revenues declined for the first time in two years, benefit payments to unemployed Oregonians also declined. These two factors reflect Oregon's generally declining unemployment rate and, in some cases, the expiration of extended benefits. As a result of these changes, net assets in the Unemployment Compensation Fund increased \$76.7 million, or 6.5 percent.

The University System Fund saw an 11.5 percent increase in total operating revenues, while operating expenses increased only 7 percent. As a result, the fund's operating loss for fiscal year 2011 was \$364.2 million, an improvement of 10 percent over the prior year's loss. Even with the operating loss, the University System Fund saw an increase in net assets of \$140.6 million due to capital contributions of \$46.6 million and transfers from other funds, including a transfer of \$374.6 million from the General Fund.

As noted earlier, it was determined during fiscal year 2011 that the Standard Retiree Health Insurance Account, which had previously been reported in a fiduciary fund, should be reported in a proprietary fund. Consequently, both charges for services and expenses in the other (nonmajor) proprietary fund increased significantly in fiscal year 2011. The \$164.4 million increase in charges for services was primarily attributable to healthcare insurance premiums collected from retirees under this program. Operating expenses in the form of special payments experienced a similar increase due to the related cost of claims.

Capital contributions in the other (nonmajor) proprietary fund also increased in fiscal year 2011. Capital assets of \$229.5 million were transferred from governmental activities to the State Hospital Fund (a nonmajor proprietary fund reported in the combining proprietary fund statements).

At the end of fiscal year 2011, approximately 56 percent of the total net assets reported by the State's proprietary funds was classified as unrestricted and was available for spending on business-activities. However, restrictions significantly affected the availability of resources in the Housing and Community Services Fund with 95.5 percent of the fund's net assets restricted for debt service. In the University System Fund, 53.6 percent of net assets was invested in capital assets, net of related debt, while 23.9 percent was restricted for education, debt service, capital construction, and for purposes stipulated by donors.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the Pension and Other Employee Benefit Trust Fund, which accounts for resources held in trust for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the Public Employees Retirement System, increased by \$9.4 billion, or 18.3 percent. The net appreciation in fair value of investments was the primary factor contributing to this increase. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

The State budgets on a biennial basis rather than an annual basis. Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the budgetary statements represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budgeted expenditures represent the original appropriated budget modified by legally authorized legislative and executive changes, as well as Emergency Board actions take during the year. For the 2009-11 biennium, final estimated revenues for the General Fund decreased 9.7 percent compared to the original estimate. The bulk of this \$1.3 billion reduction was a \$1.2 billion decrease in estimated personal income taxes. The General Fund's final budgeted expenditures were also reduced by \$820.3 million, or 6.2 percent.

For fiscal year 2011, actual General Fund revenues and other financing sources exceeded actual expenditures and other financing uses by \$827.8 million, leaving an ending budget balance of \$522.3 million. Actual revenues for the biennium were 98.9 percent of final budgeted revenues, or \$11.7 billion, while actual cash expenditures were 98.8 percent of those budgeted, or \$12.3 billion. The remaining budget is expected to be used during the six-month lapse period from July 1 to December 31, 2011, to pay for obligations incurred prior to July 1, 2011. To manage differences in the timing of cash flows, the State issued \$788 million of tax anticipation notes in July 2011. These notes will be repaid with income tax revenue prior to the end of fiscal year 2012.

DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises the Governor and the legislative assembly regarding policies and actions that enhance and preserve the State’s credit rating and maintain the future availability of low cost capital financing. As of June 30, 2011, the State’s debt credit ratings, which are an indication of the State’s ability to repay its debt, were AA+ by Fitch, AA+ by Standard & Poor’s, and Aa1 by Moody’s. Standard & Poor’s upgraded the State’s credit rating in March 2011 from AA based on strong financial practices, the balanced budget proposed by the governor, and because of confidence in the state’s ability to cover its pension obligations.

Debt outstanding for the years ended June 30, 2011 and 2010, is summarized in Table 3. The majority of general obligation bonds issued in fiscal year 2011 were Article XI-Q bonds to be used to help finance the new state mental hospital, renovation of the Department of Transportation’s headquarters building, construction projects and improvements to various instructional buildings throughout the Oregon University System, and seismic grants for public schools and public safety buildings. Oregon voters approved a constitutional amendment in November 2010 authorizing the use of general obligation bonds to finance (or refinance) the costs of acquiring, constructing, and equipping real or personal property. The 2011 Legislative Assembly enacted a bill to provide the statutory framework for the Article XI-Q bonds, which are expected to replace Certificates of Participation and result in significant savings in borrowing costs. General obligation bonds were also issued to finance acquisition and construction of new higher education facilities.

During fiscal year 2011, revenue bonds were issued for transportation and economic development projects, residential assistance for low income families, and community college capital construction projects. The majority of new revenue bonds issued for business-type activities in fiscal year 2011 were single-family mortgage and multi-family housing revenue bonds. Additional information on the State’s long-term debt may be found in Note 9 of this report.

**Table 3
State of Oregon’s Outstanding Debt
For the Years Ended June 30, 2011 and 2010
(dollars in millions)**

	2011	2010	2011 Over (Under) 2010	
			Amount	Percent
General Obligation Bonds	\$ 5,079.7	\$ 4,599.3	\$ 480.4	10.4%
Revenue Bonds	4,929.2	4,972.0	(42.8)	-0.9%
Certificates of Participation	1,410.2	1,621.8	(211.6)	-13.0%
General Appropriation Bonds	171.6	235.9	(64.3)	-27.3%
Total	\$ 11,590.7	\$ 11,429.0	\$ 161.7	1.4%

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011, was \$14.5 billion (net of accumulated depreciation) as summarized in Table 4. Capital assets include land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and other nondepreciable assets. The State's investment in capital assets for fiscal year 2011 increased \$967.2 million, or 7.1 percent.

Table 4
State of Oregon's Capital Assets, Net of Depreciation
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,778.3	\$ 1,724.4	\$ 132.2	\$ 121.3	\$ 1,910.5	\$ 1,845.7
Buildings, property and equipment	1,800.9	1,740.1	2,256.2	1,711.9	4,057.1	3,452.0
Construction in progress	1,469.8	2,071.3	332.7	354.2	1,802.5	2,425.5
Infrastructure	6,639.5	5,733.6	47.4	41.3	6,686.9	5,774.9
Works of art and other nondepreciable assets	1.9	1.7	72.5	64.4	74.4	66.1
Total	\$ 11,690.4	\$ 11,271.1	\$ 2,841.0	\$ 2,293.1	\$ 14,531.4	\$ 13,564.2

Major capital asset events during the fiscal year included the following:

- Commitments of \$1 billion were made for highway and bridge construction.
- The decrease in construction in progress was primarily the result of completion of projects or project phases related to State highways, tunnels, and bridges; the Oregon State Hospital replacement project; and higher education facilities.

Additional information on the State's capital assets may be found in Note 6 of this report.

ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET

Oregon's unemployment rate for November 2011 was the lowest rate in three years, 9.1 percent compared to 10.6 percent in November 2010. The U.S. unemployment rate for November 2011 was 8.6 percent. Since reaching a high point of 11.6 percent in May and June 2009, the rate has slowly declined for the past two and a half years. At 9.1 percent in November, Oregon's unemployment rate is at its lowest point since November 2008, when the rate was 8.4 percent. Overall, job growth is up 1.5 percent on the year, which ranks Oregon thirteenth across all states.

Employment in Oregon in both the second and third quarters of calendar year 2011 was essentially flat following a very strong start to 2011. The recent weakness is largely attributable to public sector cuts as the private sector slowly continued to add jobs. Budget shortfalls have caught up with the public sector, with declines in all three government levels, notably local education.

If Europe's banking problems remain primarily a regional issue and do not short circuit the global flow of credit, Oregon's slow expansion can be expected to persist. Being home to a relatively small banking industry and having few direct trade links with Europe, Oregon's economy has relatively little exposure to Europe's troubles. Even so, given Europe's size and the depth of its financial problems, the threat of a renewed global recession is uncomfortably high.

As expected, investment and exports are leading the State's recovery. Consumer spending remains strong and the public sector drag has decreased the past two quarters. Nevertheless, overall employment growth remains slow; governments and housing-related industries are unlikely to add a significant number of workers any time soon. Employment is expected to increase by 0.6 percent in the fourth quarter of 2011 and 1.4

percent in the first quarter of 2012. Job gains will remain subdued in 2012, improving at a pace of 1.3 percent, following gains in 2011 of 1.5 percent.

The December 2011 forecast for General Fund revenues for the 2011-13 biennium is \$13.8 billion. This figure is \$277 million below the amount forecasted at the close of the 2011 legislative session. The projected General Fund ending balance for the 2011-13 biennium is \$169.3 million. The December 2011 revenue forecast also projects increases in General Fund revenues for the next two biennia, up 13.9 percent to \$15.7 billion in 2013-15 and 12.1 percent to \$17.6 billion in 2015-17.



Basic Financial Statements

State of Oregon

**Statement of Net Assets
June 30, 2011
(In Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS AND DEFERRED OUTFLOWS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,419,503	\$ 2,017,546	\$ 3,437,049	\$ 270,140
Cash and Cash Equivalents - Restricted	-	13,804	13,804	-
Investments	1,170,189	17,585	1,187,774	4,115,525
Investments - Restricted	-	103,580	103,580	-
Securities Lending Collateral	870,259	537,661	1,407,920	228,043
Accounts and Interest Receivable (net)	780,932	562,404	1,343,336	608,977
Taxes Receivable (net)	443,168	-	443,168	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	235,492
Internal Balances	154,705	(154,705)	-	-
Due from Component Units	-	19,600	19,600	-
Due from Other Governments	1	14,928	14,929	-
Due from Primary Government	-	-	-	20,064
Inventories	86,178	37,900	124,078	15,715
Prepaid Items	163,969	25,838	189,807	58,679
Foreclosed and Deeded Property	-	12,354	12,354	-
Total Current Assets	5,088,904	3,208,495	8,297,399	5,552,635
Noncurrent Assets:				
Cash and Cash Equivalents - Restricted	1,525,199	698,842	2,224,041	-
Investments	98,816	124,362	223,178	516,280
Investments - Restricted	278,094	472,961	751,055	1,738,813
Custodial Assets	34,959	-	34,959	-
Taxes Receivable (net)	486,109	-	486,109	-
Deferred Charges	36,131	16,516	52,647	7,508
Interfund Loans	(328)	328	-	-
Advances to Component Units	-	46,518	46,518	-
Net Contracts, Notes, and Other Receivables	352,445	95,726	448,171	4,066
Loans Receivable (net)	601,776	2,153,142	2,754,918	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	71,406
Net Pension Asset	1,678,700	-	1,678,700	-
Capital Assets:				
Land	1,778,293	132,230	1,910,523	69,041
Buildings, Property, and Equipment	3,146,327	3,883,143	7,029,470	2,196,275
Construction in Progress	1,469,843	332,727	1,802,570	59,406
Infrastructure	16,167,440	96,237	16,263,677	-
Works of Art and Other Nondepreciable Assets	1,924	72,450	74,374	-
Less Accumulated Depreciation and Amortization	(10,873,378)	(1,675,793)	(12,549,171)	(1,020,375)
Total Noncurrent Assets	16,782,350	6,449,389	23,231,739	3,642,420
Deferred Outflows	-	27,218	27,218	7,776
Total Assets and Deferred Outflows	21,871,254	9,685,102	31,556,356	9,202,831

The notes to the financial statements are an integral part of this statement.

State of Oregon

Statement of Net Assets
June 30, 2011
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current Liabilities:				
Accounts and Interest Payable	846,914	265,386	1,112,300	249,695
Obligations Under Securities Lending	870,259	537,661	1,407,920	228,042
Due to Component Units	11,596	5,606	17,202	-
Due to Other Governments	147,251	19,617	166,868	16,077
Due to Primary Government	-	-	-	33,431
Unearned Revenue	35,571	126,071	161,642	207,660
Matured Bonds/COPS and Coupons Payable	-	2,890	2,890	-
Compensated Absences Payable	109,207	52,727	161,934	55,957
Reserve for Loss and Loss Adjustment Expense	-	-	-	209,117
Claims and Judgments Payable	128,543	23,492	152,035	20,253
Lottery Prize Awards Payable	-	38,530	38,530	-
Arbitrage Rebate Payable	652	126	778	-
Custodial Liabilities	269,222	26,810	296,032	8,667
Contracts, Mortgages and Notes Payable	100,410	13,389	113,799	1,690
Bonds/COPS Payable	341,910	171,223	513,133	11,441
Obligations Under Capital Lease	4,439	73	4,512	1,141
Pollution Remediation Obligation	2,942	147	3,089	-
Total Current Liabilities	2,868,916	1,283,748	4,152,664	1,043,171
Noncurrent Liabilities:				
Obligations Under Life Income Agreements	-	-	-	93,698
Compensated Absences Payable	56,247	9,491	65,738	-
Reserve for Loss and Loss Adjustment Expense	-	-	-	2,795,522
Claims and Judgments Payable	933,585	-	933,585	35,838
Lottery Prize Awards Payable	-	102,579	102,579	-
Arbitrage Rebate Payable	850	13,422	14,272	-
Custodial Liabilities	3,825	11,194	15,019	-
Contracts, Mortgages, and Notes Payable	1,772	4,744	6,516	65,888
Contracts Payable to Component Unit	-	22,423	22,423	-
Bonds/COPS Payable	7,126,949	3,947,013	11,073,962	687,498
Obligations Under Capital Lease	5,199	542	5,741	4,664
Advances from Primary Government	-	-	-	46,518
Pollution Remediation Obligation	7,944	-	7,944	-
Net OPEB Obligation	37,187	17,828	55,015	6,331
Derivative Instrument Liabilities	-	27,218	27,218	7,776
Total Noncurrent Liabilities	8,173,558	4,156,454	12,330,012	3,743,733
Deferred Inflows	-	147	147	-
Total Liabilities and Deferred Inflows	11,042,474	5,440,349	16,482,823	4,786,904
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	8,107,685	1,195,629	9,303,314	602,783
Expendable Net Assets Restricted for:				
Health and Social Services Programs	205,304	-	205,304	-
Transportation Programs	307,389	-	307,389	-
Natural Resource Programs	636,049	-	636,049	-
Education	1,044,891	167,602	1,212,493	1,001,662
Community Protection	101,959	-	101,959	-
Consumer Protection	35,993	-	35,993	-
Employment Services	14,005	-	14,005	-
Workers' Compensation	-	-	-	1,149,611
Residential Assistance	118,473	2,219	120,692	-
Debt Service	7,808	383,832	391,640	-
Capital Projects	3,726	100,632	104,358	-
Other Purposes	80,100	-	80,100	-
Nonexpendable Net Assets Restricted for:				
Donor Purposes	-	16,387	16,387	706,668
Education	1,710	-	1,710	165,488
Residential Assistance	23,551	-	23,551	-
Natural Resource Programs	1,500	-	1,500	-
Workers' Compensation	250	-	250	-
Unrestricted	138,387	2,378,452	2,516,839	789,715
Total Net Assets	\$ 10,828,780	\$ 4,244,753	\$ 15,073,533	\$ 4,415,927

State of Oregon

**Statement of Activities
For the Year Ended June 30, 2011
(In Thousands)**

	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Functions/Programs					
Primary Government:					
Governmental Activities:					
Education	\$ 3,979,440	\$ 11,853	\$ 735,470	\$ 36,733	\$ (3,195,384)
Human Services	7,535,059	289,686	5,302,435	2,072	(1,940,866)
Public Safety	1,180,405	80,842	168,310	46,426	(884,827)
Economic and Community Development	480,196	24,574	447,655	-	(7,967)
Natural Resources	629,222	285,394	466,747	178	123,097
Transportation	1,566,210	138,383	726,240	12,273	(689,314)
Consumer and Business Services	424,534	270,467	20,521	-	(133,546)
Administration	376,821	115,365	455,680	-	194,224
Legislative	37,801	1,641	14	-	(36,146)
Judicial	313,886	185,523	1,769	-	(126,594)
Interest on Long-term Debt	351,713	-	-	-	(351,713)
Total Governmental Activities	<u>16,875,287</u>	<u>1,403,728</u>	<u>8,324,841</u>	<u>97,682</u>	<u>(7,049,036)</u>
Business-type Activities:					
Housing and Community Services	78,194	78,248	3,320	-	3,374
Veterans' Loan	19,365	14,732	4,043	-	(590)
Lottery Operations	510,401	1,038,805	3,587	-	531,991
Unemployment Compensation	2,306,502	1,022,592	1,393,180	-	109,270
University System	2,146,867	1,288,143	576,546	46,562	(235,616)
State Hospitals	248,072	83,241	-	-	(164,831)
Liquor Control	325,410	443,120	-	-	117,710
Other Business-type Activities	269,217	255,249	5,750	13,519	5,301
Total Business-type Activities	<u>5,904,028</u>	<u>4,224,130</u>	<u>1,986,426</u>	<u>60,081</u>	<u>366,609</u>
Total Primary Government	<u>\$ 22,779,315</u>	<u>\$ 5,627,858</u>	<u>\$ 10,311,267</u>	<u>\$ 157,763</u>	<u>\$ (6,682,427)</u>
Component Units:					
SAIF Corporation	\$ 547,327	\$ 350,183	\$ 418,707	\$ -	\$ 221,563
Oregon Health and Science University	1,914,817	1,514,434	570,516	4,281	174,414
Oregon University System Foundations	196,346	23,746	344,693	-	172,093
Total Component Units	<u>\$ 2,658,490</u>	<u>\$ 1,888,363</u>	<u>\$ 1,333,916</u>	<u>\$ 4,281</u>	<u>\$ 568,070</u>

The notes to the financial statements are an integral part of this statement.

State of Oregon

Statement of Activities
For the Year Ended June 30, 2011
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Changes in Net Assets:				
Net (Expense) Revenue	\$ (7,049,036)	\$ 366,609	\$ (6,682,427)	\$ 568,070
General Revenues:				
Taxes:				
Personal Income Taxes	5,597,821	-	5,597,821	-
Corporate Income Taxes	502,862	-	502,862	-
Tobacco Taxes	258,453	-	258,453	-
Healthcare Provider Taxes	233,826	-	233,826	-
Inheritance Taxes	80,482	-	80,482	-
Public Utilities Taxes	71,939	-	71,939	-
Insurance Premium Taxes	90,085	-	90,085	-
Other Taxes	119,882	16,204	136,086	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	449,462	-	449,462	-
Weight Mile Taxes	240,056	-	240,056	-
Vehicle Registration Taxes	275,344	-	275,344	-
Restricted for Workers' Compensation and Workplace Safety Programs:				
Workers' Compensation Insurance Taxes	34,942	-	34,942	-
Employer-Employee Taxes	69,429	-	69,429	-
Total Taxes	<u>8,024,583</u>	<u>16,204</u>	<u>8,040,787</u>	<u>-</u>
Unrestricted Investment Earnings	3,306	-	3,306	-
Contributions to Permanent Funds	14	-	14	-
Transfers - Internal Activities	(62,910)	62,910	-	-
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	<u>7,964,993</u>	<u>79,114</u>	<u>8,044,107</u>	<u>-</u>
Change in Net Assets	<u>915,957</u>	<u>445,723</u>	<u>1,361,680</u>	<u>568,070</u>
Net Assets - Beginning	9,877,473	3,735,264	13,612,737	3,847,857
Prior Period Adjustments	35,350	63,766	99,116	-
Net Assets - Beginning - As Restated	<u>9,912,823</u>	<u>3,799,030</u>	<u>13,711,853</u>	<u>3,847,857</u>
Net Assets - Ending	<u>\$ 10,828,780</u>	<u>\$ 4,244,753</u>	<u>\$ 15,073,533</u>	<u>\$ 4,415,927</u>

State of Oregon

**Balance Sheet
Governmental Funds
June 30, 2011
(In Thousands)**

	General	Health and Social Services	Public Transportation	Environmental Management
ASSETS				
Cash and Cash Equivalents	\$ 102,861	\$ 477,806	\$ 636,992	\$ 354,625
Investments	4,164	-	154,430	-
Custodial Assets	82	-	23,818	954
Securities Lending Collateral	33,764	119,346	226,359	114,191
Accounts and Interest Receivable (net)	19,056	233,131	75,450	40,891
Taxes Receivable (net)	841,102	13,208	73,141	-
Due from Other Funds	261,901	3,156	4,706	19,812
Due from Other Governments	-	-	-	-
Inventories	26,461	1,091	26,594	27,578
Prepaid Items	53,426	107,722	781	23
Advances to Other Funds	-	-	-	-
Net Contracts, Notes, and Other Receivables	27,944	29,909	3,496	5,645
Loans Receivable (net)	-	817	29,647	415,325
Total Assets	\$ 1,370,761	\$ 986,186	\$ 1,255,414	\$ 979,044
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Interest Payable	\$ 272,425	\$ 52,779	\$ 124,478	\$ 24,801
Obligations Under Securities Lending	33,764	119,346	226,359	114,191
Due to Other Funds	145,313	37,905	19,036	7,070
Due to Component Units	-	11,567	-	29
Due to Other Governments	32,372	-	78,206	14,749
Deferred Revenue	628,209	35,657	16,459	23,906
Claims and Judgments Payable	5,176	-	-	-
Custodial Liabilities	8,671	44,140	23,863	6,398
Contracts, Mortgages, and Notes Payable	-	95,000	-	-
Advances from Other Funds	677	-	-	300
Total Liabilities	1,126,607	396,394	488,401	191,444
Fund Balances:				
Nonspendable	79,891	108,865	27,355	28,027
Restricted by:				
Federal Laws and Regulations	290	26,407	94,561	504,899
Oregon Constitution	10,026	142	167,640	68,066
Enabling Legislation	21,032	252,685	79,925	83,350
Debt Covenants	5,534	66,887	397,532	45,890
Donors and Other External Parties	-	5,044	-	276
Committed	10,400	125,722	-	49,550
Assigned	7,864	4,040	-	7,542
Unassigned	109,117	-	-	-
Total Fund Balances	244,154	589,792	767,013	787,600
Total Liabilities and Fund Balances	\$ 1,370,761	\$ 986,186	\$ 1,255,414	\$ 979,044

The notes to the financial statements are an integral part of this statement.

State of Oregon

Common School	Oregon Rainy Day	Other	Total
\$ 79,540	\$ -	\$ 1,059,539	\$ 2,711,363
1,082,628	-	245,388	1,486,610
7,810	-	2,295	34,959
24,987	-	197,835	716,482
45,974	-	280,288	694,790
-	-	1,826	929,277
800	-	156,742	447,117
-	-	1	1
3	-	3,031	84,758
1	-	1,778	163,731
300	-	-	300
-	-	285,422	352,416
-	-	155,989	601,778
\$ 1,242,043	\$ -	\$ 2,390,134	\$ 8,223,582
\$ 75,011	\$ -	\$ 217,745	\$ 767,239
24,987	-	197,835	716,482
25,224	-	34,106	268,654
-	-	-	11,596
-	-	21,926	147,253
-	-	295,590	999,821
-	-	-	5,176
171,532	-	10,162	264,766
-	-	-	95,000
-	-	101	1,078
296,754	-	777,465	3,277,065
4	-	31,324	275,466
-	-	138,188	764,345
705,735	-	375,120	1,326,729
237,232	-	308,888	983,112
-	-	409,543	925,386
2,318	-	3,717	11,355
-	-	328,325	513,997
-	-	17,564	37,010
-	-	-	109,117
945,289	-	1,612,669	4,946,517
\$ 1,242,043	\$ -	\$ 2,390,134	\$ 8,223,582

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011
(In Thousands)

Total fund balances of governmental funds \$ 4,946,517

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	1,768,950	
Buildings, property, and equipment	2,563,308	
Construction in progress	1,463,831	
Infrastructure	16,166,803	
Works of art and historical treasures	1,757	
Accumulated depreciation and amortization	<u>(10,565,543)</u>	
Total capital assets		11,399,106

The net pension asset resulting from contributions in excess of the annual required contribution in 2004 is not a financial resource and, therefore, is not reported in the funds. (See Note 15) 1,678,700

Some of the State's revenues will be collected after year-end but are not available soon enough to pay the current year liabilities and, therefore, are deferred in the funds. 964,656

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. 266,196

Unamortized debt issuance costs are reported as deferred charges for governmental activities in the Statement of Net Assets but are reported as expenditures in the funds. 35,401

Some liabilities are not due and payable in the current year and, therefore, are not reported in the funds. Those liabilities consist of:

Bonds and COPS	(7,336,680)	
Accrued interest on bonds and COPS	(51,020)	
Claims and judgments	(863,372)	
Compensated absences	(154,943)	
Obligations under capital lease	(661)	
Net OPEB obligation	(35,571)	
Arbitrage rebate	(1,481)	
Pollution remediation obligation	(10,886)	
Contracts, mortgages, and notes payable	<u>(7,182)</u>	
Total long-term liabilities		<u>(8,461,796)</u>

Net assets of governmental activities **\$ 10,828,780**

State of Oregon

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011
(In Thousands)**

	General	Health and Social Services	Public Transportation	Environmental Management
Revenues:				
Personal Income Taxes	\$ 5,538,417	\$ -	\$ -	\$ -
Corporate Income Taxes	482,360	-	-	-
Tobacco Taxes	69,521	202,261	-	-
Healthcare Provider Taxes	-	233,826	-	-
Inheritance Taxes	76,480	-	-	-
Public Utilities Taxes	-	-	-	-
Insurance Premium Taxes	42,627	47,457	-	-
Motor Fuels Taxes	-	-	449,291	-
Weight Mile Taxes	-	-	239,967	-
Vehicle Registration Taxes	-	-	273,489	-
Employer-Employee Taxes	-	-	-	-
Workers' Compensation Insurance Taxes	-	-	-	-
Other Taxes	75,515	-	1,549	21,786
Licenses and Fees	59,812	84,274	82,742	121,577
Federal	194	4,133,997	787,155	185,182
Charges for Services	16,050	143,947	44,677	28,200
Fines and Forfeitures	17,251	165	3,565	766
Rents and Royalties	461	29	5,174	2,555
Investment Income	3,306	2,981	14,391	15,750
Sales	1,496	3,878	3,690	76,351
Donations and Grants	2,262	561	-	1,212
Contributions to Permanent Funds	-	-	-	-
Tobacco Settlement Proceeds	-	77,426	-	-
Pension Bond Debt Service Assessments	-	-	-	-
Unclaimed Property Revenue	-	-	-	-
Other	14,503	232,769	5,740	10,861
Total Revenues	6,400,255	5,163,571	1,911,430	464,240
Expenditures:				
Current:				
Education	2,958,976	-	-	-
Human Services	1,627,560	4,901,134	-	-
Public Safety	862,259	-	-	-
Economic and Community Development	20,133	-	-	-
Natural Resources	78,921	-	-	517,998
Transportation	11,772	-	1,932,886	-
Consumer and Business Services	5,963	176,974	-	-
Administration	203,764	14,110	92,963	-
Legislative	32,857	-	-	-
Judicial	234,585	1,355	-	-
Capital Improvements and Capital Construction	-	-	-	-
Debt Service:				
Principal	71,915	-	-	8
Interest	52,558	-	652	-
Other Debt Service	1,090	492	961	114
Total Expenditures	6,162,353	5,094,065	2,027,462	518,120
Excess (Deficiency) of Revenues Over (Under) Expenditures	237,902	69,506	(116,032)	(53,880)
Other Financing Sources (Uses):				
Transfers from Other Funds	1,470,651	70,313	7,175	122,033
Transfers to Other Funds	(1,222,466)	(212,793)	(256,709)	(59,822)
Insurance Recoveries	1,929	-	991	157
Long-term Debt Issued	-	68,167	96,370	5,790
Debt Issuance Premium	-	7,838	8,287	155
Refunding Debt Issued	-	-	-	-
Leases Incurred	-	-	-	18
Refunded Debt Payment to Escrow Agent	-	-	-	-
Total Other Financing Sources (Uses)	250,114	(66,475)	(143,886)	68,331
Net Change in Fund Balances	488,016	3,031	(259,918)	14,451
Fund Balances - Beginning	(507,344)	606,442	1,027,785	776,428
Cumulative Effect of Change in Accounting Principle	264,471	(28,582)	-	(12,578)
Prior Period Adjustments	2,213	8,617	(1,799)	3,876
Fund Balances - Beginning - As Restated	(240,660)	586,477	1,025,986	767,726
Change in Inventories	(3,202)	284	945	5,423
Fund Balances - Ending	\$ 244,154	\$ 589,792	\$ 767,013	\$ 787,600

The notes to the financial statements are an integral part of this statement.

State of Oregon

Common School	Oregon Rainy Day	Other	Total
\$ -	\$ -	\$ -	\$ 5,538,417
-	-	-	482,360
-	-	-	271,782
-	-	-	233,826
-	-	-	76,480
-	-	71,939	71,939
-	-	-	90,084
-	-	-	449,291
-	-	-	239,967
-	-	-	273,489
-	-	69,831	69,831
-	-	34,942	34,942
-	-	21,624	120,474
672	-	166,514	515,591
-	-	2,865,193	7,971,721
179	-	56,509	289,562
71	-	59,231	81,049
3,992	-	2,719	14,930
207,543	-	26,294	270,265
7,950	-	3,813	97,178
5	-	53,717	57,757
-	-	14	14
-	-	-	77,426
-	-	5,608	5,608
50,827	-	-	50,827
247	-	78,148	342,268
<u>271,486</u>	<u>-</u>	<u>3,516,096</u>	<u>17,727,078</u>
-	-	1,019,447	3,978,423
-	-	1,187,929	7,716,623
-	-	296,342	1,158,601
-	-	463,159	483,292
16,855	-	42,852	656,626
-	-	12,064	1,956,722
-	-	280,962	463,899
-	-	89,081	399,918
-	-	3,201	36,058
-	-	81,357	317,297
-	-	127,409	127,409
-	-	228,900	300,823
-	-	301,508	354,718
-	-	2,304	4,961
<u>16,855</u>	<u>-</u>	<u>4,136,515</u>	<u>17,955,370</u>
254,631	-	(620,419)	(228,292)
8,952	-	1,134,112	2,813,236
(54,562)	-	(800,684)	(2,607,036)
-	-	63	3,140
-	-	209,042	379,369
-	-	30,306	46,586
-	-	112,876	112,876
-	-	-	18
-	-	(129,074)	(129,074)
<u>(45,610)</u>	<u>-</u>	<u>556,641</u>	<u>619,115</u>
209,021	-	(63,778)	390,823
738,760	125,579	1,754,294	4,521,944
-	(125,579)	(102,190)	(4,458)
<u>(2,492)</u>	<u>-</u>	<u>24,548</u>	<u>34,963</u>
736,268	-	1,676,652	4,552,449
-	-	(205)	3,245
<u>\$ 945,289</u>	<u>\$ -</u>	<u>\$ 1,612,669</u>	<u>\$ 4,946,517</u>

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**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2011
(In Thousands)**

Net change in fund balances of total governmental funds	\$ 390,823
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Capital outlay is reported as an expenditure in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:</p>	
Capital outlay	931,996
Depreciation expense	<u>(262,628)</u>
Excess of capital outlays over depreciation	669,368
<p>The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net assets.</p>	
	(233,409)
<p>Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing. In the Statement of Net Assets, a lease obligation is reported as a liability.</p>	
	(18)
<p>Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Assets.</p>	
	(538,831)
<p>Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Assets.</p>	
	429,897
<p>Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these items are deferred and amortized in the Statement of Activities.</p>	
	12,650
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds.</p>	
Accrued interest on long-term debt	(1,744)
Claims and judgments payable	37,219
Compensated absences	(776)
Net pension asset	(57,100)
Net OPEB obligation	(4,786)
Pollution remediation obligation	3,553
Contracts, mortgages, and notes payable	<u>2,789</u>
Total	(20,845)
<p>Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the governmental funds.</p>	
	(12)
<p>Some revenues will not be collected for several months after the State's fiscal year ends. Therefore, they are not considered "available" revenues and are deferred in the governmental funds.</p>	
	144,325
<p>The change in inventory is reported as a separate line after the change in fund balances in governmental funds but is included in expenses in the Statement of Activities.</p>	
	3,245
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities.</p>	
	<u>58,764</u>
Change in net assets of governmental activities	<u>\$ 915,957</u>

Balance Sheet
Proprietary Funds
June 30, 2011
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
ASSETS AND DEFERRED OUTFLOWS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,874	\$ 92,655	\$ 231,543
Cash and Cash Equivalents - Restricted	8,880	3,107	-
Investments	-	3,541	14,044
Investments - Restricted	98,575	5,005	-
Securities Lending Collateral	18,154	67,609	121,485
Accounts and Interest Receivable (net)	9,060	1,738	15,790
Due from Other Funds	53	66	-
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	2,345
Prepaid Items	2	7	557
Foreclosed and Deeded Property	10,784	1,570	-
Total Current Assets	151,382	175,298	385,764
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	45,264	139,489	-
Investments	-	21,783	102,579
Investments - Restricted	221,595	3,269	-
Deferred Charges	10,526	1,937	-
Advances to Other Funds	-	-	-
Advances to Component Units	-	-	-
Net Contracts, Notes, and Other Receivables	-	1,961	2,946
Loans Receivable (net)	1,288,880	245,582	-
Capital Assets:			
Land	-	-	-
Buildings, Property, and Equipment	162	8,954	184,393
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Other Nondepreciable Assets	-	85	-
Less Accumulated Depreciation and Amortization	(162)	(5,009)	(121,587)
Total Noncurrent Assets	1,566,265	418,051	168,331
Deferred Outflows	25,409	1,809	-
Total Assets and Deferred Outflows	\$ 1,743,056	\$ 595,158	\$ 554,095

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total		
\$ 962,325	\$ 395,755	\$ 329,394	\$ 2,017,546	\$	128,587
-	1,688	129	13,804	-	-
-	-	-	17,585	-	-
-	-	-	103,580	-	-
3,663	253,626	73,124	537,661	-	153,778
298,557	205,322	32,306	562,773	-	86,142
87	8,099	1,237	9,542	-	2,307
-	19,600	-	19,600	-	-
14,928	-	-	14,928	-	-
-	7,033	28,522	37,900	-	1,420
-	24,412	860	25,838	-	234
-	-	-	12,354	-	-
1,279,560	915,535	465,572	3,373,111	372,468	
-	456,350	57,739	698,842	-	104,752
-	-	-	124,362	-	-
-	248,097	-	472,961	-	60,487
-	-	4,053	16,516	-	730
-	-	91,571	91,571	-	677
-	46,518	-	46,518	-	-
33,966	56,826	27	95,726	-	28
-	-	618,680	2,153,142	-	-
-	125,248	6,982	132,230	-	9,343
-	3,342,878	346,756	3,883,143	-	583,019
-	331,076	1,651	332,727	-	6,012
-	94,847	1,390	96,237	-	637
-	72,325	40	72,450	-	167
-	(1,493,170)	(55,865)	(1,675,793)	-	(307,835)
33,966	3,280,995	1,073,024	6,540,632	458,017	
-	-	-	27,218	-	-
\$ 1,313,526	\$ 4,196,530	\$ 1,538,596	\$ 9,940,961	\$	830,485

(continued on next page)

State of Oregon

Balance Sheet
Proprietary Funds
June 30, 2011
(In Thousands)

(continued from previous page)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	\$ 29,686	\$ 1,350	\$ 5,322
Obligations Under Securities Lending	18,154	67,609	121,485
Due to Other Funds	16	-	145,612
Due to Other Governments	-	-	-
Due to Component Units	-	-	-
Unearned Revenue	1,045	-	585
Matured Bonds/COPS and Coupons Payable	-	1,073	-
Compensated Absences Payable	162	296	1,791
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	38,530
Arbitrage Rebate Payable	-	-	-
Custodial Liabilities	-	1,977	135
Contracts, Mortgages, and Notes Payable	-	-	15
Bonds/COPS Payable	78,525	3,302	-
Obligations under Capital Lease	-	-	-
Pollution Remediation Obligation	-	-	-
Total Current Liabilities	127,588	75,607	313,475
Noncurrent Liabilities:			
Compensated Absences Payable	84	152	923
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	102,579
Arbitrage Rebate Payable	102	13,171	-
Custodial Liabilities	-	-	-
Contracts, Mortgages, and Notes Payable	1,500	-	-
Contracts Payable to Component Unit	-	-	-
Bonds/COPS Payable	1,378,345	371,040	-
Obligations Under Capital Lease	-	-	-
Advances from Other Funds	-	-	-
Net OPEB Obligation	67	88	520
Derivative Instrument Liabilities	25,409	1,809	-
Total Noncurrent Liabilities	1,405,507	386,260	104,022
Deferred Inflows	-	-	-
Total Liabilities and Deferred Inflows	1,533,095	461,867	417,497
Net Assets:			
Invested in Capital Assets, Net of Related Debt	-	4,030	62,806
Expendable Net Assets Restricted for:			
Residential Assistance	2,219	-	-
Education	-	-	-
Debt Service	200,498	-	-
Capital Projects	-	-	-
Nonexpendable Net Assets Restricted for:			
Donor Purposes	-	-	-
Unrestricted	7,244	129,261	73,792
Total Net Assets	209,961	133,291	136,598
Total Liabilities, Deferred Inflows and Net Assets	\$ 1,743,056	\$ 595,158	\$ 554,095

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total		
\$ 29,973	\$ 164,073	\$ 34,982	\$ 265,386	\$	28,647
3,663	253,626	73,124	537,661		153,778
1,589	86	22,960	170,263		20,420
19,609	-	8	19,617		-
-	5,606	-	5,606		-
-	124,148	293	126,071		406
-	1,688	129	2,890		-
-	42,895	7,583	52,727		6,937
-	-	23,492	23,492		29,305
-	-	-	38,530		-
-	126	-	126		21
-	19,665	5,033	26,810		5,009
-	13,374	-	13,389		-
-	58,376	31,020	171,223		13,899
-	73	-	73		3,782
-	147	-	147		-
54,834	683,883	198,624	1,454,011		262,204
-	4,528	3,804	9,491		3,574
-	-	-	-		164,275
-	-	-	102,579		-
-	149	-	13,422		-
-	10,830	364	11,194		3,271
-	3,244	-	4,744		-
-	22,423	-	22,423		-
-	1,811,111	386,517	3,947,013		118,280
-	542	-	542		5,195
-	91,144	100	91,244		226
-	14,116	3,037	17,828		1,616
-	-	-	27,218		-
-	1,958,087	393,822	4,247,698		296,437
-	147	-	147		-
54,834	2,642,117	592,446	5,701,856		558,641
-	833,522	295,271	1,195,629		150,050
-	-	-	2,219		-
-	167,602	-	167,602		-
-	87,314	96,020	383,832		-
-	100,632	-	100,632		-
-	16,387	-	16,387		-
1,258,692	348,956	554,859	2,372,804		121,794
1,258,692	1,554,413	946,150	4,239,105		271,844
\$ 1,313,526	\$ 4,196,530	\$ 1,538,596	\$ 9,940,961	\$	830,485

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are included within the business-type activities.

Net assets of business-type activities	5,648
	\$ 4,244,753

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
Operating Revenues:			
Assessments	\$ -	\$ -	\$ -
Licenses and Fees	4,755	135	-
Federal	-	-	-
Charges for Services	1,091	1,734	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	683	-
Sales	-	-	1,037,835
Loan Interest Income	72,358	11,937	-
Gifts, Grants, and Contracts	-	-	-
Other	382	180	1,142
Gain (Loss) on Foreclosed Property	(259)	296	-
Total Operating Revenues	<u>78,327</u>	<u>14,965</u>	<u>1,038,977</u>
Operating Expenses:			
Salaries and Wages	4,195	5,718	35,512
Services and Supplies	9,451	3,948	240,156
Cost of Goods Sold	-	-	-
Distributions to Other Governments	435	-	-
Loan Interest Expense	49	-	-
Special Payments	1,567	67	201,946
Bond and COP Interest	62,459	8,521	-
Other Debt Service	-	640	-
Depreciation and Amortization	-	117	29,773
Bad Debt Expense	-	360	-
Total Operating Expenses	<u>78,156</u>	<u>19,371</u>	<u>507,387</u>
Operating Income (Loss)	<u>171</u>	<u>(4,406)</u>	<u>531,590</u>
Nonoperating Revenues (Expenses):			
Bond and COP Interest	-	-	-
Investment Income (Loss)	3,320	4,043	3,587
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	(2)	-	(2,920)
Insurance Recoveries	-	-	65
Loan Interest Income	-	-	-
Loan Interest Expense	-	-	-
Other Nonoperating Items	(79)	(232)	(237)
Total Nonoperating Revenues (Expenses)	<u>3,239</u>	<u>3,811</u>	<u>495</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	<u>3,410</u>	<u>(595)</u>	<u>532,085</u>
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(174)	(226)	(555,167)
Change in Net Assets	<u>3,236</u>	<u>(821)</u>	<u>(23,082)</u>
Net Assets - Beginning	206,725	134,201	159,680
Prior Period Adjustments	-	(89)	-
Cumulative Effect of Change in Accounting Principles	-	-	-
Net Assets - Beginning - As Restated	<u>206,725</u>	<u>134,112</u>	<u>159,680</u>
Net Assets - Ending	<u>\$ 209,961</u>	<u>\$ 133,291</u>	<u>\$ 136,598</u>

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities - Enterprise Funds

Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
\$ 1,005,811	\$ -	\$ -	\$ 1,005,811	\$ -
-	-	7,759	12,649	-
1,351,638	335,573	5,151	1,692,362	-
-	719,852	281,319	1,003,996	953,124
1,904	-	518	2,422	-
-	-	66	749	43,993
-	410,034	460,286	1,908,155	8,347
-	-	27,557	111,852	-
-	213,795	-	213,795	-
14,886	27,406	4,173	48,169	3,966
-	-	-	37	-
2,374,239	1,706,660	786,829	5,999,997	1,009,430
-	1,328,156	226,855	1,600,436	130,897
-	498,248	137,734	889,537	727,165
-	-	229,694	229,694	10,364
-	-	49,334	49,769	955
-	-	-	49	-
2,291,430	130,715	170,401	2,796,126	125
-	-	17,951	88,931	6,161
-	-	147	787	260
-	113,725	5,823	149,438	36,657
15,179	-	1,325	16,864	-
2,306,609	2,070,844	839,264	5,821,631	912,584
67,630	(364,184)	(52,435)	178,366	96,846
-	(76,765)	-	(76,765)	-
41,542	27,178	1,478	81,148	3,547
-	-	16,204	16,204	-
-	(201)	(3,435)	(6,558)	(817)
-	2,539	12	2,616	217
-	-	-	-	41
-	-	-	-	(14)
(9)	128,312	(161)	127,594	(1,240)
41,533	81,063	14,098	144,239	1,734
109,163	(283,121)	(38,337)	322,605	98,580
-	46,562	242,204	288,766	1,390
1,100	408,604	201,554	611,258	3,064
(35,751)	(31,426)	(155,087)	(777,831)	(43,345)
74,512	140,619	250,334	444,798	59,689
1,182,018	1,413,794	634,123	3,730,541	213,808
2,162	-	61,693	63,766	(6,111)
-	-	-	-	4,458
1,184,180	1,413,794	695,816	3,794,307	212,155
\$ 1,258,692	\$ 1,554,413	\$ 946,150	\$ 4,239,105	\$ 271,844

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported within the business-type activities.

Change in net assets of business-type activities	925
	\$ 445,723

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011
(In Thousands)

Business-type Activities - Enterprise Funds

	Housing and Community Services	Veterans' Loan	Lottery Operations
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 5,951	\$ 1,130	\$ 1,035,014
Receipts from Other Funds for Services	-	1,542	-
Loan Principal Repayments	117,147	44,894	-
Loan Interest Received	72,665	15,190	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(4,331)	(5,694)	(35,438)
Payments to Suppliers	(7,627)	(2,335)	(239,081)
Payments to Other Funds for Services	-	(903)	-
Payments to Prize Winners	-	-	(197,605)
Claims Paid	-	-	-
Loans Made	(90,650)	(19,312)	-
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	5,103	2,018	658
Net Cash Provided (Used) in Operating Activities	<u>98,258</u>	<u>36,530</u>	<u>563,548</u>
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	229,410	82,950	-
Principal Payments on Bonds/COPS	(328,800)	(151,198)	-
Interest Payments on Bonds/COPS	(66,123)	(8,565)	-
Interest Payments on Loans	(49)	-	-
Bond/COP Issuance Costs	(2,649)	(1,371)	-
Taxes and Assessments Received	-	-	-
Other Gifts and Private Contracts	-	-	-
Insurance Recoveries for Other than Capital Assets	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(173)	(226)	(561,428)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(168,384)</u>	<u>(78,410)</u>	<u>(561,428)</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Bond/COP Issuance Costs	-	-	-
Repayments on Advances Received	-	-	-
Interest on Advances	-	-	-
Principal Payments on Loans	-	-	(23)
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	-	(42)	(6,296)
Proceeds from Disposition of Capital Assets	-	-	50
Insurance Recoveries for Capital Assets	-	-	65
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>-</u>	<u>(42)</u>	<u>(6,204)</u>
Cash Flows from Investing Activities:			
Purchases of Investments	(1,956,793)	(14,000)	(13,292)
Proceeds from Sales and Maturities of Investments	1,986,224	28,033	13,188
Interest on Investments and Cash Balances	4,821	2,218	926
Interest Income from Securities Lending	110	324	383
Interest Expense from Securities Lending	(79)	(232)	(237)
Net Cash Provided (Used) in Investing Activities	<u>34,283</u>	<u>16,343</u>	<u>968</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(35,843)</u>	<u>(25,579)</u>	<u>(3,116)</u>
Cash and Cash Equivalents - Beginning	95,861	260,830	234,659
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	<u>\$ 60,018</u>	<u>\$ 235,251</u>	<u>\$ 231,543</u>

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total	
\$ -	\$ 1,677,117	\$ 755,790	\$ 3,475,002	\$ 710,059
-	-	6	1,548	279,252
-	13,495	62,004	237,540	-
-	-	28,290	116,145	-
954,663	-	-	954,663	-
-	(1,322,302)	(226,546)	(1,594,311)	(138,442)
-	(475,768)	(329,058)	(1,053,869)	(737,998)
-	-	(7,081)	(7,984)	(32,684)
-	-	-	(197,605)	-
(2,328,644)	-	(150,423)	(2,479,067)	(12,604)
-	(128,006)	(133,442)	(371,410)	-
-	-	(53,320)	(53,320)	(896)
1,547,989	26,098	(12,786)	1,569,080	51,982
174,008	(209,366)	(66,566)	596,412	118,669
-	-	107,013	419,373	-
-	-	(55,070)	(535,068)	-
-	-	(17,967)	(92,655)	-
-	-	-	(49)	-
-	-	(585)	(4,605)	-
-	-	16,231	16,231	-
-	106,231	-	106,231	-
-	2,539	5	2,544	38
-	392,316	201,261	593,577	8,583
(35,317)	(33,162)	(155,511)	(785,817)	(23,642)
(35,317)	467,924	95,377	(280,238)	(15,021)
-	249,420	-	249,420	-
-	(42,997)	(1,195)	(44,192)	(22,968)
-	(75,316)	(293)	(75,609)	(6,648)
-	-	-	-	(62)
-	-	-	-	28
-	-	-	-	41
-	-	-	(23)	(34)
-	-	-	-	(14)
-	(463,077)	(4,645)	(474,060)	(17,165)
-	15,353	3	15,406	2,853
-	-	8	73	179
-	46,853	11,223	58,076	-
-	37,745	-	37,745	-
-	(232,019)	5,101	(233,164)	(43,790)
-	(166,140)	-	(2,150,225)	(26,546)
-	-	-	2,027,445	21,850
49,777	9,459	1,255	68,456	3,668
12	1,025	225	2,079	307
(9)	(731)	(160)	(1,448)	(220)
49,780	(156,387)	1,320	(53,693)	(941)
188,471	(129,848)	35,232	29,317	58,917
773,854	983,641	268,248	2,617,093	170,531
-	-	83,782	83,782	3,891
\$ 962,325	\$ 853,793	\$ 387,262	\$ 2,730,192	\$ 233,339

(continued on next page)

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011
(In Thousands)
(continued from previous page)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 171	\$ (4,406)	\$ 531,590
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	-	117	29,773
Amortization of Bond/COP Issuance Costs	862	-	-
Amortization of Bond/COP Premium and Discount	(454)	342	-
Amortization of Deferred Charges	(937)	581	-
Bad Debt Expense	-	-	-
Interest Payments Reported as Operating Expense	62,724	8,565	-
Bond/COP Issuance Costs Reported as Operating Expense	-	1,371	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	489	331	(3,585)
Due from Other Funds	-	1	-
Due from Other Governments	-	-	-
Inventories	-	-	(27)
Prepaid Items	(2)	1	166
Foreclosed and Deeded Property	(2,734)	(141)	-
Deferred Charges	-	-	-
Advances to Other Funds	-	-	-
Loans Receivable	38,392	27,858	-
Net Contracts, Notes, and Other Receivables	-	-	-
Accounts and Interest Payable	(290)	(167)	722
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Custodial Liabilities	-	(141)	10
Unearned Revenue	131	-	280
Claims and Judgments Payable	-	-	-
Arbitrage Payable	-	2,197	-
Contracts, Mortgages, and Notes Payable	-	-	-
Compensated Absences Payable	(101)	9	6
Lottery Prize Awards Payable	-	-	4,545
Net OPEB Obligation	7	12	68
Total Adjustments	<u>98,087</u>	<u>40,936</u>	<u>31,958</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 98,258</u>	<u>\$ 36,530</u>	<u>\$ 563,548</u>
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	\$ (2,345)	\$ 751	\$ 2,277
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Contributed	-	-	-
Foreclosed Property	28,880	1,570	-
Capital Assets Transferred to Governmental Funds	-	-	-
Loan Modifications	247	-	-
Capital Assets Traded for Other Capital Assets	-	-	27
Advanced Debt Refunding Deposited with Escrow Agent	-	-	-
Total Noncash Investing and Capital and Related Financing Activities	<u>\$ 26,782</u>	<u>\$ 2,321</u>	<u>\$ 2,304</u>

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total	
\$ 67,630	\$ (364,184)	\$ (52,435)	\$ 178,366	\$ 96,846
-	113,725	5,823	149,438	36,656
-	-	289	1,151	24
-	-	(368)	(480)	(508)
-	-	67	(289)	219
-	-	1,325	1,325	-
-	-	17,930	89,219	6,648
-	-	587	1,958	82
111,686	7,579	2,340	118,840	122,067
(6)	-	(1,238)	(1,243)	(9)
(640)	-	-	(640)	-
-	(151)	(2,964)	(3,142)	178
-	(7,660)	34	(7,461)	367
-	-	-	(2,875)	-
-	-	(1,165)	(1,165)	193
-	-	(33,872)	(33,872)	-
-	-	(20,298)	45,952	-
(4,639)	11,192	(27)	6,526	654
(5,825)	23,913	(591)	17,762	(36,319)
405	-	12,027	12,432	(9)
5,397	-	(3)	5,394	-
-	173	2,801	2,843	(75,188)
-	(21,442)	55	(20,976)	(18,660)
-	-	2,130	2,130	(15,973)
-	-	-	2,197	-
-	27,489	-	27,489	-
-	-	547	461	1,179
-	-	-	4,545	-
-	-	440	527	222
106,378	154,818	(14,131)	418,046	21,823
\$ 174,008	\$ (209,366)	\$ (66,566)	\$ 596,412	\$ 118,669
\$ -	\$ 17,198	\$ -	\$ 17,881	\$ (472)
-	-	229,481	229,481	1,390
-	18	-	18	1,751
-	3,079	1,500	4,579	-
-	-	-	30,450	-
-	-	-	-	(1,020)
-	-	-	247	-
-	-	-	27	-
-	1,481	-	1,481	-
\$ -	\$ 21,776	\$ 230,981	\$ 284,164	\$ 1,649

State of Oregon

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
ASSETS				
Cash and Cash Equivalents	\$ 2,728,503	\$ 27,135	\$ 4,046,073	\$ -
Investments:				
Fixed Income	15,032,999	255	-	-
Public Equity	24,143,158	389	-	-
Real Estate	6,135,410	-	-	-
Annuity Contracts	-	249	-	-
Private Equity	13,748,215	-	-	-
Opportunity Portfolio	1,142,876	-	-	-
Total Investments	<u>60,202,658</u>	<u>893</u>	<u>-</u>	<u>-</u>
Custodial Assets	-	4,723	-	1,602,565
Securities Lending Collateral	2,708,351	8,119	1,004,288	-
Receivables:				
Employer Contributions	9,095	-	-	-
Plan Member Contributions	10,874	-	-	-
Interest and Dividends	343,494	-	12,916	-
Member Loans	8,671	-	-	-
Investment Sales	780,006	-	42,362	-
Accounts	-	51	-	11,063
From Other Funds	10,595	2	-	-
Total Receivables	<u>1,162,735</u>	<u>53</u>	<u>55,278</u>	<u>11,063</u>
Prepaid Items	9,430	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	108,661
Receivership Assets	-	-	-	64,097
Loans Receivable (net)	-	-	95,027	-
Capital Assets (net of accumulated depreciation):				
Land	944	14	-	-
Construction in Progress	165	-	-	-
Buildings, Property and Equipment	38,207	-	-	-
Total Assets	<u>66,850,993</u>	<u>40,937</u>	<u>5,200,666</u>	<u>1,786,386</u>
LIABILITIES				
Accounts and Interest Payable	2,855,325	288	268	40
Obligations Under Securities Lending	2,725,936	8,119	1,004,288	-
Due to Other Funds	10,226	-	-	-
Due to Other Governments	-	1	-	5,684
Bonds/COPS Payable	3,615	-	-	-
Custodial Liabilities	64,992	1,681	-	1,780,662
Deferred Revenue	760	-	-	-
Contracts, Mortgages and Notes Payable	-	2,174	-	-
Net OPEB Obligation	364	-	-	-
Total Liabilities	<u>5,661,218</u>	<u>12,263</u>	<u>1,004,556</u>	<u>1,786,386</u>
NET ASSETS				
Held in Trust for:				
Pension Benefits	59,831,686	-	-	-
Other Postemployment Benefits	253,113	-	-	-
Other Employee Benefits	1,104,976	-	-	-
External Investment Pool Participants	-	-	4,196,110	-
Individuals, Organizations and Other Governments	-	28,674	-	-
Total Net Assets	<u>\$ 61,189,775</u>	<u>\$ 28,674</u>	<u>\$ 4,196,110</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011
(In Thousands)**

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust
ADDITIONS			
Contributions:			
Employer	\$ 447,706	\$ -	\$ -
Plan Members	601,032	-	-
Total Contributions	<u>1,048,738</u>	<u>-</u>	<u>-</u>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	10,747,330	-	-
Interest, Dividends and Other Investment Income	1,517,623	125	49,423
Total Investment Income	<u>12,264,953</u>	<u>125</u>	<u>49,423</u>
Less Investment Expense	373,536	25	5,228
Net Investment Income	<u>11,891,417</u>	<u>100</u>	<u>44,195</u>
Gifts, Grants and Contracts	-	3,720	-
Veterans' Income	-	6,784	-
Other Income	1,163	639	-
Share Transactions:			
Participant Contributions	-	-	20,934,511
Participant Withdrawals	-	-	20,625,031
Net Share Transactions	<u>-</u>	<u>-</u>	<u>309,480</u>
Transfers from Other Funds	<u>-</u>	<u>654</u>	<u>-</u>
Total Additions	<u>12,941,318</u>	<u>11,897</u>	<u>353,675</u>
DEDUCTIONS			
Pension Benefits	3,330,303	-	-
Death Benefits	7,607	-	-
Contributions Refunded	26,487	-	-
Healthcare Premium Subsidies	32,276	-	-
Distributions to Other Governments	-	344	-
Distributions to Participants	-	-	24,578
Deferred Compensation Benefits	55,929	-	-
Administrative Expenses	38,595	9,012	-
Payments in Accordance with Trust Agreements	-	4,775	-
Total Deductions	<u>3,491,197</u>	<u>14,131</u>	<u>24,578</u>
Change in Net Assets Held in Trust For:			
Pension Benefits	9,218,464	-	-
Other Postemployment Benefits	38,622	-	-
Other Employee Benefits	193,035	-	-
External Investment Pool Participants	-	-	329,097
Individuals, Organizations and Other Governments	-	(2,234)	-
Net Assets - Beginning	51,747,945	30,908	3,867,013
Prior Period Adjustments	(8,291)	-	-
Net Assets - Beginning - As Restated	<u>51,739,654</u>	<u>30,908</u>	<u>3,867,013</u>
Net Assets - Ending	<u>\$ 61,189,775</u>	<u>\$ 28,674</u>	<u>\$ 4,196,110</u>

The notes to the financial statements are an integral part of this statement.

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State of Oregon

**Combining Balance Sheet
Discretely Presented Component Units
June 30, 2011
(In Thousands)**

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations	Total
ASSETS AND DEFERRED OUTFLOWS				
Current Assets:				
Cash and Cash Equivalents	\$ 41,742	\$ 190,537	\$ 37,861	\$ 270,140
Investments	4,037,034	78,491	-	4,115,525
Securities Lending Collateral	228,043	-	-	228,043
Accounts and Interest Receivable (net)	334,249	274,728	-	608,977
Pledges, Contributions, and Grants Receivable (net)	-	23,175	212,317	235,492
Due from Primary Government	113	19,951	-	20,064
Inventories	80	15,635	-	15,715
Prepaid Items	6,900	13,515	38,264	58,679
Total Current Assets	4,648,161	616,032	288,442	5,552,635
Noncurrent Assets:				
Investments	-	516,280	-	516,280
Investments - Restricted	-	509,545	1,229,268	1,738,813
Deferred Charges	-	7,508	-	7,508
Net Contracts, Notes and Other Receivables	-	4,066	-	4,066
Pledges, Contributions, and Grants Receivable (net)	-	71,406	-	71,406
Capital Assets:				
Land	3,029	58,770	7,242	69,041
Buildings, Property, and Equipment	42,227	2,098,774	55,274	2,196,275
Construction in Progress	-	59,406	-	59,406
Less Accumulated Depreciation and Amortization	(27,715)	(979,795)	(12,865)	(1,020,375)
Total Noncurrent Assets	17,541	2,345,960	1,278,919	3,642,420
Deferred Outflows	-	7,776	-	7,776
Total Assets and Deferred Outflows	\$ 4,665,702	\$ 2,969,768	\$ 1,567,361	\$ 9,202,831
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts and Interest Payable	\$ 65,559	\$ 176,713	\$ 7,423	\$ 249,695
Reserve for Loss and Loss Adjustment Expense	209,117	-	-	209,117
Obligations Under Securities Lending	228,042	-	-	228,042
Due to Other Governments	2,546	13,531	-	16,077
Due to Primary Government	15,905	2,130	15,396	33,431
Obligations Under Capital Lease	-	1,141	-	1,141
Bonds/COPS Payable	-	11,441	-	11,441
Claims and Judgments Payable	-	20,253	-	20,253
Custodial Liabilities	8,667	-	-	8,667
Unearned Revenue	168,288	27,301	12,071	207,660
Compensated Absences Payable	3,644	52,313	-	55,957
Contracts, Mortgages, and Notes Payable	-	1,690	-	1,690
Total Current Liabilities	701,768	306,513	34,890	1,043,171
Noncurrent Liabilities:				
Bonds/COPS Payable	-	641,207	46,291	687,498
Obligations Under Capital Lease	-	4,664	-	4,664
Obligations Under Life Income Agreements	-	17,134	76,564	93,698
Advances from Primary Government	-	46,518	-	46,518
Reserve for Loss and Loss Adjustment Expense	2,795,522	-	-	2,795,522
Claims and Judgments Payable	-	35,838	-	35,838
Net OPEB Obligation	1,260	5,071	-	6,331
Contracts, Mortgages, and Notes Payable	-	34,959	30,929	65,888
Derivative Instrument Liability	-	7,776	-	7,776
Total Noncurrent Liabilities	2,796,782	793,167	153,784	3,743,733
Total Liabilities	3,498,550	1,099,680	188,674	4,786,904
Net Assets:				
Invested in Capital Assets, Net of Related Debt	17,541	585,242	-	602,783
Expendable Net Assets Restricted for:				
Workers' Compensation	1,149,611	-	-	1,149,611
Education	-	346,172	655,490	1,001,662
Nonexpendable Net Assets Restricted for:				
Donor Purposes	-	-	706,668	706,668
Education	-	165,488	-	165,488
Unrestricted	-	773,186	16,529	789,715
Total Net Assets	1,167,152	1,870,088	1,378,687	4,415,927
Total Liabilities and Net Assets	\$ 4,665,702	\$ 2,969,768	\$ 1,567,361	\$ 9,202,831

The notes to the financial statements are an integral part of this statement.

State of Oregon

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Discretely Presented Component Units
For the Year Ended June 30, 2011
(In Thousands)**

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations
Operating Revenues:			
Charges for Services	\$ -	\$ 1,421,217	\$ -
Sales	-	18,584	-
Premiums Earned (net)	333,323	-	-
Investment Income (net)	-	-	149,976
Gifts, Grants, and Contracts	-	442,628	194,717
Auxiliary Enterprises (net)	-	17,550	-
Other Revenues	16,860	50,378	23,746
Total Operating Revenues	<u>350,183</u>	<u>1,950,357</u>	<u>368,439</u>
Operating Expenses:			
Salaries and Wages	-	1,117,504	-
Services and Supplies	-	609,545	187,902
Loss and Loss Adjustment Expense	365,021	-	-
Policyholders' Dividends	99,975	-	-
Underwriting Expenses	80,963	-	-
Bond and COP Interest	-	36,554	-
Depreciation and Amortization	1,368	106,647	-
Bad Debt Expense	-	44,567	-
Other Expenses	-	-	8,444
Total Operating Expenses	<u>547,327</u>	<u>1,914,817</u>	<u>196,346</u>
Operating Income (Loss)	<u>(197,144)</u>	<u>35,540</u>	<u>172,093</u>
Nonoperating Revenues (Expenses):			
Investment Income	418,707	88,729	-
Other	-	6,705	-
State Appropriations	-	39,159	-
Total Nonoperating Revenues (Expenses)	<u>418,707</u>	<u>134,593</u>	<u>-</u>
Income (Loss) Before Capital Contributions and Transfers	221,563	170,133	172,093
Capital Contributions	-	4,281	-
Change in Net Assets	<u>221,563</u>	<u>174,414</u>	<u>172,093</u>
Net Assets - Beginning	945,589	1,695,674	1,206,594
Net Assets - Ending	<u>\$ 1,167,152</u>	<u>\$ 1,870,088</u>	<u>\$ 1,378,687</u>

The notes to the financial statements are an integral part of this statement.

State of Oregon

Total	Adjustments to Recast	Statement of Activities
\$ 1,421,217	\$ 467,146	\$ 1,888,363
18,584	(18,584)	-
333,323	(333,323)	-
149,976	(149,976)	-
637,345	696,571	1,333,916
17,550	(17,550)	-
90,984	(90,984)	-
<u>2,668,979</u>	<u>553,300</u>	<u>3,222,279</u>
1,117,504	-	1,117,504
797,447	-	797,447
365,021	-	365,021
99,975	-	99,975
80,963	-	80,963
36,554	-	36,554
108,015	-	108,015
44,567	-	44,567
8,444	-	8,444
<u>2,658,490</u>	<u>-</u>	<u>2,658,490</u>
<u>10,489</u>	<u>553,300</u>	<u>563,789</u>
507,436	(507,436)	-
6,705	(6,705)	-
39,159	(39,159)	-
<u>553,300</u>	<u>(553,300)</u>	<u>-</u>
563,789	-	563,789
4,281	-	4,281
<u>568,070</u>	<u>-</u>	<u>568,070</u>
3,847,857	-	3,847,857
<u>\$ 4,415,927</u>	<u>\$ -</u>	<u>\$ 4,415,927</u>

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The State of Oregon (State) was admitted to the Union in 1859 and is governed by an elected governor and a ninety-member elected legislative body. The accompanying financial statements present the State, which includes all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable or entities that warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government.

Blended Component Unit

Although legally separate entities, component units that are in substance part of the government's operations are reported as part of the primary government through a blended presentation.

The Oregon Affordable Housing Assistance Corporation (OAHAC) is a blended component unit of the State of Oregon included within the financial activity of the Housing and Community Services Department. OAHAC is a nonprofit organization. It is responsible for administration of grants, loans, and other forms of financial resources which work to prevent or mitigate the impact of foreclosures on low and moderate income Oregonians. At this time OAHAC is administering Oregon's share of the Federal Hardest Hit Program.

Discretely Presented Component Units

The State reports its discretely presented component units in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State. The component unit column in the government-wide financial statements includes the data of the State's three discretely presented component units.

SAIF Corporation (SAIF) is a public corporation created by an act of the Legislature. SAIF is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF is governed by a board of directors appointed by the Governor and is financed solely through policyholder premiums and investment income. The term of office for a board member is four years, but a member serves at the pleasure of the Governor. SAIF reports on a fiscal year ended December 31 and uses proprietary fund accounting principles. The December 31, 2010, financial information of SAIF is included in this report.

The Oregon Health and Science University (OHSU) is a governmental entity performing governmental functions and exercising governmental powers. OHSU is an independent public corporation governed by a board of directors appointed by the Governor and confirmed by the Senate. It is an academic health center that provides education and training to health care professionals, conducts biomedical research, and provides patient care and public service. It is financed primarily through patient service fees, government grants and contracts, tuition charges, and other incidental fees. OHSU also receives General Fund moneys from the State. The State legislature has acknowledged its intent to make funds available to pay any shortfall in general obligation bonds issued for OHSU purposes prior to July 1, 1995, when OHSU became an independent public corporation. OHSU uses proprietary fund accounting principles.

The Oregon University System (OUS) Foundations are not-for-profit corporations that provide assistance in fundraising, public outreach, and other support for the missions of Oregon's seven public universities. The OUS foundations report under Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. The OUS foundations are component units of the Oregon University System, a proprietary fund of the State, because the majority of resources that each foundation holds and invests can only be used by, or for the benefit of, the OUS universities. Combined, the foundations are discretely presented as a component unit of the State.

Readers may obtain complete financial statements for SAIF, OHSU, and OUS from their respective administrative offices or from the Oregon State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

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Related Organizations

The following professional and occupational licensing boards are semi-independent: the Board of Architect Examiners, the Board of Examiners for Engineering and Land Surveying, the Landscape Architect Board, the Board of Geologist Examiners, the Board of Optometry, the Board of Massage Therapists, the Physical Therapists Licensing Board, the Appraiser Certification and Licensure Board, the Landscape Contractors Board, the Wine Board, and the Patient Safety Commission. Although the Governor appoints the administrators of these boards, the boards are all self-supporting and the State's accountability for these organizations does not extend beyond making the appointments. The State has no financial accountability for these related organizations.

The Oregon Utility Notification Center (OUNC) is an independent nonprofit public corporation. Although the Governor appoints members to OUNC's board of directors, OUNC is funded through fees paid by operators of underground utilities who subscribe to OUNC. The OUNC receives no general fund moneys, and the State has no financial accountability for OUNC.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been eliminated from these statements through consolidation, except for interfund activity that represents a true exchange of goods and services between funds. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Interfund activity within governmental and within business-type activities has been eliminated through consolidation; however, balances due and resource flows between governmental and business-type activities have not been eliminated. The *primary government* is reported separately from its *component units*.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Direct expenses include administrative overhead charges for centralized services charged to functions through internal service funds. *Program revenues* include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, (2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function, and (3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements with the exception of agency funds, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Income taxes are recognized as revenue, net of estimated refunds, in the year when the underlying exchange (earning of income) has occurred, to the extent such amounts are measurable. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, fines, forfeitures, and federal revenues. Income tax revenue, net of estimated refunds, is recognized in the fiscal year in which the

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underlying exchange has occurred and it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant eligibility requirements have been met. Revenue items not susceptible to accrual, such as licenses, fees, and the cash sales of goods and services, are considered measurable and available only when cash is received.

For governmental funds, expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund. Beginning in fiscal year 2011, the General Fund includes some activity previously accounted for in special revenue funds. The implementation of Governmental Accounting Standards Board (GASB) Statement No. 54 required this change. Statement No. 54 clarifies that one or more specific restricted or committed revenues must comprise a substantial portion of the "inflows" reported in a special revenue fund. The State considers 30 percent as "substantial" for financial reporting purposes. In special revenue funds where a substantial portion of the inflows will not derive from specific restricted or committed revenue sources, the funds' activities are accounted for in the General Fund. The *Oregon Rainy Day Fund*, for example, was previously reported as an individual major special revenue fund but is now reported in the General Fund. The Rainy Day fund relies on resources that are "transferred" from the General Fund in accordance with state law and which, along with investment income generated, can be appropriated by the Legislature only when certain specific criteria related to economic or revenue conditions have been met. The funding source for the Rainy Day Fund is not a specific restricted or committed revenue.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and health care to individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of funding for these programs come from federal grants, tobacco taxes, healthcare provider taxes, and charges for services.

The *Public Transportation Fund* accounts for the planning, design, construction, and maintenance of highways, roads, bridges, and public systems relating to air, water, rail, and highway transportation. Funding is provided from dedicated highway user taxes and vehicle registration taxes, in addition to various federal highway administration funds.

The *Environmental Management Fund* accounts for programs that promote, protect, and preserve the State's forests, parks, wildlife, fish, and waterways. The main funding sources for these programs are user fees, federal grants, and sales revenue.

The *Common School Fund* accounts for programs to manage state-owned land, including a leasing program that generates annual revenues, for the benefit of the public school system. Estate funds that become the property of the State, unclaimed property, and income derived from unclaimed property are also accounted for in this fund. Statutory and constitutional provisions stipulate that the assets of the fund, including investment income, must be used for common school purposes. The primary funding sources for these programs include investment income, leasing revenues, forest management, unclaimed property receipts, and transfers from other funds.

The State reports the following major proprietary (enterprise) funds:

The *Housing and Community Services Fund* accounts for activities that finance multi-family rental housing and single-family mortgages for low to moderate income families. Mortgage loans related to these activities are financed with the proceeds of bonds issued under various bond indentures of trust. Mortgage loan payments and interest earnings on invested bond proceeds are used to pay debt service on the bonds.

The *Veterans' Loan Fund* accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of

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general obligation bonds that are repaid from the interest and principal payments made on mortgages.

The *Lottery Operations Fund* accounts for the operation of the Oregon State Lottery which markets and sells lottery products to the public. The primary objective of the Oregon State Lottery is to produce the maximum amount of net revenues to be used for creating jobs, furthering economic development, financing public education, and restoring and protecting Oregon's parks, beaches, watersheds, and critical fish and wildlife habitats.

The *Unemployment Compensation Fund* accounts for federal moneys and unemployment taxes collected from employers to provide payment of benefits to the unemployed.

The *University System Fund* accounts for the operations of Oregon's seven public universities, including the Chancellor's Office. Funding is from General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to funds from external donors and federal agencies.

Additionally, the State reports the following fund types:

The *Internal Service Funds* account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis. These include central services such as accounting, budgeting, personnel, mail, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund. Legal, banking, and audit services are also accounted for in internal service funds.

The *Pension and Other Employee Benefit Trust Funds* account for activities of the Public Employees Retirement System, which administers resources for the payment of retirement, disability, postemployment healthcare, and death benefits to members and beneficiaries of the retirement system.

The *Private Purpose Trust Funds* account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

The *Investment Trust Fund* accounts for the portion of the Oregon Short-term Fund (OSTF) belonging to local governments. The OSTF is a cash and investment pool, managed by the Office of the State Treasurer, which is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State.

The *Agency Fund* accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict the guidance of, the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. However, neither the primary government, nor its component units, currently applies private sector guidance issued after November 30, 1989, except for those standards limited to not-for-profit organizations.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

D. Deposits and Investments

Deposits

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the Office of the State Treasurer in the Oregon Short-term Fund (OSTF), cash deposits held in demand deposit accounts with custodial banks, and cash deposits of debt proceeds in investment funds held by a trustee.

Investments

Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.
- Investments in the OSTF with remaining maturities of up to 90 days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets, but as investments in Note 2.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and generally values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services. For securities that do not have an active market, such as private placements or commingled investment vehicles, the custodian's pricing agent or investment manager uses a similar benchmark security to estimate fair value. The benchmark used to value a debt security, for example, typically has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk.

Investments in private equities are recorded at fair value, as of June 30, 2011, as determined by PERS management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITS for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2011, as determined by PERS management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

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Investments in the PERS Opportunity Portfolio are recorded at fair value as of June 30, 2011, as determined by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities.) Investments in the Opportunity Portfolio representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, Opportunity Portfolio, and real estate portfolio investment valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

Derivatives

In accordance with State investment policies, the Office of the State Treasurer participates in contracts that have derivative characteristics. Derivative instruments are used to lower the cost of borrowing, to hedge against fluctuations in foreign currency rates, and to manage the overall risk of investment portfolios. The fair value of *effective* hedging derivative instruments are reported on the balance sheet and statement of net assets as assets and liabilities as applicable, with offsetting balances reported as deferred inflows or deferred outflows. The changes in fair value of effective hedging derivative instruments are also reflected on the balance sheet and the statement of net assets; such changes are not reported on the statement of changes in fund balances and the statement of changes in fund net assets. *Ineffective* hedging derivative instruments and derivatives purchased as investments are reported at fair value on the balance sheet and the statement of net assets. The related changes in fair value are reported on the statement of changes in fund balances and the statement of changes in fund net assets.

E. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Trade receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectible amounts. Income tax receivables deemed reasonably estimable are reported, net of estimated uncollectible amounts, in the fiscal year when the underlying exchange has occurred. Income tax receivables that may arise in the future from audits of prior years and discovery of non-filers are not included in receivables or revenues in the financial statements because these transactions are not measurable.

F. Intrafund Transactions

Intrafund balances (due to/from other funds and advances to/from other funds) and intrafund activity (transfers to/from other funds) within each fund in the financial statements have been eliminated.

G. Inventories

Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental funds, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are offset by nonspendable fund balance since the fund balance associated with inventory is not in spendable form. However, in the case of inventory held for resale, if the

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proceeds from the sale of the inventory are restricted, committed, or assigned to a specific purpose, the related fund balance is classified as restricted, committed, or assigned, as appropriate, rather than as nonspendable. In proprietary funds, inventories are expended when consumed rather than when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items. In governmental funds and proprietary funds, prepaid items are accounted for using the consumption method. In governmental funds, a portion of fund balance equal to the prepaid items is classified as nonspendable to indicate that it is not in spendable form.

I. Restricted Assets

Certain proceeds of the State's bond and certificate of participation (COP) issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net assets because their use is limited by applicable bond covenants or COP financing agreements. Other restrictions on asset use may change the nature and availability of an asset. Various grant moneys, loan acquisition funds, customer deposits, and insurance funds, are also classified as restricted assets.

J. Foreclosed and Deeded Properties

Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or market.

K. Receivership Assets

Net assets of insurance companies that have been placed into receivership under the control of the Department of Consumer and Business Services in accordance with Oregon Revised Statutes are recorded as receivership assets in the agency fund.

L. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (i.e., highways, tunnels, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the State as assets with an initial cost of \$5,000 or more and an estimated useful life of more than one year. Such assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. The costs of normal maintenance and repairs that do not add to the value of assets or significantly extend asset lives are expensed rather than capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Significant interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as its component units, are depreciated over their estimated useful lives using the straight-line method, unless they are considered inexhaustible. Useful lives for buildings and related assets range from 10 to 75 years, while useful lives of equipment and machinery range from 3 to 50 years. For infrastructure assets, useful lives range from 5 to 75 years, with docks, dikes and dams having useful lives between 30 to 50 years. Useful lives for works of art and historical treasures range from 10 to 30 years, and useful lives for motor vehicles range from 3 to 30 years. Data processing software and hardware have useful lives ranging from 3 to 10 years.

M. Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from state service. A liability for vacation leave (compensated absences) is accrued when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for compensated absences is reported in governmental funds only if the liabilities have matured, for example, as the result of employee resignations and retirements.

N. Long-term Obligations

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities for governmental activities or business-type activities, as applicable. In proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the balance sheet. Bond or certificate of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the debt. Bonds/COP payable is reported net of the applicable bond/COP premium or discount. Bond/COP issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond/COP premiums and discounts, as well as bond/COP issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other debt service expenditures.

O. Fund Equity

The difference between assets and liabilities is labeled as “Net Assets” on the government-wide, proprietary fund, and fiduciary fund financial statements and as “Fund Balance” on the governmental fund financial statements.

In governmental funds, fund balance is reported in five components: (1) nonspendable, (2) restricted, (3) committed, (4) assigned, and (5) unassigned.

Nonspendable fund balances include amounts that cannot be spent because they are either not spendable form or they are legally or contractually required to be maintained intact.

Restricted fund balances result from constraints imposed on net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments. Enabling legislation authorizes the State to levy, assess, charge, or otherwise mandate payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation. The restricted fund balance category has been further broken down on the face of the governmental fund financial statements to indicate the various sources of those constraints.

Committed fund balance results from constraints imposed by bills (passed by the Legislature and signed into law by the Governor) that are separate from the authorization to raise the underlying revenue.

Assigned fund balance is the residual amount in governmental funds other than the General Fund. It represents amounts that are constrained by the state’s intent to be used for a specific purpose, but which are neither restricted nor committed.

Unassigned fund balance is the residual amount in the General Fund not included in the previous four categories. Deficit fund balances in other governmental funds are reported as unassigned. See Note 21 for additional information on fund equity.

In the government-wide statement of net assets and the proprietary fund balance sheet, net assets are reported in three components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Restricted net assets result from restrictions imposed on a portion of net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments.

The state maintains two stabilization funds: the Oregon Rainy Day Fund within the General Fund and the Education Stability Fund within the Educational Support Fund, a nonmajor special revenue fund. The resources in both funds may be expended only when specific non-routine budget shortfalls occur. See Note 21 for additional information about the stabilization funds.

For fund balance classification purposes, state agencies determined the appropriate classification of each of their detail-level funds based on the resources accounted for in those funds and the constraints on spending those resources. Agencies expend resources from the appropriate funds based on each fund’s specific

spending constraints. Ending fund balances, therefore, are the result of that spending. In the event that an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available for use, the individual state agencies determine the order in which those resources are spent. The same is true of an expenditure incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available.

P. Changes in Accounting Principle

For the fiscal year ended June 30, 2011, the State implemented one new accounting standard issued by the GASB.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes accounting and financial reporting standards for all governments that report governmental funds. The statement provides more clearly defined categories for classifying fund balance to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies existing governmental fund type definitions to improve the comparability, usefulness, and understandability of governmental fund balance information. See Note 21 for additional information.

2. DEPOSITS AND INVESTMENTS

The State's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit with the Oregon State Treasury (Treasury). In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. The Treasurer is authorized to use demand deposit accounts, fixed income investments, and direct equity investment transactions, although the majority of equity investments are currently directed by external investment managers under contract with the Council. Furthermore, equity investments are limited to not more than 50 percent of the moneys contributed to the Oregon Public Employees Retirement Fund (OPERF) and the Industrial Accident Fund (SAIF Corporation) and not more than 65 percent of the other trust and endowment funds managed by the Council or the Treasury. The Deferred Compensation Fund, the Education Stability Fund, the State Board of Higher Education, and the Oregon Health and Science University (OHSU) may also invest in equities.

The Treasurer maintains the Oregon Short-term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State. The portion of the pool belonging to local governments is reported in the investment trust fund. Because the pool operates as a demand deposit account, each fund's portion of the pool is classified on the financial statements as cash and cash equivalents. A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report may be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896, or from the Treasury's website at: <http://www.ost.state.or.us/About/Investment/>

The Treasurer also makes short-term and long-term investments, which are held separately by several of the State's funds. The Treasury's direct investments in short-term securities are limited by portfolio rules established by the OSTF Board and the Council. Other investments are made directly by state agencies with the approval of the Treasurer.

A. Custodial Credit Risk

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, the State will not be able to recover deposits or collateral securities that are in the possession of an outside party. The State does not have a formal policy regarding custodial credit risk for deposits. However, banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

Oregon Revised Statutes (ORS), Chapter 295, governs the collateralization of public funds. Bank depositories are required to pledge collateral against any public fund deposits in excess of deposit insurance amounts. This requirement provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable.

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ORS Chapter 295 provides the statutory authority for the Public Funds Collateralization Program (PFCP). The PFCP is an application created by the Treasury to facilitate bank depository, custodian, and public official compliance with ORS Chapter 295. Under the PFCP, banks are required to report quarterly to the Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. Banks are also required to report their net worth and FDIC capitalization information. The FDIC assigns each bank a capitalization category quarterly: well capitalized, adequately capitalized, or undercapitalized. Based on this information, the bank's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all banks are calculated for the next quarter. The maximum liability is reported to the bank, the Treasury, and the custodian.

Barring any exceptions, a bank depository is required to pledge collateral valued at least 10 percent of the bank's quarter-end public fund deposits if the bank is well capitalized and 110 percent if the bank is adequately capitalized, undercapitalized, or assigned to pledge 110 percent by Treasury.

There are three exceptions to this calculation, and any exceptions are required to be collateralized at 100 percent.

1. A bank may not accept public fund deposits from one depositor in excess of the bank's net worth. If the bank has a drop in net worth that takes it out of compliance, the bank is required to post 100 percent collateral on any amount the depositor has in excess of the bank's net worth while working to eliminate that excess.
2. A bank may not hold aggregate public funds in excess of a percentage of the bank's net worth based on its capitalization category (100 percent for undercapitalized, 150 percent for adequately capitalized, 200 percent for well capitalized) unless approved for a period of 90 days or less by the Treasury.
3. A bank may hold in excess of 30 percent of all aggregate public funds reported by all banks holding Oregon public funds, only if the excess is collateralized at 100 percent.

All deposits in the OSTF at June 30, 2011, were with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, all non-interest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the entire bank balance of uninvested OSTF deposits was fully insured.

As of June 30, 2011, \$2.1 billion in other bank balances of the primary government and its discretely presented component units were exposed to custodial credit risk (in thousands):

	Primary Government	Discretely Presented Component Units	Balance at June 30, 2011
Uninsured and uncollateralized	\$ 2,121,209	\$ 23,357	\$ 2,144,566
Uninsured and collateralized by the pledging bank's trust department, but not in the State's name	3,089	-	3,089
Total	<u>\$ 2,124,298</u>	<u>\$ 23,357</u>	<u>\$ 2,147,655</u>

Custodial Credit Risk for Investments

Custodial credit risk for investments of the primary government is the risk that, in the event of the failure of the counterparty to a transaction, the State will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Council has no formal policy regarding the holding of securities by a custodian or counterparty. For the year ended June 30, 2011, no investment holdings of the primary government, SAIF Corporation, or Oregon Health and Science University were exposed to custodial credit risk.

B. Investments – Primary Government (Excluding the OPERF)

Investments Held at Treasury

Investments of the primary government (excluding the OPERF) held by the Treasurer require the exercise of prudent and reasonable care in the context of a fund's investment portfolio and as part of an overall investment strategy. The Treasurer is required to diversify investments unless it is not prudent to do so. In addition, the Treasurer must exercise reasonable care to incorporate risk and return objectives suitable to the particular investment fund. Each Treasury fund has a policy and procedure that addresses objectives and strategies.

Interest Rate Risk

Investment policy for fixed income investments under the direct management of the Treasurer generally limits the time horizon of the portfolio to an average maturity of 1 to 5 years. In addition, externally managed fixed income investment funds are required by policy to maintain an average bond duration level within 20 percent of the benchmark bond index. For investments not under the management of the Treasurer, there are no formal policies on interest rate risk. Investment objectives and strategies of the primary government (excluding the OPERF) are based on credit quality, asset diversification, and staggered maturities. For variable rate securities, the next interest rate reset date is used instead of the maturity date. The average effective duration is reported in years for all applicable funds.

Credit Risk

Investment policies for fixed income investments under the management of the Treasurer require that the portfolio maintain an average Standard and Poor's (S&P) credit quality of AA or A, as determined for each investment fund. For investments not under management of the Treasurer, there are no formal policies on credit risk.

State of Oregon
Notes to the Financial Statements

The credit rating and average effective duration for the investments at Treasury, held within the governmental funds, excluding the Common School Fund, at June 30, 2011 (dollars in thousands):

Reporting Fund ¹	Investment Type	Credit Rating	Balance at June 30, 2011	Average Effective Duration	
General	Alternative equities	N/A	\$ 4,164	N/A	
Public Transportation	U.S. Agency securities	A	11,560	1.05	
		Corporate bonds			
		AA	36,763		
		A	82,655		
		BBB	22,153		
			141,571	1.36	
	Lehman Brothers	N/A	1,299	N/A	
			<u>154,430</u>		
Employment Services	U.S. Agency securities	AAA	18,607		
		A	11,035		
			29,642	1.38	
	Corporate bonds	AAA	468		
		AA	22,612		
		A	58,261		
		BBB	22,717		
				104,058	1.95
	Municipal bonds	AA	1,742	1.10	
	Lehman Brothers and Washington Mutual	N/A	2,050	N/A	
		<u>137,492</u>			
Education Support	Alternative equities	N/A	27,815	N/A	
Residential Assistance	U.S. Agency securities	AAA	16,906	1.72	
Total			<u>\$ 340,807</u>		

¹ See separate Common School Fund schedule.

State of Oregon
Notes to the Financial Statements

The credit rating and average effective duration for the Common School Fund's investments, held at Treasury, at June 30, 2011 (dollars in thousands):

Investment Type	Credit Rating ¹	Balance at June 30, 2011	Average Effective Duration
U.S. Treasury securities	AAA	\$ 13,512	12.73
U.S. Treasury strips	AAA	600	13.33
U.S. Treasury tips	AAA	2,006	11.37
U.S. Agency mortgages	AAA	21,960	3.96
U.S. Agency TBAs	AAA	28,202	4.00
U.S. Agency securities	AAA	368	
U.S. Agency securities	Not rated	710	
		<u>1,078</u>	3.23
Corporate bonds	AA	1,262	
	A	13,119	
	BBB	12,592	
	BB	3,031	
	B	42	
	Not rated	1	
		<u>30,047</u>	6.17
International debt securities	AA	661	
	A	3,401	
	BBB	2,994	
	BB	501	
	B	66	
		<u>7,623</u>	5.73
Collateralized mortgage obligations	AAA	2,756	
	A	575	
	BBB	494	
	BB	1,341	
	B	3,057	
	CCC and Below	6,532	
	Not rated	923	
		<u>15,678</u>	5.62
Asset-backed securities - other	AAA	2,079	
	AA	918	
	A	598	
	BBB	118	
	B	549	
	CCC and Below	1,931	
	Not rated	279	
		<u>6,472</u>	2.03
Municipal bonds	AAA	255	0.01
Domestic equity securities	N/A	166,765	N/A
International equity securities	N/A	229,737	N/A
Domestic mutual funds - debt	Not rated	166,879	4.97
Domestic mutual funds - equity	N/A	178,354	N/A
International mutual funds - debt	Not rated	6,199	4.01
International mutual funds - equity	N/A	137,593	N/A
Real estate and real estate mortgages	N/A	1,911	N/A
Alternative equities	N/A	66,656	N/A
Total ²		<u>\$ 1,081,527</u>	

¹ Within investments rated AAA are \$13,512 in U.S. Treasury securities, \$600 in U.S. Treasury Strips, \$2,006 in U.S. Treasury Tips, and \$13,547 in U.S. Agency securities invested in the Government National Mortgage Association (GNMA). These investments are explicitly guaranteed by the U.S. government.

² \$1,101 in real estate investments are held outside Treasury. See separate schedule.

State of Oregon
Notes to the Financial Statements

The credit rating and average effective duration for the investments, held within the proprietary funds, at June 30, 2011 (dollars in thousands):

Reporting Fund	Investment Type	Credit Rating ³	Balance at June 30, 2011	Average Effective Duration
Housing and Community Services ¹	U.S. Treasury securities	AAA	\$ 8,465	8.66
	U.S. Agency securities	AAA	11,884	10.26
			<u>20,349</u>	
Veterans' Loan	U.S. Agency securities	A	5,255	1.05
	Corporate bonds	AA	9,504	
		A	12,030	
			<u>21,534</u>	0.19
	Guaranteed investment contracts (GICs) ²	N/A	3,269	N/A
	Lehman Brothers and Washington Mutual	N/A	3,540	N/A
			<u>33,598</u>	
Lottery Operations	U.S. Treasury strips	AAA	87,934	8.42
	U.S. Agency strips	Not rated	28,689	3.21
			<u>116,623</u>	
University System	U.S. Treasury securities	AAA	5,073	8.36
	U.S. Agency securities	AAA	29,645	
	U.S. Agency securities	A	3,185	
			<u>32,830</u>	3.87
	Corporate bonds	AAA	4,203	
	Corporate bonds	AA	4,903	
	Corporate bonds	A	21,365	
	Corporate bonds	BBB	4,553	
			<u>35,024</u>	3.08
	Municipal bonds	AA	1,916	6.71
	Domestic mutual funds - debt	AAA	34,471	
	Domestic mutual funds - debt	AA	10,338	
	Domestic mutual funds - debt	A	28,580	
	Domestic mutual funds - debt	BBB	37,230	
	Domestic mutual funds - debt	Below BBB	1,518	
	Domestic mutual funds - debt	Not rated	916	
			<u>113,053</u>	3.87
	Asset backed securities	AAA	5,895	2.60
	Collateralized mortgage obligations	AAA	5,473	3.96
	Money market fund	Not rated	1,056	0.50
	GICs	N/A	2,844	3.00
	Equity investments	N/A	36,937	N/A
	Real estate and real estate mortgages	N/A	2,251	N/A
	Alternative equities	N/A	6,801	N/A
	Less: University System amounts recorded as cash		<u>(1,056)</u>	
			<u>248,097</u>	
Central Services	U.S. Agency securities	AAA	4,779	
		A	1,051	
			<u>5,830</u>	1.48
	Corporate bonds	AAA	3,994	
		AA	12,136	
		A	26,472	
		BBB	9,408	
			<u>52,010</u>	1.57
	Municipal bonds	AA	1,493	1.10
	Lehman Brothers and Washington Mutual	N/A	1,154	N/A
			<u>60,487</u>	
Total			<u>\$ 479,154</u>	

¹ \$299,821 in investments are held outside of Treasury. See separate schedule.

² Mature in 2029 and beyond.

³ Within investments rated AAA are \$13,538 in U.S. Treasury securities and \$87,934 in U.S. Treasury strips which are explicitly guaranteed by the U.S. government.

State of Oregon
Notes to the Financial Statements

Investments Held Outside of the Treasury

For investments held outside of the Treasury, statutes govern the placement of funds with outside parties as part of trust agreements or mandatory asset holdings by regulatory agencies.

The credit rating and segmented time distribution for investments held outside Treasury as of June 30, 2011 (in thousands):

Reporting Fund	Investment Type	Credit Rating ³	Investment Maturities (in years)				Balance at June 30, 2011
			Less than 1	1 to 5	6 to 10	More than 10 or none	
Consumer Protection	U.S. Agency securities ¹	AAA	\$ 550	\$ -	\$ -	\$ -	\$ 550
Public Transportation	U.S. Agency securities ¹	Not rated	-	1,034	-	-	1,034
	Municipal bonds ¹	Not rated	1,256	-	-	-	1,256
			<u>1,256</u>	<u>1,034</u>	<u>-</u>	<u>-</u>	<u>2,290</u>
Common School	U.S. Agency strips ¹	AAA	-	5	6	-	11
	U.S. Treasury strips ¹	AAA	-	2	2	-	4
	Corporate bonds ¹	AA	-	21	-	-	21
	Municipal bonds ¹	AAA	11	8	-	1	20
	Domestic equity securities ¹	N/A	-	-	-	5,912	5,912
	Real estate ¹	N/A	-	-	-	1,186	1,186
	Mutual funds ¹	N/A	1,657	-	-	-	1,657
			<u>1,668</u>	<u>36</u>	<u>8</u>	<u>7,099</u>	<u>8,811</u>
Revenue Bond	GICs	N/A	-	60,652	-	2,523	63,175
			<u>-</u>	<u>60,652</u>	<u>-</u>	<u>2,523</u>	<u>63,175</u>
Housing and Community Services	U.S. Treasury securities	AAA	106,684	-	1,087	601	108,372
	U.S. Agency securities	AAA	17,880	27,603	5,307	39,806	90,596
		P-1	44,067	-	-	-	44,067
		Not rated	7,306	-	-	-	7,306
	Municipal bonds	AAA	-	-	-	49,480	49,480
			<u>175,937</u>	<u>27,603</u>	<u>6,394</u>	<u>89,887</u>	<u>299,821</u>
Private Purpose Trust	U.S. Treasury securities	AAA	3	236	-	16	255
	Domestic equity securities	N/A	-	-	-	142	142
	Domestic mutual funds - debt	N/A	-	-	-	247	247
	Annuity contracts	N/A	-	-	-	249	249
			<u>3</u>	<u>236</u>	<u>-</u>	<u>654</u>	<u>893</u>
Agency	U.S. Treasury securities ²	AAA	18,002	44,645	-	-	62,647
	U.S. Agency securities ²	AAA	-	33	-	-	33
	Municipal bonds ¹	AAA	100	-	-	-	100
		AA	-	-	44	101	145
		A	-	615	-	-	615
		Not rated	-	-	115	-	115
	Time certificates of deposit ²	N/A	542	-	-	-	542
			<u>18,644</u>	<u>45,293</u>	<u>159</u>	<u>101</u>	<u>64,197</u>
Total			<u>\$ 198,058</u>	<u>\$ 134,854</u>	<u>\$ 6,561</u>	<u>\$ 100,264</u>	<u>\$ 439,737</u>

¹ Some investments are reported as part of custodial assets on the balance sheet.

² Some investments (along with certain cash deposits) are reported as receivership assets on the balance sheet.

³ Within investments rated AAA are \$171,275 in U.S. Treasury securities and \$4 in U.S. Treasury strips. These securities are explicitly guaranteed by the U.S. government.

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Notes to the Financial Statements

Investments of the Oregon Short-term Fund (OSTF)

The OSTF is an external investment pool open to state agencies and local governments. Because the OSTF acts as a demand deposit account, both the cash and investments within the OSTF are shown as cash and cash equivalents on the balance sheet and statement of net assets. The external portion of the OSTF is reported within the Investment Trust Fund. The OSTF staff manages interest rate risk by limiting the maturity of the investments. The portfolio rules require that at least 50 percent of the portfolio mature within 93 days; not more than 25 percent of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. For variable rate securities, the next interest rate reset date is used instead of the maturity date. For variable rate securities in a fixed rate period that will switch to a variable rate at a later date, the maturity is based on the final maturity of the bond, not the next variable reset date.

Interest rate risk for the OSTF investments as of June 30, 2011 (in thousands):

Investment Type	Investment Maturities (in years)				Balance at June 30, 2011 ²
	Up to 93 Days	94 Days to One Year	One to Three Years	Defaulted ¹	
U.S. Treasury and Agency securities	\$ 1,599,923	\$ 1,665,088	\$ 407,006	\$ -	\$ 3,672,017
Commercial paper	255,810	-	-	-	255,810
Time certificates of deposit	60,200	-	-	-	60,200
Corporate notes	2,674,859	239,593	1,405,481	49,336	4,369,269
Bank notes	82,555	31,660	-	-	114,215
Municipal bonds	56,999	-	-	-	56,999
Temporary liquidity guarantee	513,308	221,962	281,558	-	1,016,828
Total	\$ 5,243,654	\$ 2,158,303	\$ 2,094,045	\$ 49,336	\$ 9,545,338

¹ Lehman Brothers securities, \$191.3 million par value.

² Balance at June 30, 2011, is a combination of amortized cost and fair value.

OSTF policies provide minimum weighted average credit quality ratings for the fund's holdings: AA and Aa2 for Standard and Poor's (S&P) and Moody's, respectively. The Oregon Investment Council (Council) made changes to the allowable minimum ratings in April, 2010. The current minimums for corporate notes are an S&P rating of A-, Moody's rating of A3, and Fitch rating of A-. Commercial paper is required to have a minimum short-term credit rating at the time of purchase from two of three ratings services with current minimum ratings from S&P of A-1, Moody's of P-1, and Fitch of F-1. Foreign government securities or their instrumentalities were added by the Council as approved investments at the same time and are required to have minimum credit ratings from S&P of AA-, Moody's of Aa3, and Fitch of AA-. Occasionally, securities are downgraded, but OSTF policies allow them to be retained at the Senior Investment Officer's discretion. Ratings for holdings of Lehman Brothers securities, totaling \$191.3 million par value, were withdrawn by all three agencies due to bankruptcy. Rating groups were determined using the lowest actual rating from S&P, Moody's, or Fitch.

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Notes to the Financial Statements

Credit risk schedule for the OSTF investments as of June 30, 2011 (in thousands):

Investment Type	AAA ¹	AA	A	BBB ²	N/A ³	Balance at June 30, 2011
U.S. Treasury and Agency securities	\$ 3,521,279	\$ -	\$ 150,738	\$ -	\$ -	\$ 3,672,017
Commercial paper	-	24,998	230,812	-	-	255,810
Time certificates of deposit	-	-	-	-	60,200	60,200
Corporate notes	47,366	1,599,983	2,654,719	17,865	49,336	4,369,269
Bank notes	-	49,891	64,324	-	-	114,215
Municipal bonds	-	56,999	-	-	-	56,999
Temporary liquidity guarantee	1,016,828	-	-	-	-	1,016,828
Total	<u>\$ 4,585,473</u>	<u>\$ 1,731,871</u>	<u>\$ 3,100,593</u>	<u>\$ 17,865</u>	<u>\$ 109,536</u>	<u>\$ 9,545,338</u>

¹ Within investments rated AAA are \$951,643 in U.S. Treasury securities and \$1,016,828 in the temporary liquidity guarantee program, which are explicitly guaranteed by the U.S. government.

² Securities rated BBB in this table continue to meet the investment quality rules of the OSTF.

³ Ratings for the Lehman Brothers corporate note were withdrawn. Time certificates of deposit are not rated.

Interest Rate Sensitive Investments

As of June 30, 2011, the primary government held \$150.2 million in step-coupon debt investments. The interest rate of these securities adjusts on a predetermined schedule at predetermined increments. Because these adjustments are not correlated with any current indices or rates, the value of the securities may change significantly in a period of interest rate volatility. The primary government also held approximately \$43.1 million in debt instruments backed by pooled mortgages, collateralized mortgage obligations, or fixed rate mortgages. These securities represent a stream of principal and interest payments from underlying mortgages. Assets with these characteristics are susceptible to prepayment by the mortgage holders which may result in a decrease in total interest realized. The value of these securities can be volatile as interest rates fluctuate. Additionally, the risk of default exists and collateral held may potentially be insufficient to cover the principal due. In addition, the primary government held \$12.4 million of debt instruments that were asset-backed securities collateralized primarily by automobile and manufactured home loans and student loan receivables as well as approximately \$28.2 million in To-Be-Announced (TBA) federal agency-issued mortgage pools.

Concentration of Credit Risk

Investment policies for fixed income investments under the management of the Treasurer generally limit investments in a single issuer to 5 percent of the portfolio, with the exception of securities of the U.S. government and U.S. agencies. For investments not under the management of the Treasurer, there are no formal policies on concentration of credit risk. At June 30, 2011, there were three issuers that exceeded 5 percent of the primary government's holdings (excluding the OPERF): \$1.2 billion (10.1 percent) in Federal Home Loan Bank (FHLB); \$909.6 million (7.5 percent) in Federal Home Loan Mortgage Corporation (FHLMC) and \$693.7 million (5.7 percent) in Federal National Mortgage Association (FNMA).

The Oregon Housing and Community Services Department also carried concentration of credit risk with 25.5 percent of the department's total investments in FHLB and 8.8 percent in FNMA.

Total investments for the Oregon Department of Veterans' Affairs included 20.9 percent in Goldman Sachs, 20.8 percent in Westpac Banking, 15.6 percent in FNMA, 14.9 percent in Bear Stearns, 10.5 percent in Lehman Brothers Holdings Inc., 7.5 percent in General Electric Capital Corporation, and 5.3 percent in HypoVereinsbank.

The Oregon State Lottery's investments included 24.6 percent in the Resolution Funding Corporation (RFC), a U.S. government agency. The U.S. government does not explicitly guarantee these investments. However, interest payments are backed by the U.S. government, and the principal is protected by the purchase of zero-coupon bonds with an equivalent face value.

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Notes to the Financial Statements

Within the major governmental funds, the Public Transportation Fund's investments included 8.3 percent in General Electric Capital Corporation, 7.5 percent in Wachovia Bank, 7.4 percent in FNMA, 7.1 percent in UBS AG Stamford, 7.1 percent in Westpac Banking Corporation, and 5 percent in Goldman Sachs. The aggregated nonmajor governmental funds' total investments included 18 percent in FNMA, and 6.9 percent in FHLMC. These funds also held nonparticipating guaranteed investment contracts with the following concentrations: 10.6 percent in the International Netherlands Group and 9.1 percent in American International Group.

The Central Services Fund held 7.9 percent of its investments in FNMA.

The investments of the Oregon University System included 8.9 percent in FHLMC, 7.6 percent in FNMA, and 5.1 percent in Agribank.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. State agencies are required to deposit moneys in state-qualified depositories under Oregon law. Exceptions due to foreign field offices and related circumstances are approved by the Treasurer. International debt securities denominated in U.S. dollars are not subject to currency risk if the investment's obligations will be paid in U.S. dollars. Investment policies for fixed income investments under the management of the Treasurer generally prohibit investments in non-dollar denominated securities. The Common School Fund and the Oregon University System Pooled Endowment Fund are allowed to invest in international equity securities within a target allocation range of 25 to 35 percent of their respective portfolios. For investments not under the management of the Treasurer, there are no formal policies on foreign currency risk.

Deposits and investments exposed to foreign currency risk for the primary government (excluding the OPERF) as of June 30, 2011 (in thousands):

Foreign Currency Denomination	Deposits and Investments (U.S. Dollars)				Total
	Deposits	International Equity Securities	Real Estate Investment Trust		
Australian dollar	\$ 102	\$ 11,261	\$ -	\$ 11,363	
British sterling pound	72	45,839	-	45,911	
Canadian dollar	92	14,913	-	15,005	
Swiss franc	75	10,589	-	10,664	
Danish krone	41	5,400	-	5,441	
Euro	298	81,172	-	81,470	
Hong Kong dollar	95	4,176	10	4,281	
Israel new shekel	12	1,077	-	1,089	
Japanese yen	478	39,245	-	39,723	
Norwegian krone	153	4,437	-	4,590	
New Zealand dollar	17	439	-	456	
Singapore dollar	82	2,489	-	2,571	
Swedish krona	78	2,747	-	2,825	
Total	\$ 1,595	\$ 223,784	\$ 10	\$ 225,389	

State of Oregon
Notes to the Financial Statements

C. Investments – Primary Government – Oregon Public Employees Retirement Fund

The Council establishes policies for the investment of moneys in the OPERF. Policies are based on the primary investment class of each investment manager and do not reflect the classifications of individual holdings as presented in the financial statements. Contracts with individual investment managers provide additional guidelines that vary from manager to manager.

Investments in the OPERF as of June 30, 2011 (in thousands):

Investment Type	Fair Value
Repurchase agreements	\$ 6,002
U.S. Treasury securities	884,311
U.S. Treasury strips	49,506
U.S. Treasury TIPS	83,722
U.S. Agency securities	425,064
U.S. Agency mortgages	925,107
U.S. Agency mortgage TBAs	1,345,603
U.S. Agency strips	58,727
International debt securities	2,167,882
Corporate bonds	3,438,255
Bank loans	1,970,464
Municipal bonds	85,753
Collateralized mortgage obligations	1,173,832
Asset-backed securities	616,729
Mutual funds - domestic fixed income	1,378,146
Mutual funds - international fixed income	423,896
Total debt securities	15,032,999
Derivatives	40,162
Domestic equity securities	7,077,336
International equity securities	10,675,308
Mutual funds - domestic equity	2,390,280
Mutual funds - global equity	948,197
Mutual funds - international equity	2,741,024
Mutual funds - target date	270,851
Limited partnerships and leveraged buyouts	13,748,215
Real estate and real estate investment trusts	6,135,410
Opportunity Portfolio	1,142,876
Total investments	\$ 60,202,658

Interest Rate Risk

Interest rate risk is managed within the OPERF using the effective duration methodology. Investment policies require that the fixed income manager positions will maintain a weighted average effective duration within plus or minus 20 percent of the benchmark's effective duration. There is no policy restriction for non-fixed income investment managers who may hold fixed income positions. As of June 30, 2011, the weighted average duration of the fixed income portfolio was 4.37 years and there were no individual fixed income investment manager portfolios outside the policy guidelines.

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Debt investments of the OPERF as of June 30, 2011 (in thousands):

Investment Type	Balance at June 30, 2011	Weighted Average Duration
U.S. Treasury securities	\$ 884,311	9.02
U.S. Treasury strips	49,505	13.81
U.S. Treasury TIPS	83,722	6.64
U.S. Agency securities	425,064	4.35
U.S. Agency mortgages	845,765	3.88
U.S. Agency mortgage TBAs	1,345,603	5.44
U.S. Agency strips	58,727	8.67
International debt securities	2,018,832	4.61
Corporate bonds	3,416,869	4.92
Bank loans	1,895,732	0.54
Municipal bonds	85,753	6.79
Collateralized mortgage obligations	1,039,853	4.97
Asset-backed securities	459,302	2.11
Mutual funds - domestic fixed income	1,135,413	3.37
Mutual funds - domestic fixed income (OSGP)	80,639	4.69
Mutual funds - international fixed income	423,896	5.52
Mutual funds - stable value	162,094	2.51
No effective duration:		
U.S. Agency mortgages	79,343	
International debt securities	149,050	
Corporate bonds	21,386	
Bank loans	74,732	
Collateralized mortgage obligations	133,978	
Asset-backed securities	157,428	
Repurchase agreements	6,002	
Total debt securities	15,032,999	
Cash equivalent - U.S. government short-term funds	52,471	25 days ¹
Total subject to interest rate risk	\$ 15,085,470	

¹ Weighted average maturity

Credit Risk

Investment policy requires that no more than 35 percent of the fixed income manager positions be below investment grade. Securities with a quality rating below BBB- (S&P) are considered below investment grade. There is no policy restriction on other investment managers who may hold debt securities. As of June 30, 2011, the fair value of below grade investments, excluding unrated securities, was \$2.5 billion, or 28.1 percent, of total securities subject to credit risk, and the weighted quality rating average was A. Overall credit quality deteriorated due to downgrades in both corporate bonds and non-agency mortgages. Unrated securities included \$2 billion in bank loans, \$1.8 billion in mutual funds, and \$861.9 million in other debt securities.

State of Oregon
Notes to the Financial Statements

Credit ratings for debt securities within the OPERF as of June 30, 2011 (in thousands):

Credit Rating	Balance at June 30, 2011
AAA	\$ 3,100,005
AA	269,917
A	1,122,489
BBB	1,813,626
BB	836,409
B	936,367
CCC	594,148
CC	20,710
C	40,696
D	38,567
Not rated	4,634,399
Total	<u>\$ 13,407,333</u>

Concentrations of Credit Risk

The Council's investment policy pertaining to OPERF investments requires that investment managers maintain diversified portfolios. There is no limit on single issuer investments for domestic, global, and international equity fund managers. Policy requires that the asset classes be diversified across their respective markets. Additionally, both passive and active investing strategies are employed, and several external managers engage in active management. Policy provides the following limitations for fixed income investment manager positions:

- There are no restrictions on obligations issued or guaranteed by the U.S. government, U.S. agencies, or government sponsored enterprises.
- No more than 10 percent of the debt investment portfolio per issuer may be invested in obligations of other national governments.
- No more than 10 percent of the debt investment portfolio per issuer or 25 percent in a single issuer, after meeting additional collateral requirements, can be invested in private mortgage-backed and asset-backed securities. The collateral must be credit-independent of the issuer and the security's credit enhancement generated internally.
- No more than 3 percent of the debt investment portfolio may be invested in other issuers, excluding investments in commingled investments.

At June 30, 2011, there were no single issuer debt investments that exceeded the above guidelines, nor were there investments in any one issuer that represented 5 percent or more of total investments.

Foreign Currency Risk

Foreign currency and security risk of loss arises from changes in currency exchange rates. Foreign currency risk within the OPERF is controlled via contractual agreements with the investment managers. Investment policies require that no more than 15 percent of the fixed income manager positions may be invested in non-dollar denominated securities. Policies for the non-fixed portion of the OPERF are silent regarding this risk. As of June 30, 2011, approximately 3.6 percent of the debt investment portfolio was invested in non-dollar denominated securities.

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Notes to the Financial Statements

The OPERF's exposure to foreign currency risk as of June 30, 2011 (in thousands):

Deposits and Investments (U.S. Dollars)						
Foreign Currency Denomination	Cash and Cash Equivalents	Debt Securities	Public Equity	Real Estate	Private Equity	Total
Argentine peso	\$ 81	\$ -	\$ -	\$ -	\$ -	\$ 81
Australian dollar	25,440	115,676	396,930	77,731	-	615,777
Brazilian real	5,089	36,764	210,057	1,494	-	253,404
British sterling pound	14,867	128,315	1,576,800	57,004	-	1,776,986
Canadian dollar	4,930	56,895	512,097	17,693	-	591,615
Chilean peso	13	-	5,028	-	-	5,041
Chinese yuan	63	-	-	890	-	953
Colombian peso	-	885	4,920	-	-	5,805
Czech koruna	1,151	-	14,834	-	-	15,985
Danish krone	1,036	24	104,284	-	-	105,344
Dominican Republic peso	-	1,195	-	-	-	1,195
Egyptian pound	114	-	15,617	-	-	15,731
Euro	58,608	194,872	2,345,164	62,842	380,370	3,041,856
Hong Kong dollar	8,958	-	479,699	117,906	-	606,563
Hungarian forint	92	-	16,812	-	-	16,904
Indian rupee	-	-	18,622	-	-	18,622
Indonesian rupiah	340	-	91,563	-	-	91,903
Israeli shekel	230	-	25,026	-	-	25,256
Japanese yen	28,152	-	1,747,404	65,198	-	1,840,754
Jordanian dinar	1	-	-	-	-	1
Malaysian ringgit	651	-	54,180	-	-	54,831
Mexican peso	221	3,056	41,488	-	-	44,765
New Zealand dollar	264	-	22,138	-	-	22,402
Nigerian naira	-	-	626	-	-	626
Norwegian krone	496	477	83,426	-	-	84,399
Pakistan rupee	170	-	3,590	-	-	3,760
Peruvian nuevo sol	-	90	801	-	-	891
Philippine peso	159	-	16,999	1,038	-	18,196
Polish zloty	19	1,257	49,143	-	-	50,419
Russian ruble	60	2,853	-	-	-	2,913
Singapore dollar	363	-	119,907	25,179	-	145,449
South African rand	1,601	629	202,820	950	-	206,000
South Korean won	1,578	-	438,757	-	-	440,335
Swedish krona	216	-	145,034	5,068	-	150,318
Swiss franc	2,426	-	437,049	5,677	-	445,152
Taiwanese dollar	5,363	-	217,801	-	-	223,164
Thai baht	710	-	84,364	1,519	-	86,593
Turkish lira	246	-	83,637	-	-	83,883
Uruguayan peso	-	1,528	-	-	-	1,528
Venezuelan bolivar fuerte	6	-	-	-	-	6
Total	\$ 163,714	\$ 544,516	\$ 9,566,617	\$ 440,189	\$ 380,370	\$ 11,095,406

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D. Investments – Discretely Presented Component Units

SAIF Corporation (SAIF)

SAIF's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with ORS 293.726, the investment funds are to be invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. While the Treasurer is authorized to use demand deposit accounts and fixed income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Equity investments are limited to not more than 50 percent of the moneys contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 7 to 13 percent of the market value of invested assets with a target allocation of 10 percent.

Bond, mortgage-backed, asset-backed, and equity security transactions are recorded on a trade date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer, depending on the security.

Interest Rate Risk

SAIF's policy for fixed income investments effective January 27, 2010, provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2010, was 5.90 years, with an acceptable range of 4.72 to 7.08 years. As of that date, the fixed income portfolio's duration was 6.34 years.

The following 2010 maturity distribution schedule includes \$1.1 billion in interest-rate sensitive securities. As of December 31, 2010, SAIF held \$696.1 million of U.S. federal agency mortgage-backed securities and \$215.7 million of commercial mortgage obligations. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of December 31, 2010, SAIF held \$144.8 million of asset-backed securities which consist primarily of utility, student loan, and equipment lease receivables, and pass-through certificates issued by airlines and railroads. The value of these securities can be volatile as interest rates fluctuate. Additional risk inherent with these securities is the unpredictability of default on loans that are the collateral for the debt.

The following schedule presents SAIF's investments by maturity date as of December 31, 2010, using the segmented time distribution method (in thousands):

Investment Type	Investment Maturities (in years)				Balance at December 31, 2010
	Less than 1	1 to 5	6 to 10	More than 10 or none	
U.S. Treasury securities	\$ 7,610	\$ 7,657	\$ 7,792	\$ 29,104	\$ 52,163
U.S. Agency securities	-	8,406	65,005	31,847	105,258
U.S. Agency mortgages	107,262	223,607	120,733	244,457	696,059
Corporate bonds	26,786	389,290	698,265	739,972	1,854,313
Municipal bonds	-	12,391	2,752	82,490	97,633
Collateralized mortgage obligations	21,566	97,707	52,885	43,564	215,722
Asset-backed securities	14,646	111,044	19,125	-	144,815
International debt securities	1,816	116,274	172,645	112,191	402,926
BlackRock MSCI ACWI IMI index fund	-	-	-	467,988	467,988
Other invested assets	-	-	-	157	157
Total	\$ 179,686	\$ 966,376	\$ 1,139,202	\$ 1,751,770	\$ 4,037,034

Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Credit Risk

SAIF's credit risk policy is to maintain a well diversified investment portfolio. Fixed income holdings shall be the largest component of the portfolio. The policy seeks to maintain an overall fixed income portfolio quality of at least A or higher. The majority of SAIF's debt securities as of December 31, 2010, were rated by Moody's and Standard & Poor's, which are nationally recognized statistical rating organizations. The following schedule represents the ratings of debt securities by investment type as of December 31, 2010, using the Standard & Poor's rating scale (in thousands):

Investment Type	AAA ¹	AA	A	BBB	BB	B or below	Not rated	Balance at December 31, 2010
U.S. Treasury securities	\$ 52,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,163
U.S. Agency securities	105,258	-	-	-	-	-	-	105,258
U.S. Agency mortgages	696,059	-	-	-	-	-	-	696,059
Corporate bonds	12,766	216,134	854,340	557,367	161,278	39,806	12,622	1,854,313
Municipal bonds	1,813	57,863	20,646	7,275	-	-	10,036	97,633
Collateralized mortgages	115,543	7,992	7,798	2,506	-	14,535	67,348	215,722
Asset-backed securities	74,092	14,828	4,781	-	-	511	50,603	144,815
International debt securities	10,263	62,855	138,859	171,061	10,472	9,416	-	402,926
Total	\$ 1,067,957	\$ 359,672	\$ 1,026,424	\$ 738,209	\$ 171,750	\$ 64,268	\$ 140,609	\$ 3,568,889

¹ Within investments rated AAA are \$52,163 in U.S. Treasury securities and \$181,961 in U.S. Agency mortgages invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

Oregon Health and Science University (OHSU)

OHSU held \$32.5 million of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2011. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of this component of OHSU's investment portfolio.

At June 30, 2011, OHSU had partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Interest Rate Risk

OHSU investment policies vary based on the investment objectives of the portfolio. The operating and trustee-held portfolios seek to preserve principal with the intent of maximizing total return within appropriate risk parameters. Maturities of securities in these portfolios are based upon returns available at the time of investing while considering cash requirements of the organization.

The endowment portfolio, which is included in long-term investments, seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. Foundation investment policies are set based on the investment objectives of the portfolio. Each portfolio has its own board-authorized asset allocation guideline. The current fund seeks to preserve principal and generate an above average rate of return. The current fund may invest in cash, cash equivalents, and fixed income securities, which have a maturity or average life of five years or less and the average weighted maturity of the portfolio shall not exceed three years. The endowment fund seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The endowment fund may invest in cash and cash equivalents, fixed income securities, domestic and international equity securities, and other alternative investments. Fixed income securities held in this fund shall have a medium to long average duration (three to eight years).

The charitable gift annuity pool seeks to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. The charitable gift annuity pool may invest in cash and cash equivalents, domestic and international equities, fixed income, and real estate. Charitable trusts are managed to produce a relatively predictable and

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stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. Charitable trust investment objectives and asset allocation guidelines are determined based on the individual circumstances of each trust account. Allowable investments include cash and cash equivalents, domestic and international equities, fixed income, and real estate.

As of June 30, 2011, OHSU had the following investments and maturities at fair value (in thousands):

Investment Type	Credit Rating	Investment Maturities (in years)				Balance at June 30, 2011
		Less than 1	1 to 5	6 to 10	More than 10 or none	
Cash and money market funds	N/A	\$ 121,280	\$ -	\$ -	\$ -	\$ 121,280
U.S. Treasury securities	AAA	48,482	180,889	32,428	6,817	268,616
U.S. Agency securities	AAA	29,205	34,335	-	-	63,540
Domestic equity securities	N/A	-	-	-	65,047	65,047
International equity securities	N/A	-	-	-	127,148	127,148
International debt securities	AAA	-	2,426	770	2,353	5,549
	AA	-	542	354	1,914	2,810
	A	400	872	1,880	678	3,830
	BBB	-	373	780	-	1,153
	BB	-	-	77	467	544
Commercial Paper	A	7,496	-	-	-	7,496
	A-1	3,000	-	-	-	3,000
Corporate bonds	AAA	9,275	5,369	-	-	14,644
	AA	6,139	13,210	1,755	-	21,104
	A	8,444	30,306	4,895	-	43,645
	BBB	2,495	21,726	7,880	-	32,101
	B	-	248	-	-	248
International corporate bonds	AAA	-	6,848	-	-	6,848
	AA	5,024	19,171	-	-	24,195
	A	1,907	3,380	2,723	-	8,010
	BBB	-	7,005	1,340	-	8,345
Interest receivable	Various	247	-	-	-	247
Asset-backed securities ¹	AAA	3,949	24,308	2,790	516	31,563
	BBB	-	900	-	-	900
Partnerships	N/A	-	-	-	50,940	50,940
Domestic mutual funds - debt	AAA	70	1,263	440	123	1,896
	AA	-	2,231	586	10	2,827
	A	146	437	391	17	991
	BBB	8	547	271	13	839
	BB	15	26	37	2	80
	B	17	10	37	1	65
	Below B	3	5	17	1	26
Not rated	47	6	29	4	86	
Municipal bonds	AAA	-	3,270	-	-	3,270
	AA	-	3,978	-	-	3,978
	A	-	4,191	-	-	4,191
Domestic mutual funds - equity	N/A	-	-	-	14,438	14,438
Alternative investments	N/A	-	-	-	133,744	133,744
Real estate investments and other		-	-	-	25,082	25,082
Total		\$ 247,649	\$ 367,872	\$ 59,480	\$ 429,315	\$ 1,104,316

¹ Includes \$1,785 which is invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

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Credit Risk

The OHSU operating and trustee-held portfolios require the following minimum ratings or better from Moody's or Standard & Poor's at the date of purchase:

	Moody's	S&P
Bankers acceptances, commercial paper	A-1	P-1
CDs, deposit notes, Eurodollar CDs or Eurodollar time deposits	A	A-1/P-1
Yankee CDs	A-1	P-1
Corporate debt, foreign government, and supranational debt	Baa3	BBB-
Insurance company annuity contracts, GICs, mortgage pass-through securities, structured securities including asset-backed securities	Aaa	AAA
Pooled investments	Aa	AA

The endowment portfolio requires a weighted average credit rating for each fixed income portfolio (within the pool) of A or higher and an avoidance of the prospect of credit failure or risk of permanent loss. Issues of state or municipal agencies are prohibited, except under unusual circumstances. The endowment portfolio may hold up to a maximum of 10 percent of the fixed income portion of the fund in below investment grade (but rated B or higher by Moody's or Standard & Poor's) fixed income securities.

The charitable gift annuity and charitable trust investments require a minimum credit quality rating in investment grade Baa/BBB bond investments and a minimum rating of A-1/P-1 for investments in commercial paper.

Concentration of Credit Risk

OHSU's operating and trustee-held portfolios limit investments in any one issue to a maximum of 10 percent, depending upon the investment type, except for issues of the U.S. Government or agencies of the U.S. Government, which may be held without limitation. The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5 percent, except for issues of the U.S. Government or agencies of the U.S. Government, which may also be held without limitation. The charitable trusts place no limit on the amount that may be invested in any one issuer. As of June 30, 2011, OHSU had no investments in excess of the thresholds discussed above.

Foreign Currency Risk

OHSU's investment policies permit investments in international equities and other asset classes, which can include foreign currency exposure. The operating and trustee-held portfolios allow investments in Eurodollar CDs. The endowment portfolio allows up to 35 percent of the portfolio to be invested in international equities and up to 25 percent of the fixed income portion of the portfolio to be invested in non-U.S. dollar denominated bonds. The investment policy for the charitable gift annuity portfolio allows for up to 10 percent of the portfolio to be invested in international equities. The charitable trust investments are permitted to include international equities and the amount of the investment is determined based on the individual circumstances of each trust account.

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The fair value of OHSU foreign-denominated securities by currency type as of June 30, 2011 (in thousands):

Foreign Currency Denomination	Investments (U.S. Dollars)
Australian dollar	\$ 34
Brazilian real	8
British sterling pound	6,617
Canadian dollar	571
Chinese renminbi	580
Euro	4,239
Hungarian forint	373
Indonesian rupiah	544
South Korean won	670
Malaysian ringgit	702
Mexican peso	678
New Zealand dollar	32
Norwegian krone	811
Polish zloty	945
South African rand	435
Singapore dollar	293
Swiss franc	2,125
Turkish lira	589
Total	<u>\$ 20,246</u>

E. Repurchase Agreements

Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2011:

- \$801 million, or 29.2 percent, of the Oregon Short-term Investment Fund, the cash collateral pool for all agencies excluding OPERF.
- \$1 billion, or 38.8 percent, of the OPERF cash collateral pool.

F. Securities Lending

The State participates in securities lending transactions in accordance with State investment policies. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements as of June 30, 2011.

During the year, State Street loaned U.S. Treasury and agency securities, domestic fixed income and equity securities, and international fixed income and equity securities, and received as collateral U.S. dollar-denominated cash, U.S. Treasury and agency securities, and international debt and equity securities. Borrowers were required to deliver collateral for each loan equal to at least 102 percent of the fair value of the loaned security, or 105 percent in the case of international equity securities and Canadian fixed income securities. Loans are marked to market daily. If the market value of collateral falls below 102 percent or 105 percent of the fair value of the loaned security, the lender may demand from the borrower sufficient collateral to raise the market value to 102 percent or 105 percent. If the market value of collateral falls below 100 percent, the borrower must provide additional collateral to raise the market value to 102 percent or 105 percent. The State did not impose any restrictions during the fiscal year on the amount of the loans State Street made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default, but was fully indemnified by State Street against such losses.

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of participants in State Street's securities lending program. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at \$1 per unit ("constant value") based on the

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amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the balance sheet and statement of net assets. The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the agent may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the agent may direct that units be redeemed at fair value, engage in in-kind redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is deemed immaterial.

The fair value of investments held by the fund is based upon valuations provided by a recognized pricing service. These funds are not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. Since the funds are accounted for at amortized cost, the fair value of the State's position in the funds is not the same as the value of the funds' shares. No income from the funds was assigned to any other funds.

During the year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral is reported on the balance sheet and statement of net assets and, since the cash collateral for all agencies is pooled, it is not exposed to custodial credit risk. Because loans were terminable at will by either party, their duration did not generally match the duration of investments made with cash collateral in either the pool or the fund. The State had no credit risk exposure to borrowers related to securities on loan.

Securities lending balances on loan, collateral received, and investments of cash collateral as of June 30, 2011, of the primary government, including the OPERF (in thousands):

Investment Type	Cash and Securities Collateral Received	Securities on Loan at Fair Value	Investments of Cash Collateral at Fair Value
US Treasury and Agency securities	\$ 2,686,559	\$ 2,631,503	\$ 2,444,906
Domestic equity securities	1,387,281	1,361,612	1,299,781
International equity securities	1,150,730	1,111,815	686,756
Domestic fixed income securities	558,658	547,382	636,139
International fixed income securities	201,867	196,547	64,197
Total	<u>\$ 5,985,095</u>	<u>\$ 5,848,859</u>	<u>\$ 5,131,779</u>

On July 1, 2010, OPERF moved its reinvested cash collateral from the commingled pool to a pool solely owned by OPERF. Consequently, OPERF bears the entire risk of any loss and the reinvested cash collateral is stated at fair value in the Pension and Other Employee Benefit Trust Funds in the Statement of Fiduciary Net Assets.

The credit risk of OPERF securities lending invested cash collateral as of June 30, 2011 (in thousands):

Quality Rating	Fair Value
AAA	\$ 444,437
AA ¹	1,056,459
A ¹	733,965
BBB	175,000
BB and B	16,972
Unrated	230,508
Total subject to credit risk	<u>2,657,341</u>
Invested cash collateral not subject to credit risk	965
Allocation from the Oregon Short-term Fund	50,839
Total securities lending invested cash collateral	<u>\$ 2,709,145</u>

¹ Commercial paper ratings of A-1+/P-1 are categorized as AA; A-1/P-1 as A.

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The interest rate risk of OPERF securities lending invested cash collateral as of June 30, 2011 (in thousands):

Security Type	Fair Value	Effective Weighted Duration Rate (in days) ¹
Asset-backed securities	\$ 433,462	45
Bank note	396,274	24
Commercial paper	666,436	35
Corporate	62,409	27
U.S. Agency	67,710	11
Repurchase agreement	1,031,050	1
Total subject to interest rate risk	2,657,341	21
Invested cash collateral not subject to interest rate risk	965	
Allocation from the Oregon Short-term Fund	50,839	
Total securities lending invested cash collateral	\$ 2,709,145	

¹ Weighted average days to maturity or next reset date.

As of December 31, 2010, the fair values of securities on loan and collateral held for SAIF Corporation were \$225 million and \$228 million, respectively.

G. Restricted Assets

Included in deposits and investments are amounts which are committed for specific purposes, including loan acquisitions, payment of debt service, lottery prizes, and deferred compensation. At June 30, 2011, the primary government had restricted assets of \$2.2 billion in deposits and \$854.6 million in investments. The discretely presented component units had restricted assets of \$1.7 billion in investments.

3. DERIVATIVES

Derivatives are financial instruments whose value is derived from underlying assets, reference rates, or indexes. They generally take the form of contracts in which two parties agree to make payments at a later date based on the value of the underlying assets, reference rates, or indexes. The main types of derivatives are futures, forwards, options, and swaps. The State uses derivative instruments as hedges against certain risks, for example, to counter increases in interest costs and as investments. For investment derivatives, the Office of the State Treasurer (Treasury) policy allows, with some restrictions, for the use of derivative instruments in the prudent management of the State's investments. Certain external management firms are allowed, through contract, to invest in derivative instruments in order to carry out their investment management activities.

A. Hedging Derivatives - Primary Government (Excluding the Oregon Public Employees Retirement Fund)

Housing and Community Services Department

The Oregon Housing and Community Services Department (OHCSA) has entered into fourteen separate pay-fixed, receive-variable interest rate swaps to hedge against changes in variable rate interest and to lower borrowing costs compared to fixed rate bonds. The notional amounts of the swaps match the principal amounts of the associated debt. The notional amounts totaled \$305.6 million and the fair value of the swaps totaled negative \$25.4 million as of June 30, 2011. During the fiscal year, the swap fair value declined by \$5.8 million. The fair value balance, including any change during the fiscal year, is shown on the proprietary funds balance sheet and the government-wide statement of net assets under deferred outflows and derivative instrument liabilities. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net

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settlement on the swap. This methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

The terms, fair values, counterparties, and credit ratings of OHCS D's outstanding swaps as of June 30, 2011 (dollars in thousands):

Bond Series	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Term Date	Counterparty	S&P
MF ¹ 2004 B	\$ 14,295	12/16/2004	3.89%	64% of 1-mo LIBOR ³ + .27%	\$ (1,071)	7/1/46	Merrill Lynch	A
MRB ² 2003 L	15,000	4/21/2010	3.64%	64.7% of 3-mo LIBOR + .23%	(610)	7/1/34	Royal Bank of Canada	AA-
MRB 2004 C	15,000	1/24/2006	4.03%	64% of 1-mo LIBOR + .29%	(960)	7/1/34	Morgan Stanley	A
MRB 2004 I	15,000	1/24/2006	4.01%	64% of 1-mo LIBOR + .29%	(1,034)	7/1/34	Morgan Stanley	A
MRB 2004 L	15,000	5/27/2010	3.43%	64.8% of 3-mo LIBOR + .22%	(470)	7/1/35	Royal Bank of Canada	AA-
MRB 2005 C	10,500	5/27/2010	3.35%	64.8% of 3-mo LIBOR + .22%	(320)	7/1/35	Royal Bank of Canada	AA-
MRB 2006 C	20,000	2/28/2006	4.18%	64% of 1-mo LIBOR + .29%	(1,926)	7/1/36	Morgan Stanley	A
MRB 2006 F	20,000	7/18/2006	4.43%	64% of 1-mo LIBOR + .29%	(2,306)	7/1/37	Bank of America	A+
MRB 2006 G	16,105	7/18/2006	3.83%	64% of 1-mo LIBOR + .19%	(2,119)	7/1/16	Merrill Lynch	A
MRB 2007 E	30,000	7/31/2007	4.39%	64% of 1-mo LIBOR + .29%	(3,795)	7/1/38	JP Morgan Chase	AA-
MRB 2007 H	30,000	11/20/2007	4.06%	64% of 1-mo LIBOR + .30%	(3,060)	7/1/38	Merrill Lynch	A
MRB 2008 C	35,000	2/26/2008	3.75%	64% of 1-mo LIBOR + .30%	(2,522)	7/1/38	Bank of America	A+
MRB 2008 F	35,000	5/13/2008	3.74%	64% of 1-mo LIBOR + .31%	(2,231)	7/1/39	Bank of America	A+
MRB 2008 I	34,650	8/26/2008	3.72%	64% of 1-mo LIBOR + .31%	(2,985)	7/1/37	Bank of America	A+
Total	<u>\$ 305,550</u>				<u>\$ (25,409)</u>			

¹ Multifamily housing revenue bonds

² Mortgage revenue bonds

³ London Interbank Offered Rate (LIBOR)

The multifamily housing revenue bonds (MF) 2004 B swap has a call option where OHCS D has the right to "call" (cancel) the swap in whole or in part semiannually beginning on January 1, 2015. The mortgage revenue bonds (MRB) swaps include options giving OHCS D the right to call the swaps in whole or in part, depending on the exercise date, semiannually beginning on January 1, 2012 (2004 C), July 1, 2012 (2004 I), January 1, 2013 (2006 C), July 1, 2013 (2006 F and 2008 F), January 1, 2014 (2003 L), July 1, 2014 (2007 E), January 1, 2015 (2007 H and 2008 C), July 1, 2015 (2004 L and 2005 C), and January 1, 2016 (2008 I). These options provide flexibility to manage the prepayments of loans and the related bonds.

Basis risk is the risk that arises when variable interest rates on a derivative and the associated bond are based on different indexes. All variable interest rates on OHCS D's tax-exempt bonds are determined weekly by a remarketing agent. OHCS D is exposed to basis risk when the variable rates received, which are based on the one or three-month London Interbank Offered Rates (LIBOR), do not offset the variable rates paid on the bonds. As of June 30, 2011, the one-month LIBOR was 0.19 percent and the three-month LIBOR was 0.25 percent. OHCS D's variable rates as of June 30, 2011, can be found in Note 9.

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. OHCS D or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the swap agreement. If any of the swaps are terminated, the associated variable rate bonds would no longer carry synthetic fixed interest rates and OHCS D would then be exposed to interest rate risk. In addition, if any of the swaps had a negative value at termination, OHCS D would be liable to the counterparty for a payment equal to the fair value of the swap.

Rollover risk is the risk that occurs when the swap termination date does not extend to the maturity date of the associated debt. OHCS D is exposed to rollover risk for the MRB 2006 G swap, which has a swap termination date of July 1, 2016. The associated bonds do not mature until 2028.

State of Oregon
Notes to the Financial Statements

Debt service requirements of the variable rate debt and net swap payments of OHCS D, using interest rates as of June 30, 2011 (in thousands):

Year Ending June 30	Principal	Interest	Interest Rate Swaps (Net)	Total
2012	\$ 180	\$ 533	\$ 10,648	\$ 11,361
2013	190	304	10,690	11,184
2014	200	304	10,687	11,191
2015	205	304	10,679	11,188
2016	215	303	10,673	11,191
2017-2021	1,220	1,513	50,685	53,418
2022-2026	14,920	1,482	49,293	65,695
2027-2031	93,655	1,278	43,316	138,249
2032-2036	139,295	670	23,064	163,029
2037-2041	51,705	116	3,878	55,699
2042-2046	3,385	11	403	3,799
2047-2051	380	-	7	387
Total	<u>\$ 305,550</u>	<u>\$ 6,818</u>	<u>\$ 224,023</u>	<u>\$ 536,391</u>

OHCS D's swaps, except for the MF 2004 B and the MRB 2007 E swaps, include provisions that require collateral to be posted if the rating on the senior bonds issued under the 1988 indenture (MRB) are not above either Baa1 (Moody's) or BBB+ (S&P). If the bonds are at or below these levels, collateral in the amount of the current swap fair value (rounded to the nearest \$10 thousand) is required to be posted. The minimum transfer amount is \$100 thousand or \$0 if neither rating agency rates the bonds. The total fair value on June 30, 2011, of the swaps that include these provisions is negative \$20.5 million. At June 30, 2011, the bonds subject to these provisions are rated Aa2 by Moody's and are not rated by S&P.

Department of Veterans' Affairs

The Oregon Department of Veterans' Affairs has an interest rate swap in connection with a portion of its Loan Program General Obligation Veterans' Welfare Bonds, Series 84. The swap and underlying floating rate bonds together create synthetic fixed rate debt. During fiscal year 2011, the Department of Veterans' Affairs did not enter into, terminate, or have any maturities of derivatives. The fair value balance of the interest rate swap is reported on the proprietary funds balance sheet and the government-wide statement of net assets under deferred outflows and derivative instrument liabilities.

Changes to the fair value balance during the year ending June 30, 2011 (in thousands):

Description	Notional Amount	Fair Value June 30, 2010	Fair Value Increase/(Decrease)	Fair Value June 30, 2011
Series 84	\$ 25,000	\$ (2,250)	\$ 441	\$ (1,809)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2011, is negative. The fair value of the interest rate swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap by assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap.

State of Oregon
Notes to the Financial Statements

The terms and objectives of the Department of Veterans' Affairs outstanding derivative instruments as of June 30, 2011 (dollars in thousands):

Type	Objective	Notional Amount	Effective Date	Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 84 bonds, specifically related to changes in municipal tax-exempt interest rates	\$ 25,000	3/1/2008	6/1/2040	3.67%	62.6% of 1-month LIBOR + .265%	\$ (1,809)

The Series 84 swap was structured with an option that gives the Department of Veterans' Affairs the right to cancel or terminate the swap at par on any payment date, in whole or in part, commencing June 1, 2017. This option enhances asset/liability matching and provides flexibility to adjust the outstanding notional amount of the swap over time.

Credit risk is the risk that a counterparty will not fulfill its obligations. The Department of Veterans' Affairs interest rate swap is with Morgan Stanley Services (counterparty), which is rated A by Standard and Poor's (S&P). If the counterparty's credit rating falls below certain levels, the counterparty is required to post collateral to the lower of the following ratings (in thousands):

S & P Rating	Moody's Rating	Threshold	Minimum Transfer Amount ¹
AA- or higher	Aa3 or higher	Infinite	N/A
A+	A1	\$ 10,000	\$ 1,000
A	A2	5,000	1,000
A-	A3	2,500	1,000
BBB+ or below or not rated	Baa1 or below or not rated	-	100

¹ Minimum transfer amount shall be \$0 if, and for as long as, neither Moody's nor S&P rate the long-term unsecured, unsubordinated debt securities of Morgan Stanley.

Since the fair value of the swap as of June 30, 2011, is negative, the counterparty is not required to post collateral. The State may require collateralization or other credit enhancements to secure any or all swap payment obligations where the Office of the State Treasurer determines such security is necessary to limit the credit risk or otherwise protect the interests of the State.

The Department of Veterans' Affairs is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As the one-month LIBOR decreases, the net payment on the swap increases.

The Department of Veterans' Affairs is exposed to basis risk because the variable rate bonds, which are hedged by the interest rate swap, are variable rate demand obligation (VRDO) bonds that are remarketed weekly. The Department of Veterans' Affairs becomes exposed to basis risk because the variable rate payments received by the Department of Veterans' Affairs are based on a rate other than the interest rate paid on the VRDO bonds. At June 30, 2011, the interest rate on the variable rate hedged debt is 2.25 percent, while the 62.6 percent of one-month LIBOR plus 0.27 percent is 0.39 percent.

The Department of Veterans' Affairs or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract thereby exposing the Department of Veterans' Affairs to termination risk.

As interest rates fluctuate, variable rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department of Veterans' Affairs.

State of Oregon
Notes to the Financial Statements

Using interest rates as of June 30, 2011, the following table presents the debt service requirements of the variable rate debt (on the notional amount of the swap) and net swap payments (in thousands):

Year Ending June 30,	Principal	Interest	Interest Rate Swap (Net)	Total
2012	\$ -	\$ 563	\$ 822	\$ 1,385
2013	-	562	822	1,384
2014	-	563	821	1,384
2015	-	563	821	1,384
2016	410	560	812	1,782
2017-2021	2,550	2,640	3,821	9,011
2022-2026	3,505	2,306	3,320	9,131
2027-2031	4,825	1,847	2,630	9,302
2032-2036	6,640	1,213	1,681	9,534
2037-2040	7,070	358	426	7,854
Total	<u>\$ 25,000</u>	<u>\$ 11,175</u>	<u>\$ 15,976</u>	<u>\$ 52,151</u>

If the State's unsecured, unenhanced, general obligation debt rating reaches certain levels, the Department of Veterans' Affairs is required to post collateral to the lower of the following ratings (in thousands):

S&P Rating	Moody's Rating	Threshold	Minimum Transfer Amount ¹
A- or higher	A3 or higher	Infinite	N/A
BBB+ or below	Baa1 or below	\$ -	\$ 100

¹ Minimum transfer amount shall be \$0 if, and for as long as, neither Moody's nor S&P rate the applicable department's debt.

B. Investment Derivatives - Primary Government (Excluding the Oregon Public Employees Retirement Fund)

Oregon University System

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. In the course of providing students and faculty opportunities for international studies and research abroad, the Oregon University System (OUS) has established foreign bank accounts in several countries. To mitigate foreign currency risk for these activities, OUS periodically enters into forward foreign currency contracts.

State of Oregon
Notes to the Financial Statements

The terms of the OUS forward contracts outstanding at June 30, 2011 (in thousands):

Currency	Notional Amount	Principal Amount	Effective Date	Maturity Date	Contract Rate	Fair Value
Euro	\$ 341	\$ 470	8/1/2010	9/14/2011	1.38	\$ 23
	161	241	6/1/2011	10/31/2011	1.50	(9)
	500	678	12/1/2011	1/26/2012	1.36	45
	500	675	3/1/2012	4/30/2012	1.35	48
British sterling pound	200	312	6/1/2011	8/20/2011	1.56	8
	200	305	9/1/2011	9/12/2011	1.53	15
	200	305	9/1/2011	10/31/2011	1.53	15
Australian dollar	23	24	9/30/2011	9/30/2011	1.03	1
Total	<u>\$ 2,125</u>	<u>\$ 3,010</u>				<u>\$ 146</u>

OUS invests part of its endowment fund in international equity securities. The investment manager of the fund routinely enters into forward foreign currency exchange agreements to hedge currency risk related to these investments. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes the movement in value of foreign currencies and the failure of the counterparty to perform.

State of Oregon
Notes to the Financial Statements

The following schedule presents the OUS foreign currency exchange contracts as of June 30, 2011 (in thousands):

Description	Delivery Dates	Notional Value	Fair Market Value
Foreign currency exchange contracts purchased:			
Australian dollar	9/21/2011	\$ 1,979	\$ 2,013
British pound sterling	9/21/2011	1,636	1,618
Canadian dollar	9/21/2011	590	598
Danish krone	9/21/2011	81	82
Euro	9/21/2011	4,458	4,498
Hong Kong dollar	9/21/2011	447	447
Israeli shekel	9/21/2011	2	2
Japanese yen	9/21/2011	1,484	1,475
New Zealand dollar	9/21/2011	90	90
Norwegian krone	9/21/2011	317	320
Singapore dollar	9/21/2011	422	425
Swedish krona	9/21/2011	455	457
Swiss franc	9/21/2011	922	921
Total contracts purchased		12,883	12,946
Foreign currency exchange contracts sold:			
Australian dollar	9/21/2011	1,981	2,005
British pound sterling	9/21/2011	2,132	2,111
Canadian dollar	9/21/2011	590	598
Danish krone	9/21/2011	243	245
Euro	9/21/2011	4,459	4,499
Hong Kong dollar	9/21/2011	447	447
Japanese yen	9/21/2011	1,336	1,328
New Zealand dollar	9/21/2011	90	90
Norwegian krone	9/21/2011	434	444
Singapore dollar	9/21/2011	423	425
Swedish krona	9/21/2011	451	457
Swiss franc	9/21/2011	298	298
Total contracts sold		12,884	12,947
Total foreign currency exchange contracts		\$ 25,767	\$ 25,893

The fair value of all derivatives held by OUS is reported as investments on the proprietary funds balance sheet. The change in fair value for all OUS derivatives is reported with investment income on the proprietary funds statement of revenues, expenses, and changes in fund net assets.

Common School Fund

In the Common School Fund (CSF) portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counterparty to perform. The change in fair value for all of the CSF's foreign currency exchange contracts for the year ended June 30, 2011, was negative \$221 thousand.

State of Oregon
Notes to the Financial Statements

The foreign currency exchange contracts within the CSF as of June 30, 2011 (in thousands):

Description	Delivery Dates	Notional Value	Fair Market Value
Foreign currency exchange contracts purchased:			
Australian dollar	9/21/2011	\$ 5,760	\$ 5,860
British pound sterling	9/21/2011	3,178	3,127
Canadian dollar	9/21/2011	2,316	2,347
Danish krone	9/21/2011	75	77
Euro	9/21/2011	11,308	11,363
Hong Kong dollar	9/21/2011	2,163	2,165
Israeli shekel	9/21/2011	45	45
Japanese yen	9/21/2011	7,124	7,087
Norwegian krone	9/21/2011	647	645
Singapore dollar	9/21/2011	1,850	1,859
Swedish krona	9/21/2011	2,386	2,396
Swiss franc	9/21/2011	12,487	12,491
Total contracts purchased		49,339	49,462
Foreign currency exchange contracts sold:			
Australian dollar	9/21/2011	4,745	4,735
Canadian dollar	9/21/2011	2,317	2,286
Danish krone	9/21/2011	1,361	1,356
Euro	9/21/2011	11,286	11,210
Hong Kong dollar	9/21/2011	1,630	1,629
Japanese yen	9/21/2011	5,737	5,776
Norwegian krone	9/21/2011	2,037	1,991
British pound sterling	9/21/2011	8,191	8,266
Singapore dollar	9/21/2011	1,856	1,854
Swedish krona	9/21/2011	2,367	2,337
Swiss franc	9/21/2011	7,763	7,761
Total contracts sold		49,290	49,201
Total foreign currency exchange contracts		\$ 98,629	\$ 98,663

In the CSF portfolio, rights and warrants are often obtained and held due to existing investments. Rights are the right, but not the obligation, to purchase newly issued equity shares, often in proportion to the number of shares currently owned, in a specified company, at a pre-established price on or within a predetermined date. A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain period. Rights and warrants are privately transacted in over-the-counter markets. Both are subject to general market risk and liquidity risk. The change in fair value for the CSF's rights and warrants for the year ended June 30, 2011, was \$191.8 thousand. The fair value of rights and warrants within the CSF portfolio as of June 30, 2011 (in thousands):

Type	Expiration Date	Related Number of Shares	Fair Value
Rights	7/18/2011	2159	\$ 4.9

The fair value of all derivative instruments within the CSF are reported on the governmental funds balance sheet as investments, accounts and interest receivable, and accounts and interest payable. The change in fair value for all CSF derivative instruments is reported with investment income on the governmental funds statement of revenues, expenditures, and changes in fund balances.

State of Oregon
Notes to the Financial Statements

C. Investment Derivatives - Primary Government - Oregon Public Employees Retirement Fund (OPERF)

Oregon Investment Council policy allows, with some restrictions, for the use of derivative instruments in the prudent management of the Public Employees Retirement System (PERS) investments. Certain internally and externally managed accounts are allowed, through contract and policy, to invest in derivative instruments in order to carry out their investment management activities. Risks inherent with derivatives are managed through investment management's adherence to contractual and policy prescribed terms that are consistent with the OPERF's investing objectives. All derivatives are considered investments. The fair value of the derivative investments is reported in equity investments, investment sales receivable, and accounts and interest payable on the statement of fiduciary net assets. Changes in fair value during the fiscal year are reported in the net appreciation (depreciation) in fair value of investments line on the statement of changes in fiduciary net assets. The fair values reported in the following PERS tables are not the same as amounts reported as investments in the financial statements because derivatives with net loss positions have been reclassified as liabilities.

Currency Forwards

A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. In the PERS portfolio, forward currency exchange contracts may be used to gain exposure to or hedge against the effects of fluctuations in foreign currency exchange rates. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counterparty to perform. The change in fair value arising from the difference between the original contracts and the closing of such contracts is negative \$88.6 million for the fiscal year ended June 30, 2011.

Foreign currency forward contracts that represent purchase commitments within the PERS portfolio as of June 30, 2011 (in thousands):

Description	Delivery Dates	Notional Value	Fair Value
Australian dollar	7/5/2011 - 9/21/2011	\$ 326,107	\$ 4,749
Brazilian real	7/5/2011 - 8/2/2011	12,294	48
Canadian dollar	7/7/2011 - 9/21/2011	90,278	737
Chinese yuan	9/27/2011 - 9/8/2015	13,361	137
Danish krone	7/8/2011 - 9/21/2011	18,593	129
Euro	7/1/2011 - 9/21/2011	481,513	5,326
Hong Kong dollar	7/8/2011 - 6/12/2012	51,225	16
Indonesian rupiah	7/20/2011 - 7/29/2011	1,602	9
Israeli shekel	7/27/2011 - 9/21/2011	12,044	117
Japanese yen	7/7/2011 - 10/7/2011	168,796	(295)
Kazakhstan tenge	7/7/2011 - 10/7/2011	1,261	(4)
Malaysian ringgit	9/21/2011	626	-
Mexican peso	8/18/2011 - 9/21/2011	742	7
New Zealand dollar	8/15/2011 - 9/21/2011	119,037	3,151
Norwegian krone	7/8/2011 - 9/21/2011	149,111	2,662
Philippine peso	7/29/2011 - 11/15/2011	2,220	(5)
Polish zloty	9/21/2011	327	(6)
Pound sterling	7/1/2011 - 9/24/2012	244,173	(3,198)
Singapore dollar	7/8/2011 - 9/21/2011	48,958	379
South Korean won	8/12/2011 - 9/21/2011	1,563	62
Swedish krona	7/8/2011 - 9/21/2011	273,404	(3,231)
Swiss franc	7/8/2011 - 9/21/2011	125,891	1,918
Total		<u>\$ 2,143,126</u>	<u>\$ 12,708</u>

State of Oregon
Notes to the Financial Statements

Foreign currency forward contracts that represent sell commitments within the PERS portfolio as of June 30, 2011 (in thousands):

Description	Delivery Dates	Notional Value	Fair Value
Australian dollar	7/5/2011 - 10/7/2011	\$ 316,373	\$ (13,622)
Brazilian real	7/5/2011 - 9/2/2011	42,838	(1,409)
Canadian dollar	7/7/2011 - 10/7/2011	148,917	(1,621)
Chinese yuan	7/20/2012 - 10/15/2013	1,362	10
Colombian peso	7/29/2011	576	(5)
Danish krone	7/1/2011 - 9/21/2011	21,941	(145)
Euro	7/1/2011 - 3/21/2012	714,220	(12,023)
Hong Kong dollar	9/21/2011 - 6/12/2012	51,763	(25)
Israeli shekel	9/21/2011	409	1
Japanese yen	7/1/2011 - 9/21/2011	376,006	(4,365)
Mexican peso	8/18/2011	1,125	(19)
New Zealand dollar	9/21/2011	84,848	(880)
Norwegian krone	9/21/2011 - 12/21/2011	34,954	(551)
Peruvian nouveau sol	9/21/2011	93	(2)
Polish zloty	7/18/2011	585	(8)
Pound sterling	7/4/2011 - 11/29/2013	479,683	4,415
Singapore dollar	7/5/2011 - 9/21/2011	33,939	(184)
South African rand	9/21/2011	625	-
Swedish krona	8/15/2011 - 12/21/2011	70,405	(37)
Swiss franc	7/6/2011 - 3/21/2012	100,392	(2,384)
Total		<u>\$ 2,481,054</u>	<u>\$ (32,854)</u>

Futures and Forwards

Futures and forward contracts represent commitments to buy or sell an underlying asset at a future date and at a specified price. Futures contracts have standardized terms and are exchange-traded. Forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. The counterparty credit risk for futures is generally less than privately negotiated forward contracts, since the clearinghouse, which is the issuer of or counterparty to each exchange-traded future, daily settles the net change in the futures contract's value in cash with the broker. In the PERS portfolio, futures and forward contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, currency exchange rates, equity indexes, and other market conditions. The OPERF bears the market risk that arises from changes in the value of these instruments and the imperfect correlation between movements in the price of the futures and forward contracts and movements in the price of the securities hedged or used for cover. The change in fair value resulting from futures contract settlements totaled \$135.7 million for the fiscal year ended June 30, 2011. The change in fair value resulting from forward contract settlements totaled \$9.1 million for the fiscal year ended June 30, 2011. The fair value of the futures contracts reported within the PERS portfolio is \$0.

State of Oregon
Notes to the Financial Statements

The balance of the fixed income futures contracts within the PERS portfolio as of June 30, 2011 (dollars in thousands):

Fixed Income Type	Expiration Date	Number of Contracts	Notional Value
Long cash and cash equivalents:			
90 day Euro	12/19/2011 - 6/13/2016	1,396	\$ 344,164
Short cash and cash equivalents:			
90 day Euro	12/19/2011 - 6/17/2013	2,766	(686,783)
Long fixed income:			
30 year U.S. Treasury bonds	9/21/2011	2,095	257,750
10 year U.S. Treasury notes	9/21/2011	2,373	290,284
5 year U.S. Treasury notes	9/30/2011	6,175	736,031
2 year U.S. Treasury notes	9/30/2011	5,102	1,119,092
Ultra long U.S. Treasury bonds	9/21/2011	1,435	181,169
German Euro-Bobl	9/8/2011	670	113,246
UK long gilt bond	9/28/2011	384	74,072
Total long fixed income			<u>2,771,644</u>
Short fixed income:			
30 year U.S. Treasury bonds	9/21/2011	1,835	(225,762)
10 year Canadian Government bonds	9/21/2011	295	(37,900)
10 year Australian Treasury bonds	9/15/2011	170	(17,251)
10 year U.S. Treasury notes	9/21/2011	4,110	(502,769)
2 year U.S. Treasury notes	9/30/2011	749	(164,288)
Total short fixed income			<u>(947,970)</u>
Total			<u><u>\$ 1,481,055</u></u>

State of Oregon
Notes to the Financial Statements

The balance of the index futures contracts within the PERS portfolio as of June 30, 2011 (dollars in thousands):

Index Type	Expiration Date	Number of Contracts	Notional Value
Long purchased indexes:			
CAC 40	7/15/2011	1,065	\$ 61,447
DAX	9/16/2011	183	49,028
FTSE 100	9/16/2011	1,136	107,649
FTSE MIB	9/16/2011	289	42,347
Hang Seng	7/28/2011	186	26,806
IBEX 35	7/15/2011	24	3,575
Russell 1000 mini	9/16/2011	587	42,957
Russell 2000 mini	9/16/2011	1,586	130,908
S&P 500 E mini	9/16/2011	373	24,534
S&P 500	9/15/2011	37	12,168
S&P midcap 400 E mini	9/16/2011	80	7,812
SGX MSCI Singapore	7/28/2011	35	2,055
TOPIX	9/9/2011	45	4,734
Total long purchased indexes			516,020
Short purchased indexes:			
AEX	7/15/2011	74	(7,290)
ASX SPI 200	9/15/2011	899	(110,708)
CAC 40	7/15/2011	369	(21,290)
DAX	7/15/2011	70	(18,754)
Euro STOXX 50	9/16/2011	529	(21,843)
FTSE 100	9/16/2011	434	(41,127)
FTSE MIB	9/16/2011	39	(5,715)
Hang Seng	7/28/2011	54	(7,782)
IBEX 35	7/15/2011	48	(7,149)
OMX 30	7/15/2011	1,817	(32,107)
S&P 500 E mini	9/16/2011	3,230	(212,453)
S&P TSE 60	9/15/2011	190	(30,011)
Swiss market	9/16/2011	1,257	(92,379)
TOPIX	9/9/2011	443	(46,599)
Total short purchased indexes			(655,207)
Total			\$ (139,187)

The balance of the forward contracts within the PERS portfolio as of June 30, 2011 (in thousands):

Type of Forward Contract	Expiration Date	Notional Value	Fair Value
Forward assets:			
U.S. Treasury notes	2/15/2021	\$ 58,266	\$(1,376)
U.S. Treasury strips	11/15/2021	34,357	(902)
Total forward assets		92,623	(2,278)
Forward liabilities:			
U.S. Treasury TIPS	1/15/2021	(54,763)	597
Total forward liabilities		(54,763)	597
Total		\$ 37,860	\$(1,681)

Swaps

A swap is an agreement that obligates two parties to exchange a series of cash flows or the net value of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified amount of an underlying asset. The OPERF may enter into various types of swaps, including credit default, interest rate, and total return swaps. The OPERF may use swaps to obtain efficient investment exposure or to hedge exposure to interest and currency rates and to movements in the debt and equity markets. The payment flows are usually netted against each other, with the difference being paid by one party or another. In addition, collateral may be pledged or received by the OPERF to provide value and recourse to the OPERF or its counterparties in accordance with the terms of the respective swap agreements.

Credit default swaps represent agreements between parties to exchange a fixed rate premium by the buyer of protection in exchange for a contingent payment by the seller of protection equal to the loss in value of an underlying debt instrument triggered by the occurrence of a defined credit event (such as bankruptcy, restructuring, failure to make payments when due, and repudiation/moratorium for sovereign underlying instruments). Under the terms of the swap, the protection seller acts as a “guarantor” receiving a periodic payment that is equal to a fixed percentage applied to a notional principal amount. In return, the seller of protection agrees to pay the notional amount of the underlying instrument, less its distressed value, if a credit event occurs during the term of the swap. Credit default swaps are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. In the PERS portfolio, credit default swap contracts may be used to gain exposure to, or hedge against the effects of, fluctuations in specific investments, bond markets, and other market conditions. Credit default swaps are subject to general market risk, liquidity risk, credit risk, and the risk that the counterparty will fail to perform.

Interest rate swaps represent agreements between two parties to exchange cash flows or the net value of cash flows based on a notional amount and an underlying interest rate. Interest rate swaps are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. The OPERF may elect to pay a fixed rate and receive a floating rate or receive a fixed rate and pay a floating rate based on a notional amount and a reference rate. In the PERS portfolio, interest rate swap contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets and other market conditions. Risk associated with such contracts includes liquidity risk, interest rate risk, and the risk that the counterparty will fail to perform.

Total return swaps are agreements to exchange the return generated by one instrument for the return generated by another instrument. Total return swaps are privately negotiated contracts with customized terms that are transacted in over-the-counter markets. In the PERS portfolio, total return swap contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, equity markets, and other market conditions. Total return swaps are subject to general market risk, liquidity risk, and the risk that the counterparty will fail to perform.

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Notes to the Financial Statements

The change in fair value for swaps contracts within the PERS portfolio for the year ended June 30, 2011, was \$57.7 million. The balances of the swap contracts as of June 30, 2011 (in thousands):

Description	PERS Receives	PERS Pays	Maturity date	Notional Value	Fair Value
Interest rate swaps - pay fixed asset	3 month LIBOR	2.72% - 3.69%	9/20/2020 - 11/3/2040	\$ 31,200	\$ 2,148
Interest rate swaps - pay fixed liability	3 month LIBOR	0.73% - 5%	5/7/2012 - 5/24/2041	971,617	(24,705)
Interest rate swaps - receive fixed asset	2.37% - 11.57%	See note ¹	2/4/2014 - 12/19/2023	129,905	3,997
Interest rate swaps - receive fixed liability	11.49%	1 day BRCDI	1/2/2012	5,200	(9)
Credit default swaps - pay fixed assets	CDP ²	0.07% - 2.5%	3/20/2012 - 2/17/2051	145,868	12,487
Credit default swaps - pay fixed liabilities	CDP ²	0.11% - 5%	9/20/2011 - 3/20/2019	334,885	(18,418)
Credit default swaps - receive fixed assets	0.81% - 5%	CDP ²	8/20/2011 - 6/25/2036	42,506	1,372
Credit default swaps - receive fixed liabilities	0.09% - 3.5%	CDP ²	9/20/2012 - 10/12/2052	169,141	(27,799)
Total return swaps - pay set reference asset	1 or 12 month LIBOR	1 or 12 month LIBOR	1/12/2040	23,178	150
Total return swaps - receive set reference liability	TRX CMBS reset index	TRX CMBS index	10/1/2011 - 1/1/2012	8,225	(34)
Total return swaps - pay/receive variable reference asset	Market FNMA 5% or 6% indexes	1 month LIBOR	1/12/2040	19,770	23
Total equity return swaps	Equity position	3 month LIBOR	5/15/2012	121	(121)
Total				<u>\$ 1,881,616</u>	<u>\$ (50,909)</u>

¹ PERS pays/receives counterparty based on daily CETIP, 1-month Mexican TIIE rate, 3-month CDOR, 3-month LIBOR, 6-month CDOR.

² Credit default protection.

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Notes to the Financial Statements

The counterparties' credit ratings for swaps contracts within the PERS portfolio as of June 30, 2011 (in thousands):

Counterparty Information	S&P	Moody's	Credit Default Swaps	Interest Rate Swaps	Total Return Swaps	Total Return Equity Swaps	Total
Bank of America Merrill Lynch	A	A+	\$ (2,005)	\$ (4,161)	\$ -	\$ -	\$ (6,166)
Barclay's Bank	AA-	AA-	(1,294)	(3,240)	68	-	(4,466)
BNP PARIBAS S.A.	AA	AA-	(23)	-	-	-	(23)
Citibank	A	A+	(11,175)	-	-	-	(11,175)
Credit Suisse	A+	AA-	1,508	-	12	-	1,520
Deutsche Bank	A+	AA-	(3,569)	(6,712)	-	-	(10,281)
Goldman Sachs	A	A+	(2,540)	(2,378)	66	-	(4,852)
HBSC Bank	N/A	N/A	(4)	-	-	-	(4)
JP Morgan Chase	AA-	AA-	(2,866)	(604)	(7)	-	(3,477)
Morgan Stanley	A	A	(9,377)	(1,209)	-	-	(10,586)
Royal Bank of Canada	AA-	AA	-	261	-	-	261
Royal Bank of Scotland	A+	AA-	(104)	(526)	-	-	(630)
UBS AG Stamford	A+	A+	(922)	-	-	-	(922)
Other	N/A	N/A	13	-	-	(121)	(108)
Total swaps subject to credit risk			\$ (32,358)	\$ (18,569)	\$ 139	\$ (121)	\$ (50,909)

Options

An option is an instrument that gives one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specified period of time. A European option is an option that can only be exercised on the expiration date. A call option gives the purchaser the option to buy (and the seller the obligation to sell) the underlying investment at the contracted exercise price. A put option gives the purchaser the option to sell (and the writer the obligation to buy) the underlying investment at the contracted exercise price. Options can be exchange-traded or private contracts between two or more parties. Exchange-traded options are cleared through and guaranteed by clearing houses. In the PERS portfolio, option and European option contracts may be bought or sold to gain exposure to, or hedge against, the effects of fluctuations in interest rates, currency exchange rates, bond markets, equity markets, and other market conditions.

In writing an option, the OPERF bears the market risk of an unfavorable change in the price of the underlying investment of the written option. Exercise of an option written by the OPERF could result in the OPERF selling or buying an asset at a price different from the current market value. The risk associated with purchasing an option is that the OPERF pays a premium whether or not the option is exercised. Options and European options may be subject to interest rate risk, general market risk, liquidity risk, credit risk, foreign currency risk and, for non-exchange-traded options, the risk that the counterparty will fail to perform. The change in fair value from options contracts within the PERS portfolio for the year ended June 30, 2011, was \$2.8 million.

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Notes to the Financial Statements

The balance of the options contracts within the PERS portfolio as of June 30, 2011 (dollars in thousands):

Description	Expiration Date	Contracts	Units	Fair Value
Fixed Income:				
<i>Written calls</i>				
INF Cap USD CPURNSA	3/4/2015	1,800,000	(1,800,000)	\$ (16)
FN 5.0 9 39 101	10/11/2011 - 11/14/2011	39,400,000	(39,400,000)	(640)
Total written calls			<u>(41,200,000)</u>	<u>(656)</u>
<i>Written puts</i>				
INF floor USD CPURNS	3/4/2015 - 10/13/2020	2,600,000	(2,600,000)	(12)
IRO USD 3Y P2.75 DUB	6/18/2012	3,600,000	(3,600,000)	(17)
IRO USD 3Y P2.75 RYL	6/18/2012	3,000,000	(3,000,000)	(14)
IRO 2Y RYL	9/24/2012	11,700,000	(11,700,000)	(60)
IRO USD 1Y GLM	11/19/2012	4,700,000	(4,700,000)	(27)
Total written puts			<u>(25,600,000)</u>	<u>(130)</u>
Total fixed income			<u>(66,800,000)</u>	<u>(786)</u>
Foreign Currency:				
<i>Written calls</i>				
OTC ECAL USD V KRW	9/21/2011	1,700,000	(1,700,000)	(9)
<i>Written puts</i>				
OTC USD VS JPY 79	7/19/2011	1,100,000	(1,100,000)	(2)
OTC EPUT AUD VS USD	9/15/2011	3,300,000	(3,300,000)	(28)
Total written puts			<u>(4,400,000)</u>	<u>(30)</u>
Total foreign currency			<u>(6,100,000)</u>	<u>(39)</u>
Option futures:				
<i>Calls</i>				
Purchased:				
10 year Treasury note	7/22/2011 - 8/26/2011	575	575,000	284
Written:				
10 year Treasury note	7/22/2011 - 8/26/2011	256	(256,000)	(48)
Euro	3/19/2012	642	(1,605,000)	(376)
Total calls written			<u>(1,861,000)</u>	<u>(424)</u>
Total option future calls			<u>(1,286,000)</u>	<u>(140)</u>
<i>Puts</i>				
Purchased:				
10 year Treasury note	8/26/2011	1,862	1,862,000	568
5 year Treasury note	8/26/2011	485	485,000	138
1 year Euro midcurve	9/16/2011	395	987,500	72
2 year Euro midcurve	8/12/2011	141	352,500	63
Total puts purchased			<u>3,687,000</u>	<u>841</u>
Written:				
Euro	3/19/2012	642	(1,605,000)	(185)
1 year Euro midcurve	9/16/2011	395	(987,500)	(7)
10 year Treasury note	8/26/2011	128	(128,000)	(136)
Total puts written			<u>(2,720,500)</u>	<u>(328)</u>
Total option future puts			<u>966,500</u>	<u>513</u>
Total option futures			<u>(319,500)</u>	<u>373</u>
Total			<u>(73,219,500)</u>	<u>\$ (452)</u>

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Swaptions

A swaption is an option to enter into an interest rate swap at an agreed upon fixed rate until or at some future date. Swaption contracts entered into by the OPERF typically represent an option that gives the purchaser the right, but not the obligation, to enter into a swap contract on a future date. If a call swaption is exercised, the purchaser will enter into a swap contract to receive the fixed rate and pay a floating rate in exchange. Exercising a put swaption would entitle the purchaser to pay a fixed rate and receive a floating rate. Swaptions are privately negotiated contracts with customized terms and are transacted in the over-the-counter markets. In the PERS portfolio, swaption contracts may be bought or sold to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, and other market conditions.

In writing a swaption, the OPERF bears the market risk of an unfavorable change in the price of the underlying investment of the written swaption. Exercise of a swaption written by the OPERF could result in the OPERF selling or buying an asset at a price different from the current market value. The risk associated with purchasing a swaption is that the OPERF pays a premium, whether or not the option to enter a swap is exercised. Swaptions may be subject to interest rate risk, liquidity risk, and the risk that the counterparty will fail to perform. The change in fair value from swaptions contracts within the PERS portfolio for the year ended June 30, 2011, was \$640 thousand. The balance of the swaption contracts as of June 30, 2011 (dollars in thousands):

Description	Expiration Date	Contracts	Units	Fair Value
Puts				
<i>Purchased</i>				
Great Britain pound	12/15/2015	2,800,000	2,800,000	\$ 504
IRO Great Britain pound	12/15/2015	6,300,000	6,300,000	1,134
Swaption SWP011027	9/21/2011	3,675,000	3,675,000	62
Total puts purchased			12,775,000	1,700
<i>Written</i>				
IRO Eurodollar	7/1/2014	2,500,000	(2,500,000)	(1)
Swaption 317U153B3	7/11/2011	3,800,000	(3,800,000)	-
Swaption 27 2.25 BOA	9/24/2012	10,500,000	(10,500,000)	(53)
Swaption 9W9011068	9/21/2011	3,675,000	(3,675,000)	(26)
Swaption 317U153B3	7/11/2011	3,675,000	(3,675,000)	(41)
Total puts written			(24,150,000)	(121)
Total			(11,375,000)	\$ 1,579

Rights and Warrants

Rights are the right, but not the obligation, to purchase newly issued equity shares, often in proportion to the number of shares currently owned, in a specified company, at a pre-established price on or within a pre-determined date. Rights are privately transacted in over-the-counter markets. In the PERS portfolio, rights are often obtained and held due to existing investments. Rights are subject to general market risk and liquidity risk.

A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain time period. Warrants are privately transacted in over-the-counter markets. In the PERS portfolio, warrants are often obtained and held due to existing investments. Warrants are subject to general market risk and liquidity risk. The change in fair value from rights and warrants for the year ended June 30, 2011, was \$5.1 million.

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The fair value of rights and warrants within the PERS portfolio as of June 30, 2011 (dollars in thousands):

Type	Expiration Date	Related Number of Shares	Fair Value
Rights	7/12/2011 - 7/15/2011	468,752	\$ 212
Warrants	10/28/2011 - 1/19/2021	5,260,967	16,936
Total		5,729,719	\$ 17,148

D. Hedging Derivatives - Discretely Presented Component Units

Oregon Health and Science University (OHSU)

OHSU interest rate swap agreements (collectively, the swaps) as of June 30, 2011:

	Notional Amount	Fair Value
2005 Swap No. 1	\$ 44,475	\$ (4,206)
2005 Swap No. 2	44,450	(4,209)
2004 Swap No. 1	52,350	(955)
2004 Swap No. 2	52,350	(955)
Total	\$ 193,625	\$ (10,325)

The notional amounts of the swaps and the principal amounts of the associated debt decline over time and terminate on January 1 and January 3, 2012, respectively for the 2004 swaps, and on July 1, 2028, for the 2005 swaps. The 2004 swaps originated on January 1, 2007, and the 2005 swaps originated on October 18, 2005. For the 2005 swaps, OHSU is currently making fixed rate interest payments of 3.36 percent to the counterparty and receives variable rate payments computed as 62.67 percent of the LIBOR plus 0.18 percent. For the 2004 swaps, OHSU pays the counterparties a fixed payment of 3.37 percent and receives a variable payment computed as 67 percent of the LIBOR. The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to swap counterparties were \$6 million during the year ended June 30, 2011.

Each of the swaps was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998 A, Series 1998 B, Series 2002 B, and Series 2009 B bonds. Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, representing the value of the swap at the inception of the current hedge, and a hedging instrument, representing the hypothetical value of the swap had it held a \$0 value at the inception of the hedge.

The companion debt instrument for the 2005 swaps is reported on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The deferred outflow is being amortized according to the same schedule as other debt issuance costs associated with the Series 2005A and Series 2005B bonds as an offset to amortization expense. The liability value is \$5.8 million as of June 30, 2011.

The companion debt instrument for the 2004 swaps is reported on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The liability value was \$1.2 million as of June 30, 2011.

The current hedging instruments for both the 2004 swaps and the 2005 swaps are recorded on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. Subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these balance sheet accounts. The liability value was \$815 thousand as of June 30, 2011.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2011, the counterparties' credit ratings were A+ from Standard & Poor's, Aa3 from Moody's, and A+ from Fitch. Additionally, the swap exposes OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms.

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If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

OHSU is additionally responsible for posting collateral if the total swap liability for swaps with one of the counterparties exceeds a predetermined value on the reporting date. The collateral posting limit was \$15 million compared to a total relevant swap liability value of \$9.4 million as of June 30, 2011, resulting in a requirement that OHSU post collateral totaling \$0 as of June 30, 2011.

OHSU or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts.

4. RECEIVABLES AND PAYABLES

A. Receivables

The following tables disaggregate receivable balances reported in the fund financial statements as accounts and interest receivable (net) and net contracts, notes, and other receivables. Contracts, notes, and other receivables are not expected to be collected within one year of the date of the financial statements.

Receivables reported for governmental activities at June 30, 2011 (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities:								
General accounts	\$ 19,033	\$ 53,482	\$ 10,407	\$ 2,661	\$ 4,146	\$ 118,019	\$ 207,748	\$ 85,410
Due from federal government	23	112,552	62,967	34,268	-	152,964	362,774	-
Interest	-	-	2,076	3,962	1,608	9,305	16,951	732
Healthcare providers	-	45,476	-	-	-	-	45,476	-
Broker receivable	-	-	-	-	40,220	-	40,220	-
Notes	-	-	-	100	-	-	100	-
Contracts	-	-	1,147	422	-	-	1,569	-
Mortgages	-	5,065	-	13	-	-	5,078	-
Benefit recoveries	25,738	52,342	-	-	-	-	78,080	-
Court fines and fees	-	-	-	-	-	436,407	436,407	-
Collection assessments	-	-	-	-	-	342,280	342,280	-
Child support recoveries	-	-	-	-	-	267,002	267,002	-
Workers' compensation recoveries	-	-	-	-	-	56,495	56,495	-
Other	18,832	-	3,102	8,873	-	104,993	135,800	45
Gross receivables	63,626	268,917	79,699	50,299	45,974	1,487,465	1,995,980	86,187
Allowance for uncollectibles	(16,626)	(5,877)	(753)	(3,763)	-	(921,755)	(948,774)	(17)
Total receivables, net	\$ 47,000	\$ 263,040	\$ 78,946	\$ 46,536	\$ 45,974	\$ 565,710	\$ 1,047,206	\$ 86,170

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Receivables reported for business-type activities at June 30, 2011 (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities:							
General accounts	\$ 1,351	\$ 96	\$ 15,790	\$ 283,340	\$ 139,030	\$17,635	\$457,242
Due from federal government	-	-	-	14,672	49,356	831	64,859
Interest	7,709	1,642	-	545	-	13,840	23,736
Broker receivable	-	-	-	-	412	-	412
Contracts	-	1,437	-	-	-	-	1,437
Loans	-	-	-	-	16,524	-	16,524
Loans - long-term	-	-	-	-	64,150	-	64,150
Benefit recoveries	-	-	-	26,390	-	-	26,390
Other	-	524	2,946	17,016	-	76	20,562
Gross receivables	9,060	3,699	18,736	341,963	269,472	32,382	675,312
Allowance for uncollectibles	-	-	-	(9,440)	(7,324)	(49)	(16,813)
Total receivables, net	\$ 9,060	\$ 3,699	\$ 18,736	\$ 332,523	\$ 262,148	\$32,333	\$658,499

Receivables reported for fiduciary funds at June 30, 2011 (in thousands):

	Agency
Fiduciary fund activities:	
General accounts	\$ 11,063
Restitution	427,766
Other	2,669
Gross receivables	441,498
Allowance for uncollectibles	(321,774)
Total receivables, net	\$ 119,724

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2010, and the Oregon Health and Science University (OHSU) at June 30, 2011 (in thousands):

	SAIF	OHSU
Discretely presented component units:		
Patient accounts	\$ -	\$ 213,481
Premiums	281,555	-
Due from federal government	-	32,765
Interest	40,167	2,509
Student loans	-	34,382
Broker receivable	162	-
Other	13,897	15,984
Gross receivables	335,781	299,121
Allowance for uncollectibles	(1,532)	(20,327)
Total receivables, net	\$ 334,249	\$ 278,794

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Notes to the Financial Statements

B. Payables

The following tables disaggregate payables reported in the fund financial statements as accounts and interest payable and contracts, mortgages, and notes payable.

Payables reported for governmental activities at June 30, 2011 (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities:								
General accounts	\$ 272,400	\$ 52,709	\$ 124,478	\$ 24,801	\$ 3,829	\$ 217,745	\$ 695,962	\$ 27,641
Interest	-	70	-	-	-	-	70	1,006
Broker payable	-	-	-	-	71,182	-	71,182	-
Taxes	25	-	-	-	-	-	25	-
Loans	-	95,000	-	-	-	-	95,000	-
Total payables	\$ 272,425	\$ 147,779	\$ 124,478	\$ 24,801	\$ 75,011	\$ 217,745	\$ 862,239	\$ 28,647

Payables reported for business-type activities at June 30, 2011 (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities:							
General accounts	\$ 742	\$ 385	\$ 5,322	\$ 29,973	\$ 133,842	\$ 28,442	\$ 198,706
Interest	28,944	965	-	-	29,543	6,540	65,992
Broker payable	-	-	-	-	688	-	688
Loans	1,500	-	15	-	5,235	-	6,750
Contracts	-	-	-	-	11,383	-	11,383
Total payables	\$ 31,186	\$ 1,350	\$ 5,337	\$ 29,973	\$ 180,691	\$ 34,982	\$ 283,519

Payables reported for fiduciary funds at June 30, 2011 (in thousands):

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
Fiduciary fund activities:				
General accounts	\$ 296,886	\$ 288	\$ 268	\$ 40
Compensated absences payable	1,452	-	-	-
Broker payable	2,556,987	-	-	-
Mortgages	-	2,174	-	-
Total payables	\$ 2,855,325	\$ 2,462	\$ 268	\$ 40

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Payables reported for SAIF Corporation (SAIF) at December 31, 2010, and the Oregon Health and Science University (OHSU) at June 30, 2011 (in thousands):

	SAIF	OHSU
Discretely presented component units:		
General accounts	\$ 21,124	\$ 176,713
Contracts	-	36,649
Reinsurance	6,218	-
Commission payable	7,912	-
Retrospective premiums	30,305	-
Total payables	<u>\$ 65,559</u>	<u>\$ 213,362</u>

5. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 to coordinate lottery games with larger prizes than the individual states could offer by themselves. The Oregon Lottery has been a participating member since the inception of MUSL. Each participating state sells its choice of MUSL products and keeps all profits earned. Participating states contribute amounts necessary to fund the estimated and actual prizes won, reserve prize pools, and the operating expenses of MUSL. For fiscal years ended June 30, 2011 and 2010, the Oregon Lottery's share of MUSL's operating expenses was \$32.5 thousand and \$31 thousand, respectively.

MUSL is governed by a board on which each member lottery is represented. Each member lottery has one vote. The board's responsibilities to administer multi-state lottery games are performed through product groups, advisory committees, or panels staffed by officers and independent contractors as appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties, and qualifications. The executive committee carries out the budgeting and financing of MUSL, and the board contracts annually with an independent auditor. Upon termination of the MUSL's existence, if such termination should occur, the member lotteries would receive any proceeds determined available for distribution by the board.

The following schedule presents the summarized financial activity of MUSL as of June 30, 2011 and 2010 (in thousands).

	2011	2010
Assets	<u>\$ 641,435</u>	<u>\$ 736,287</u>
Liabilities	\$ 641,194	\$ 735,783
Net Assets - unrestricted	241	504
Liabilities and net assets	<u>\$ 641,435</u>	<u>\$ 736,287</u>
Unrestricted revenues	\$ 4,101	\$ 3,712
Unrestricted expenses	4,364	4,002
Change in unrestricted net assets	<u>\$ (263)</u>	<u>\$ (290)</u>

Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government securities.

Separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322.

6. CAPITAL ASSETS

A. Primary Government

Capital Asset Activity

Capital asset activity for the primary government for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,724,396	\$ 56,320	\$ 2,423	\$ 1,778,293
Construction in progress	2,071,340	1,541,779	2,143,276	1,469,843
Works of art and other nondepreciable assets	1,746	178	-	1,924
Total capital assets not being depreciated	<u>3,797,482</u>	<u>1,598,277</u>	<u>2,145,699</u>	<u>3,250,060</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	2,977,163	431,189	262,025	3,146,327
Infrastructure	15,216,359	3,168,826	2,217,745	16,167,440
Total capital assets being depreciated	<u>18,193,522</u>	<u>3,600,015</u>	<u>2,479,770</u>	<u>19,313,767</u>
Less accumulated depreciation for:				
Buildings, property, and equipment	1,246,352	126,445	27,374	1,345,423
Infrastructure	9,414,749	527,418	414,212	9,527,955
Total accumulated depreciation	<u>10,661,101</u>	<u>653,863</u>	<u>441,586</u>	<u>10,873,378</u>
Total capital assets being depreciated, net	<u>7,532,421</u>	<u>2,946,152</u>	<u>2,038,184</u>	<u>8,440,389</u>
Governmental activities capital assets, net	<u>\$ 11,329,903</u>	<u>\$ 4,544,429</u>	<u>\$ 4,183,883</u>	<u>\$ 11,690,449</u>

The beginning balance has been restated from \$11,271,055 to \$11,329,903 to reflect prior period adjustments totaling \$58,848. Increases in accumulated depreciation include current year depreciation expense of \$299,285 and a prior period adjustment of \$354,578.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 121,340	\$ 10,890	\$ -	\$ 132,230
Construction in progress	354,174	1,613	23,060	332,727
Works of art and other nondepreciable assets	64,429	8,021	-	72,450
Total capital assets not being depreciated	<u>539,943</u>	<u>20,524</u>	<u>23,060</u>	<u>537,407</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	3,207,747	682,435	7,039	3,883,143
Infrastructure	86,058	10,179	-	96,237
Total capital assets being depreciated	<u>3,293,805</u>	<u>692,614</u>	<u>7,039</u>	<u>3,979,380</u>
Less accumulated depreciation for:				
Buildings, property, and equipment	1,495,877	145,366	14,286	1,626,957
Infrastructure	44,764	4,072	-	48,836
Total accumulated depreciation	<u>1,540,641</u>	<u>149,438</u>	<u>14,286</u>	<u>1,675,793</u>
Total capital assets being depreciated, net	<u>1,753,164</u>	<u>543,176</u>	<u>(7,247)</u>	<u>2,303,587</u>
Business-type activities capital assets, net	<u>\$ 2,293,107</u>	<u>\$ 563,700</u>	<u>\$ 15,813</u>	<u>\$ 2,840,994</u>

State of Oregon
Notes to the Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Fiduciary fund activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 958	\$ -	\$ -	\$ 958
Construction in progress	-	165	-	165
Total capital assets not being depreciated	958	165	-	1,123
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	43,223	5,912	65	49,070
Total capital assets being depreciated	43,223	5,912	65	49,070
Less accumulated depreciation for:				
Buildings, property, and equipment	9,161	1,767	65	10,863
Total accumulated depreciation	9,161	1,767	65	10,863
Total capital assets being depreciated, net	34,062	4,145	-	38,207
Fiduciary fund activities capital assets, net	\$ 35,020	\$ 4,310	\$ -	\$ 39,330

Depreciation Expense

Depreciation expense charged to functions of the primary government (in thousands):

Governmental activities:

Education	\$ 593
Human services	4,486
Public safety	36,509
Economic and community development	1,238
Natural resources	17,233
Transportation	193,073
Consumer and business services	754
Administration	5,585
Legislative	1,667
Judicial	1,490
Subtotal	262,628
Internal service funds	36,657
Total depreciation expense - governmental activities	<u>\$ 299,285</u>

Business-type activities:

Veterans' Loan	\$ 117
Lottery Operations	29,773
University System	113,725
Other business-type activities	5,823
Total depreciation expense - business-type activities	<u>\$ 149,438</u>

Fiduciary fund activities:

Pension and Other Employee Benefit Trust	\$ 1,767
Total depreciation expense - fiduciary activities	<u>\$ 1,767</u>

In fiscal year 2011, the Department of Transportation extended the service life of over \$12 billion in state highway infrastructure assets and also recognized a residual value related to these assets. As a result, depreciation expense for fiscal year 2011 decreased approximately \$495 million compared to the prior year.

State of Oregon
Notes to the Financial Statements

Construction Commitments

The State has active construction projects which will be funded either through General Fund appropriations, federal grants, lottery resources, or other funding sources as noted in the schedule below. The State's construction commitments with contractors as of June 30, 2011 (in thousands):

Project	Spent-to-Date	Remaining Commitment	Remaining Commitment Source of Funds			
			General	Federal	Lottery	Other
Military facilities	\$ 89,533	\$ 21,368	\$ -	\$ 18,504	\$ -	\$ 2,864
Oregon State Hospital facility	295,852	80,523	-	-	-	80,523
Prison construction and upgrades	40,715	5,654	390	-	-	5,264
University buildings and upgrades	930,935	394,867	6,342	-	23,747	364,778
Road and bridge construction	1,001,440	766,500	-	421,700	-	344,800
State parks facilities	3,404	1,698	-	1,273	330	95
Upgrade/maintenance of various facilities	56,580	267,293	252	1,442	-	265,599
Total	\$ 2,418,459	\$ 1,537,903	\$ 6,984	\$ 442,919	\$ 24,077	\$ 1,063,923

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices; printing equipment displayed at the Salem print plant; historic documents displayed at the Oregon State Archives; a museum of military artifacts at Camp Withycombe in Clackamas, Oregon; a collection of historic buildings, furniture, paintings, and ancestral artifacts displayed at various state parks; a collection of wildlife mounts displayed at various Department of Fish and Wildlife locations; and a collection of photographs portraying various Oregon locales displayed at the Oregon Liquor Control Commission headquarters. They have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are:

- The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
- The collections are protected, kept unencumbered, cared for, and preserved; and
- The collections are subject to policies that require the proceeds from sales of collection items to be used to acquire other items for the collections.

Insurance Recoveries

In the government-wide statement of activities, program revenues include insurance recoveries of the applicable functions (in thousands):

Governmental activities:

Public safety	\$ 1,886
Natural resources	26
Transportation	991
Administration	454
Total insurance recoveries - governmental activities	<u>\$ 3,357</u>

Business-type activities:

University System	\$ 2,539
Lottery Operations	65
Other business-type activities	12
Total insurance recoveries - business-type activities	<u>\$ 2,616</u>

State of Oregon
Notes to the Financial Statements

Idle Impaired Capital Assets

At fiscal year end, the Department of Corrections' Deer Ridge Correctional Institution, a medium security facility with a carrying value of \$108.4 million, and the Oregon State Penitentiary Minimum facility with a carrying value of \$1.9 million were temporarily idle due to budget constraints and a delay in the implementation of Ballot Measure 57, the Mandatory Prison Sentences for Three or More Felonies Act.

B. Discretely Presented Component Units

Activity for SAIF Corporation for the year ended December 31, 2010 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,029	\$ -	\$ -	\$ 3,029
Total capital assets not being depreciated	3,029	-	-	3,029
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	43,274	712	1,759	42,227
Total capital assets being depreciated	43,274	712	1,759	42,227
Less accumulated depreciation for:				
Buildings, property, and equipment	28,056	1,399	1,740	27,715
Total accumulated depreciation	28,056	1,399	1,740	27,715
Total capital assets being depreciated, net	15,218	(687)	19	14,512
SAIF Corporation capital assets, net	\$ 18,247	\$ (687)	\$ 19	\$ 17,541

Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 57,470	\$ 1,300	\$ -	\$ 58,770
Construction in progress	29,021	79,805	49,420	59,406
Total capital assets not being depreciated	86,491	81,105	49,420	118,176
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	2,013,686	97,393	12,305	2,098,774
Total capital assets being depreciated	2,013,686	97,393	12,305	2,098,774
Less accumulated depreciation for:				
Buildings, property, and equipment	885,156	106,647	12,008	979,795
Total accumulated depreciation	885,156	106,647	12,008	979,795
Total capital assets being depreciated, net	1,128,530	(9,254)	297	1,118,979
OHSU capital assets, net	\$ 1,215,021	\$ 71,851	\$ 49,717	\$ 1,237,155

7. LEASES

A. Operating Leases

The State and its discretely presented component units have entered into various non-cancelable rental agreements that are accounted for as operating leases because the agreements do not meet the criteria to be classified as capital leases. Operating lease payments are chargeable as rent and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2011, were \$108.7 million for the primary government and \$24 million for component units.

State of Oregon
Notes to the Financial Statements

Future minimum rental payments for operating leases in effect as of June 30, 2011 (in thousands):

Year Ending June 30,	Primary Government	Component Units
2012	\$ 91,952	\$ 17,648
2013	73,188	17,057
2014	60,049	13,765
2015	49,481	11,235
2016	42,097	11,047
2017-2021	125,626	40,565
2022-2026	25,309	7,678
2027-2031	5,374	-
2032-2036	927	-
2037-2041	170	-
2042-2046	1	-
2047-2051	1	-
2052-2056	1	-
Total future minimum rental payments	<u>\$ 474,176</u>	<u>\$ 118,995</u>

B. Capital Leases

A capital lease is accounted for similar to a purchase on a long-term contract. The underlying property is capitalized at an amount equal to the present value of the minimum lease payments and a corresponding liability is recorded. The liability for capital leases is reported as obligations under capital lease in the accompanying financial statements.

Carrying value of assets acquired through capital leases as of June 30, 2011 (in thousands):

Asset Class	Governmental Activities	Business-type Activities	Component Units
Buildings, property, and equipment	\$ 17,953	\$ 797	\$ 17,002
Less accumulated depreciation	(4,489)	(158)	(9,895)
Total	<u>\$ 13,464</u>	<u>\$ 639</u>	<u>\$ 7,107</u>

Future minimum lease payments for capital leases and the related net present value as of June 30, 2011 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities	Component Units
2012	\$ 5,038	\$ 119	\$ 1,460
2013	4,205	103	4,182
2014	1,021	98	419
2015	663	96	148
2016	-	93	124
2017-2021	-	326	-
Total future minimum lease payments	<u>10,927</u>	<u>835</u>	<u>6,333</u>
Less amounts representing interest	<u>(1,289)</u>	<u>(220)</u>	<u>(528)</u>
Present value of minimum lease payments	<u>\$ 9,638</u>	<u>\$ 615</u>	<u>\$ 5,805</u>

State of Oregon
Notes to the Financial Statements

C. Lease Receivables

The State receives income from operating leases on land, property, and equipment leased to non-state entities. The State received rental income of \$11.3 million for the year ended June 30, 2011, on leased assets with a carrying value of \$49.9 million, net of \$17 million in accumulated depreciation.

Future minimum lease revenues for non-cancelable operating leases as of June 30, 2011 (in thousands):

<u>Year Ending June 30,</u>	<u>Primary Government</u>
2012	\$ 8,972
2013	7,138
2014	5,623
2015	3,744
2016	3,355
2017-2021	13,157
2022-2026	10,537
2027-2031	10,969
2032-2036	10,895
2037-2041	8,016
2042-2046	3,283
2047-2051	532
2052-2056	246
Total future minimum lease revenues	<u>\$ 86,467</u>

8. DONOR-RESTRICTED ENDOWMENTS

Oregon University System

Oregon Revised Statute 351.130 gives the Oregon University System (OUS) authority to use the interest, income, dividends, or profits from donor-restricted endowments for the benefit of the designated institution. The OUS board's current spending policy calls for the annual distribution of 4 percent of the preceding 20-quarter moving average of the market value of the endowment funds. For the year ended June 30, 2011, the net amount of appreciation available for authorization for expenditure was \$17.3 million. The amount available for distribution during fiscal year 2012 is estimated to be \$2.6 million. The corpus of the endowment funds is reported as nonexpendable net assets, restricted for donor purposes, on the proprietary funds balance sheet and the government-wide statement of net assets. The amount of net appreciation is reported as part of expendable net assets, restricted for education.

Oregon Health and Science University

Oregon Revised Statutes 128.318, 128.322, 128.326, and 128.328 give the Oregon Health and Science University (OHSU) authority to use the net appreciation of restricted endowments subject to the terms established by the donors. The OHSU board's current spending policy calls for the annual distribution of 4.5 percent of the preceding three-year moving average of the market value of the endowment pool. The net amount of appreciation available for authorization for expenditure at June 30, 2011, was \$61.4 million. The corpus of the endowment funds is reported as nonexpendable net assets, restricted for education, on the combining balance sheet of the discretely presented component units. The amount of net appreciation is reported as part of expendable net assets, restricted for education.

9. SHORT AND LONG-TERM DEBT

A. Short-term Debt

During the year, the State repaid the tax anticipation notes that were issued in July 2010, to meet seasonal cash management needs within fiscal year 2011. In addition, the Oregon Department of Human Services (DHS) borrowed from the Oregon Short-term Fund to cover end of biennium cash flow needs.

State of Oregon
Notes to the Financial Statements

Short-term debt activity for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities:				
Tax anticipation notes	\$ -	\$ 850,815	\$ 850,815	\$ -
DHS line of credit	-	95,000	-	95,000
Total short-term debt activity	<u>\$ -</u>	<u>\$ 945,815</u>	<u>\$ 850,815</u>	<u>\$ 95,000</u>

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for a variety of projects as authorized by the Oregon Constitution. General obligation bonds are secured by a pledge of the full faith, credit, and taxing power of the State.

Specific provisions of the Oregon Constitution authorize general obligation debt to be issued for governmental activities. Article XI-G provides authorization to finance buildings and projects for community colleges. Debt service requirements for community colleges are financed through an appropriation from the General Fund. Obligations issued for highway construction pursuant to Article XI, Section 7, are fully self-supporting. Article XI-H authorizes the financing of pollution abatement and control facilities as well as pollution control and disposal activities. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, assessments, user charges, and other fees. Article XI-L provides authorization to finance capital costs of the Oregon Health and Science University. Article XI-O provides authorization to finance pension liabilities through the issuance of general obligation bonds. Article XI-M provides authorization to finance Seismic Rehabilitation projects for public education buildings and XI-N for Emergency Services Buildings. The newly enacted Article XI-Q provides authorization to finance real or personal property projects that will be owned or operated by the State.

The Oregon Constitution also authorizes general obligation debt to be used for business-type activities. Article XI-A authorizes the creation of the Oregon War Veterans' Fund to finance farm and home loans for eligible veterans. Financing of multi-family housing for elderly and disabled persons is authorized in Article XI-I (2). Article XI-J provides authorization to finance loans for the development of small-scale local energy projects. Issuance of general obligation bonds to finance higher education building projects is authorized in Article XI-F (1). The preceding bonds of business-type activities are fully self-supporting. Article XI-G authorizes financing of higher education facilities and institution activities. Debt service requirements for these higher education obligations are financed through an appropriation from the General Fund.

State of Oregon
Notes to the Financial Statements

Debt service requirements for general obligation bonds as of June 30, 2011 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal ¹	Interest
2012	\$ 55,425	\$ 141,526	\$ 76,888	\$ 108,718
2013	66,240	140,440	71,210	109,715
2014	83,040	137,413	72,844	106,051
2015	93,685	133,315	76,097	100,890
2016	104,815	128,634	79,826	98,846
2017-2021	685,045	549,904	467,014	429,149
2022-2026	1,114,995	313,500	437,925	299,253
2027-2031	333,995	44,043	431,110	191,727
2032-2036	76,600	11,064	347,215	101,085
2037-2041	2,960	150	242,405	28,644
2042-2046	-	-	31,345	1,332
2047-2051	-	-	410	25
Total	\$ 2,616,800	\$ 1,599,989	\$ 2,334,289	\$ 1,575,435

¹ Includes a total of \$209.4 million of bonds with variable interest rates adjusted daily or weekly based on the rates determined by the remarketing agent. The interest rates at the end of the fiscal year were 0.08 percent for \$44 million of these bonds, 1.5 percent for \$85.5 million, 1.9 percent for \$38.9 million, and 2.25 percent for \$41 million.

C. Revenue Bonds

Oregon Revised Statutes (ORS) authorize the State to issue revenue bonds. Revenue bonds are secured by a pledge of revenues derived from the operation of the programs funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

ORS 286A.560 through 286A.585, 327.700 through 327.711, and 348.716 authorize the State to issue revenue bonds that are supported by unobligated net lottery proceeds. To date, lottery revenue bonds have been issued for infrastructure improvements, state parks, expansion and refurbishment of school facilities, light rail transportation, improvements to state fair facilities, acquisition of state forestland, watershed project grants, and economic development in rural and distressed communities. Lottery revenue bonds have been issued for both governmental and business-type activities.

ORS 367.605 through 367.665 authorize the Oregon Department of Transportation to issue highway user tax bonds for governmental activities to build and maintain public roads. Debt service payments for these bonds are funded by highway user taxes and vehicle registration fees.

ORS 456.645 authorizes the Oregon Housing and Community Services Department to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees and rental revenues support these bonds. ORS 285B.467 through 285B.482 authorize the Oregon Business Development Department to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund, while ORS 285B.572 through 285B.599 authorize the issuance of revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds associated with these business-type activities.

ORS 353.340 authorizes the Oregon Health and Science University (OHSU), a discretely presented component unit of the State, to issue revenue bonds for the construction and refurbishment of facilities and the acquisition of equipment in accordance with ORS Chapter 287A. The revenue bonds are payable from the revenues of OHSU.

State of Oregon
Notes to the Financial Statements

Debt service requirements for revenue bonds as of June 30, 2011 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities		Discretely Presented Component Units	
	Principal ¹	Interest	Principal ^{2,3}	Interest	Principal ^{4,5}	Interest
2012	\$ 126,054	\$ 154,396	\$ 85,181	\$ 53,593	\$ 11,441	\$ 30,652
2013	125,038	148,745	48,026	53,099	11,785	30,365
2014	123,348	143,044	43,977	51,582	13,391	29,944
2015	126,624	137,151	47,941	49,975	15,446	30,155
2016	114,674	131,744	47,731	48,134	16,185	30,513
2017-2021	621,763	572,563	256,783	210,102	62,346	167,459
2022-2026	750,692	423,603	311,993	148,652	118,663	121,389
2027-2031	748,499	243,060	314,786	81,769	145,625	82,285
2032-2036	544,805	62,918	274,870	37,113	135,550	45,930
2037-2041	-	-	118,685	11,846	98,090	14,494
2042-2046	-	-	19,250	2,216	-	-
2047-2051	-	-	3,000	514	-	-
2052-2056	-	-	775	38	-	-
Total	\$ 3,281,497	\$ 2,017,224	\$ 1,572,998	\$ 748,633	\$ 628,522	\$ 583,186

¹ Includes a total of \$265.2 million of bonds with variable interest rates adjusted weekly based on the rates determined by the remarketing agent. The interest rates at the end of the fiscal year were 2.25 percent for \$160.1 million of these bonds and 3 percent for \$105.1 million.

² Includes bonds with variable interest rates adjusted monthly based on the London Interbank Offered Rate (LIBOR) plus 0.4 percent not to exceed 11 percent for \$1.4 million of the bonds and 11.5 percent for \$1.9 million. The interest rate at the end of the fiscal year for these bonds was 0.6 percent.

³ Includes bonds with variable interest rates adjusted weekly based on the rates determined by the remarketing agent, not to exceed 12 percent. The interest rates at the end of the fiscal year were 0.06 percent for \$16.1 million of these bonds, 0.07 percent for \$20 million, 0.08 percent for \$44.9 million, 0.09 percent for \$34.7 million, 0.1 percent for \$119.8 million, 0.12 percent for \$50 million, and 0.13 percent for \$35 million.

⁴ Includes bonds with variable rates of interest adjusted every 35 days based on the auction rate. The rate as of fiscal year-end was 0.25 percent for \$86.8 million of these bonds and 0.35 percent for \$46.9 million.

⁵ Includes \$79.5 million of bonds with a variable rate of interest that is adjusted weekly. The rate as of fiscal year-end was 0.53 percent.

D. Certificates of Participation

ORS 283.085 through 283.092 authorize the State to enter into financing agreements through the issuance of certificates of participation. The State has issued certificates of participation to provide funds for the acquisition of computer and telecommunication systems and the acquisition, construction, or remodeling of State facilities. Certificates of participation have been issued for governmental, business-type, and fiduciary activities.

State of Oregon
Notes to the Financial Statements

Debt service requirements for certificates of participation as of June 30, 2011 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities		Fiduciary Fund	Activities
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 95,331	\$ 59,454	\$ 9,154	\$ 5,083	\$ 520	\$ 188
2013	98,099	55,045	8,921	4,709	550	161
2014	83,462	50,769	7,938	4,341	580	132
2015	81,463	46,834	6,783	3,971	615	101
2016	68,762	43,252	4,938	3,694	640	69
2017-2021	320,571	170,512	22,363	15,412	675	35
2022-2026	217,880	104,268	23,675	10,263	-	-
2027-2031	186,425	54,951	17,980	4,083	-	-
2032-2036	93,345	14,166	5,705	899	-	-
2037-2041	10,180	1,087	-	-	-	-
Total	\$ 1,255,518	\$ 600,338	\$ 107,457	\$ 52,455	\$ 3,580	\$ 686

E. General Appropriation Bonds

During the 2003 legislative session, Senate Bill 856 authorized the State to issue general appropriation bonds. The State has issued general appropriation bonds for general government activities.

Debt service requirements for general appropriation bonds as of June 30, 2011 (in thousands):

Year ending June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 65,100	\$ 6,502
2013	69,900	3,136
2014	28,195	696
Total	\$ 163,195	\$ 10,334

F. Changes in Long-Term Debt

Changes in long-term debt for governmental activities for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds/certificates payable:					
General obligation bonds	\$ 2,326,280	\$ 331,035	\$ 40,515	\$ 2,616,800	\$ 55,425
Revenue bonds	3,270,139	155,799	144,441	3,281,497	126,054
Certificates of participation	1,452,354	744	197,580	1,255,518	95,331
General appropriation bonds	223,740	-	60,545	163,195	65,100
Less deferred amounts:					
For issuance discounts	(3,241)	-	(154)	(3,087)	-
For issuance premiums	149,102	46,603	16,151	179,554	-
On refunding	(25,852)	(3,298)	(4,532)	(24,618)	-
Total governmental bonds/certificates payable	\$ 7,392,522	\$ 530,883	\$ 454,546	\$ 7,468,859	\$ 341,910

State of Oregon
Notes to the Financial Statements

Changes in long-term debt for business-type activities for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds/certificates payable:					
General obligation bonds	\$ 2,189,767	\$ 380,110	\$ 235,588	\$ 2,334,289	\$ 76,888
Revenue bonds	1,634,977	325,201	387,180	1,572,998	85,181
Certificates of participation	116,675	-	9,218	107,457	9,154
Less deferred amounts:					
For issuance discounts	(1,837)	(222)	(577)	(1,482)	-
For issuance premiums	48,926	22,092	5,604	65,414	-
On refunding	(18,861)	(1,455)	(1,472)	(18,844)	-
Accreted interest	62,677	5,860	10,133	58,404	-
Total business bonds/certificates payable	<u>\$ 4,032,324</u>	<u>\$ 731,586</u>	<u>\$ 645,674</u>	<u>\$ 4,118,236</u>	<u>\$ 171,223</u>

Changes in long-term debt for fiduciary fund activities for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities:					
Bonds/certificates payable:					
Certificates of participation	\$ 4,080	\$ -	\$ 500	\$ 3,580	\$ 520
Less deferred amounts:					
For issuance premiums	174	-	26	148	-
On refunding	(142)	-	(29)	(113)	-
Total fiduciary bonds/certificates payable	<u>\$ 4,112</u>	<u>\$ -</u>	<u>\$ 497</u>	<u>\$ 3,615</u>	<u>\$ 520</u>

Changes in long-term debt for the Oregon Health and Science University (OHSU) for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component units:					
Bonds/certificates payable:					
Revenue bonds	\$ 639,507	\$ -	\$ 10,985	\$ 628,522	\$ 11,441
Less deferred amounts:					
For issuance discounts	(5,925)	-	(336)	(5,589)	-
For issuance premiums	829	-	49	780	-
On refunding	(4,352)	-	(347)	(4,005)	-
Accreted interest	30,963	3,097	1,120	32,940	-
Total OHSU bonds/certificates payable	<u>\$ 661,022</u>	<u>\$ 3,097</u>	<u>\$ 11,471</u>	<u>\$ 652,648</u>	<u>\$ 11,441</u>

G. Demand Bonds

Department of Transportation

Included in revenue bonds payable are \$265.3 million in State of Oregon, Department of Transportation Highway User Tax Revenue Subordinate Lien Variable Rate Bonds. These bonds are special revenue obligations of the Oregon Department of Transportation (ODOT) and do not constitute a debt or general obligation of the State or any subdivision of the State. The variable rate bonds are secured by and payable solely from pledged State Highway Fund revenues on a subordinate, junior, and inferior basis to ODOT's Senior Lien Bonds as described in the official statement for the respective bond series.

ODOT's variable rate bonds are remarketed weekly by a remarketing agent. Bondholders may elect to tender these bonds by providing written notice to the remarketing agent as specified in the official statement for the series. On the date that bonds are tendered, the remarketing agent will use its best effort to sell the bonds or

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may purchase the bonds for its own account. ODOT pays the designated remarketing agent a fee for this service.

ODOT has entered into standby purchase agreements (SBPA) with Dexia Credit Local to provide liquidity in the event that the remarketing agents are unable to sell the tendered bonds and do not choose to buy the bonds for their own account. The SBPA requires Dexia Credit Local to provide funds for the purchase of any un-remarketed bonds, subject to certain conditions set forth in the respective SBPAs.

If a liquidity advance does occur for either the Series 2006B bonds or Series 2007B bonds, the bonds become bank bonds and will begin to accrue interest at the bank's base rate (federal funds rate plus 0.5 percent for the first ninety days; for days 91-180 the rate would be 1 percent plus the higher of (a) the prime rate as listed in the Wall Street Journal or (b) 0.5 percent plus the federal funds rate; thereafter the rate would be 2 percent plus the higher of (a) the prime rate as listed in the Wall Street Journal or (b) 0.5 percent plus the federal funds rate). The bonds remain bank bonds until they are sold by the remarketing agent or the remarketing agent purchases them for its own account. If the bank bonds are not remarketed or purchased by the remarketing agent, principal due in connection with each bank bond will be payable in equal, semi-annual installments commencing on the first business day of the sixth month immediately succeeding the date of the liquidity advance and continuing on the first business day of each sixth month thereafter; provided, that all principal due in connection with the liquidity advance will be due and payable in full no later than the term out end date as specified in the respective SBPA. The maximum bank bond interest rate is the lesser of 12 percent per annum or the maximum rate of interest as permitted by the laws of the State of Oregon.

No tender advances or draws were necessary to purchase any un-remarketed bonds under either Series 2006B bonds or Series 2007B bonds during fiscal year 2011. Therefore, no tender advances or draws were outstanding at June 30, 2011.

Certain terms of the standby bond purchase agreements at June 30, 2011, are listed below (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
2006-B1	\$ 50,135	Dexia Credit Local	6/14/2016	0.0950%	JP Morgan Securities	0.05%
2006-B2	50,135	Dexia Credit Local	6/14/2016	0.0950%	Morgan Stanley	0.05%
2007-B1	55,000	Dexia Credit Local	6/17/2017	0.0950%	Morgan Stanley	0.05%
2007-B2	55,000	Dexia Credit Local	6/17/2017	0.0950%	Bank of America Merrill Lynch	0.05%
2007-B3	55,000	Dexia Credit Local	6/17/2017	0.0950%	JP Morgan Securities	0.05%

Department of Veterans' Affairs

Included in long-term debt are the following State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, along with selected terms of their standby bond purchase agreements (SBPAs) at June 30, 2011 (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
73H	\$ 44,000	Bayerische Landesbank	11/30/2015 ¹	0.0850%	JP Morgan Securities Inc.	0.05%
83	10,965	Dexia Credit Local	12/31/2014	0.0925%	JP Morgan Securities Inc.	0.05%
84	30,000	Dexia Credit Local	12/31/2014	0.0925%	JP Morgan Securities Inc.	0.05%
85	15,140	Dexia Credit Local	12/31/2014	0.0925%	JP Morgan Securities Inc.	0.07%
86	31,320	Dexia Credit Local	12/31/2014	0.0925%	JP Morgan Securities Inc.	0.07%
87C	9,045	Dexia Credit Local	12/31/2014	0.0925%	JP Morgan Securities Inc.	0.07%
88B	30,000	Dexia Credit Local	12/31/2014	0.0925%	JP Morgan Securities Inc.	0.07%
90B	38,885	Dexia Credit Local	12/31/2013	0.2500%	JP Morgan Securities Inc.	0.07%

¹ Bayerische Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 27, 2012.

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

The Department of Veterans' Affairs (DVA) remarketing agent is authorized to use its best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a daily or weekly basis based on the applicable mode. The designated remarketing agent for such bonds will determine the interest rate borne by each series of bonds. DVA pays its designated remarketing agent a fee for this service.

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPA for Series 73H, Bayerische Landesbank Girozentrale will commit to purchase any Series 73H unremarketed bonds, in each case subject to certain conditions set forth in the SBPAs. Under the SBPAs for Series 83, 84, 85, 86, 87C, 88B, 89B, and 90B ("Series 83-90B"), Dexia Credit Local will commit to purchase any unremarketed bonds, subject to certain conditions set forth in the SBPAs.

If a tender advance does occur under the Series 73H SBPAs, it will accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus one half of 1 percent, whichever is higher). If the tender advance is in default, interest will accrue at the bank's base rate plus 1 percent. Interest on a tender advance must generally be repaid before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid in approximately two years. Tender advances can be repaid earlier than two years, if DVA elects to do so. If repayment of any tender advance does not occur within the specified time frame contained in Series 73H SBPAs, a default will have occurred.

During fiscal year 2011, no tender advances or draws were necessary to purchase any unremarketed bonds under the Series 73H SBPAs. Therefore, no tender advances or draws were outstanding at June 30, 2011.

If a tender advance does occur under the Series 83-90B SBPAs, it will accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus one half of 1 percent, whichever is higher) for the time period up to 91 days; at the bank's base rate plus 1 percent 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 percent for the time period thereafter. If the tender advance is in default, interest will accrue at the bank's base rate plus 2.5 percent. Interest on a tender advance must generally be repaid before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid on the earliest 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 advance does not occur within the specified timeframe contained in the Series 83-90B SBPAs, a default has occurred.

During fiscal year 2011, no tender advances or draws were necessary to purchase unremarketed bonds under the Series 83-90B SBPAs. Therefore, no tender advances or draws were outstanding as of June 30, 2011.

Housing and Community Services Department

Included in Oregon Housing and Community Services Department's (OHCS D) long-term debt is \$320.4 million in variable rate demand bonds. OHCS D's variable rate demand bonds are remarketed weekly by a remarketing agent. Bondholders may elect to tender their bonds by providing written notice to the remarketing agent as specified in the official statement for the series. On the date that bonds are tendered, the remarketing agent will use its best effort to sell the bonds or may purchase the bonds for its own account.

OHCS D has entered into standby bond purchase agreements to provide liquidity in the event that the remarketing agent is unable to sell the tendered bonds and does not choose to buy the bonds for its own account. The standby bond purchase agreement requires the liquidity provider to provide funds for the purchase of the tendered bonds. On the purchase date the bonds become known as liquidity provider bonds or bank bonds and bear interest at the bank rate in accordance with the standby bond purchase agreement. The maximum rate is 12 percent (Bank of America, N. A. and State Street Bank and Trust Company) or 13 percent (KBC Bank N.V.). The bonds remain bank bonds until they are sold by the remarketing agent or the remarketing agent purchases them for its own account. If the bonds are not remarketed or purchased by the remarketing agent for its own account, mandatory redemption in ten equal installments will be paid on the first

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business day of January and July, commencing on the first such date to occur after the bonds become liquidity provider bonds (State Street Bank and Trust Company) or at least ninety days after the related purchase date (Bank of America, N.A. and KBC Bank N.V.). There were no bank bonds on June 30, 2011.

Certain terms of the standby purchase agreements and remarketing agreements are listed below (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
MF 2004 B ¹	\$ 14,295	Bank of America, N.A.	8/27/2011	0.4750%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.08%
MRB 2003 L ³	15,000	State Street Bank and Trust Company	12/16/2011	0.1300%	J.P. Morgan Securities, Inc.	0.07%
MRB 2004 C ³	15,000	State Street Bank and Trust Company	12/16/2011	0.1300%	CitiGroup Global Markets, Inc.	0.07%
MRB 2004 I ³	15,000	State Street Bank and Trust Company	12/16/2011	0.1300%	J.P. Morgan Securities, Inc.	0.07%
MRB 2004 L ³	15,000	State Street Bank and Trust Company	12/16/2011	0.1300%	CitiGroup Global Markets, Inc.	0.07%
MRB 2005 C ³	10,500	State Street Bank and Trust Company	12/16/2011	0.1300%	J.P. Morgan Securities, Inc.	0.07%
MRB 2005 F ³	14,885	State Street Bank and Trust Company	12/16/2011	0.1300%	CitiGroup Global Markets, Inc.	0.07%
MRB 2006 C ³	20,000	State Street Bank and Trust Company	12/16/2011	0.1300%	J.P. Morgan Securities, Inc.	0.07%
MRB 2006 F ³	20,000	State Street Bank and Trust Company	12/16/2011	0.1300%	CitiGroup Global Markets, Inc.	0.07%
MRB 2006 G ³	16,105	State Street Bank and Trust Company	12/16/2011	0.1300%	CitiGroup Global Markets, Inc.	0.07%
MRB 2007 E	30,000	KBC Bank N.V., New York Branch	7/30/2012	0.0775%	CitiGroup Global Markets, Inc.	0.07%
MRB 2007 H	30,000	KBC Bank N.V., New York Branch	7/30/2012	0.0775%	J.P. Morgan Securities, Inc.	0.07%
MRB 2008 C	35,000	KBC Bank N.V., New York Branch	7/30/2012	0.2300%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.07%
MRB 2008 F	35,000	Bank of America, N.A.	5/12/2014	0.8000%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.07%
MRB 2008 I ²	34,650	Bank of America, N.A.	8/25/2011	0.4750%	Merrill Lynch, Pierce, Fenner & Smith Inc.	0.07%

¹ After June 30, 2011, the expiration date was extended to August 27, 2014. The commitment fee increased to 0.8 percent in August 2011.

² After June 30, 2011, the expiration date was extended to August 25, 2014. The commitment fee increased to 0.8 percent in August 2011.

³ After June 30, 2011, the expiration date was extended to November 1, 2014. The commitment fee increased to 0.8 percent in December 2011.

Discretely Presented Component Unit

Included in the long-term debt of the discretely presented component unit, Oregon Health Sciences University (OHSU), are demand bonds which are subject to a long-term amortization period but may be put to OHSU at the option of the bondholders in connection with certain remarketing dates. OHSU entered into a three-year irrevocable standby letter of credit with US Bank, NA effective July 17, 2009. The letter of credit will fund any put made by bondholders that is not successfully remarketed. In the event the letter of credit funds a put by bondholders, no principal payments are due for 367 days. If at that time the bonds have not been remarketed or redeemed, the principal is due over a 30-month period. As a result, the bonds are classified as long-term except for the portion that matures within 12 months after June 30, 2011.

H. No-Commitment Debt

No-commitment debt refers to debt issued to finance public purpose expenditures intended for beneficial ownership by private entities. Such debt bears the name of the State but is secured solely by the credit of the private entity and usually is serviced and administered by a trustee independent of the State. The State has no obligation for payment of this debt. Accordingly, this debt is not reported in the accompanying financial statements.

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No-commitment debt as of June 30, 2011 (in thousands):

Primary Government

Oregon Business Development Department	\$	489,700
Oregon Facilities Authority		1,565,187
Housing and Community Services Department		194,862
Total no-commitment debt	<u>\$</u>	<u>2,249,749</u>

I. Debt Refundings

Occasionally, the State issues new long-term debt to extinguish the obligation of previously issued bonds or certificates of participation in order to take advantage of lower interest rates. In instances of advanced refunding, the money from the sale of new debt is placed in an irrevocable trust to provide for all future debt service payments on the old debt. The amount of these issuances has provided funds to pay the interest and principal when due on the refunded debt to and including the dates irrevocably fixed for redemption. The trust account assets and liabilities for the defeased debt are not included in the accompanying financial statements.

The following provides a brief description of the current and advance refunding issues that occurred between July 1, 2010 and June 30, 2011:

On August 24, 2010, the Department of Housing and Community Services issued \$88.4 million in 2010 Series A and B Mortgage Revenue Bonds with an average interest rate of 3.8 percent. These certificates refunded \$88.4 million of various series outstanding revenue bonds with an average interest rate of 5.7 percent. The current refunding was undertaken to reduce the total debt service payments over the next 20 years by \$20.7 million and resulted in an economic gain of \$13.6 million.

On August 25, 2010, the Department of Housing and Community Services issued \$77.7 million in 2010 Series A Multifamily Housing Revenue Bonds with an average interest rate of 4.1 percent. These bonds refunded \$77.7 million of various series outstanding revenue bonds with an average interest rate of 5.5 percent. The current refunding was undertaken to reduce the total debt service payments over the next 32 years by \$15.4 million and resulted in an economic gain of \$9 million.

On March 29, 2011, the Oregon Department of Energy issued \$13.2 million in 2011 Series A and B General Obligation Bonds with an average interest rate of 4.7 percent. These bonds refunded \$14.1 million of outstanding 1998 Series C, 1998 Series E, and 1999 Series A General Obligation Bonds with an average interest rate of 4.9 percent. The current refunding was undertaken to reduce the total debt service payments over the next 7 years by \$1.4 million and resulted in an economic loss of \$70 thousand.

On March 31, 2011, the Department of Administrative Services issued \$23.8 million in 2011 Series B Lottery Revenue Bonds with an average interest rate of 4.7 percent. The bonds were issued to refund \$25.4 million of various series of outstanding lottery revenue bonds with an average interest rate of 4.0 percent. The current refunding of \$4.5 million and the advanced refunding of \$20.9 million were undertaken to reduce the total debt service payments over the next 10 years by \$3.9 million and resulted in an economic loss of \$717.7 thousand.

On May 18, 2011, the Department of Administrative Services, on behalf of the Department of Corrections, issued \$90.6 million in 2011 Series L (XI-Q) General Obligation Bonds with an average interest rate of 5.1 percent. The bonds were issued to refund \$102.2 million of outstanding 2001 Series B Certificates of Participation with an average interest rate of 3.2 percent. The current refunding was undertaken to reduce the total debt service payments over the next 15 years by \$17.7 million and resulted in an economic loss of \$1.8 million.

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J. Defeased Debt

Bonds and certificates of participation outstanding that are considered defeased as of June 30, 2011 (in thousands):

Primary Government

Department of Administrative Services	\$ 62,944
Business Oregon	19,845
Oregon University System	185,772
Department of Parks and Recreation	882
Department of Transportation	277,154
Department of Housing and Community Services	398
Total defeased bonds and certificates of participation	<u>\$ 546,995</u>

10. OTHER LONG-TERM LIABILITIES

A. Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for governmental activities for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences payable	\$ 163,501	\$ 3,991	\$ 2,038	\$ 165,454	\$ 109,207
Claims and judgments payable	1,110,143	627,897	675,912	1,062,128	128,543
Arbitrage rebate payable	1,615	462	575	1,502	652
Custodial liabilities	280,962	351,571	359,486	273,047	269,222
Contracts, mortgages, and notes payable	11,081	96,422	5,321	102,182	100,410
Obligations under capital lease	13,250	1,773	5,385	9,638	4,439
Pollution remediation obligation	14,439	363	3,916	10,886	2,942
Net OPEB obligation	32,179	5,008	-	37,187	-
Total governmental other long-term liabilities	<u>\$ 1,627,170</u>	<u>\$ 1,087,487</u>	<u>\$ 1,052,633</u>	<u>\$ 1,662,024</u>	<u>\$ 615,415</u>

Internal service funds predominantly serve the governmental funds. Therefore, long-term liabilities for internal service funds are included as part of the totals for governmental activities. The compensated absences liability is generally liquidated through the General Fund, the Public Transportation Fund, the Health and Social Services Fund, the Environmental Management Fund, the Employment Services Fund, and the Community Protection Fund. The claims and judgments liability is generally liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The arbitrage rebate liability is generally liquidated through the Revenue Bond Fund. The custodial liabilities are expected to be liquidated by the Common School Fund and the Health and Social Services Fund. The liability for contracts, mortgages, and notes is generally liquidated through the Employment Services Fund and the General Fund. The capital lease obligations are generally liquidated through the Central Services Fund. The pollution remediation obligation will be mainly liquidated through the Environmental Management Fund and the Public Transportation Fund.

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Changes in other long-term liabilities for business-type activities for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Compensated absences payable	\$ 59,374	\$ 2,992	\$ 148	\$ 62,218	\$ 52,727
Lottery prize awards payable	136,566	221,638	217,095	141,109	38,530
Arbitrage rebate payable	11,635	2,872	959	13,548	126
Custodial liabilities	39,262	13,505	14,763	38,004	26,810
Contracts, mortgages, and notes payable	14,413	5,352	1,632	18,133	13,389
Contracts payable to component unit	-	28,634	605	28,029	5,606
Obligations under capital lease	697	18	100	615	73
Net OPEB obligation	15,220	2,608	-	17,828	-
Derivative instruments liability	33,458	-	6,240	27,218	-
Total business other long-term liabilities	<u>\$ 310,625</u>	<u>\$ 277,619</u>	<u>\$ 241,542</u>	<u>\$ 346,702</u>	<u>\$ 137,261</u>

Changes in other long-term liabilities for fiduciary fund activities for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities:					
Custodial liabilities	\$ 2,084,387	\$ 3,716,743	\$ 3,953,795	\$ 1,847,335	\$ 1,736,956
Contracts, mortgages, and notes payable	2,207	232	265	2,174	69
Net OPEB obligation	333	50	19	364	-
Total fiduciary other long-term liabilities	<u>\$ 2,086,927</u>	<u>\$ 3,717,025</u>	<u>\$ 3,954,079</u>	<u>\$ 1,849,873</u>	<u>\$ 1,737,025</u>

Changes in other long-term liabilities for SAIF Corporation (SAIF) for the year ended December 31, 2010, and for the Oregon Health and Science University (OHSU) for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component units:					
Obligations under life income agreements	\$ 16,906	\$ 228	\$ -	\$ 17,134	\$ -
Reserve for loss and loss adjustment expense	2,958,911	365,150	319,422	3,004,639	209,117
Claims and judgments payable	70,743	-	14,652	56,091	20,253
Contracts, mortgages, and notes payable	37,413	3,246	4,010	36,649	1,690
Obligations under capital lease	7,063	-	1,258	5,805	1,141
Advances from primary government	22,100	30,924	4,376	48,648	2,130
Net OPEB obligation	5,108	1,223	-	6,331	-
Derivative instruments liability	12,750	-	4,974	7,776	-
Total comp unit other long-term liabilities	<u>\$ 3,130,994</u>	<u>\$ 400,771</u>	<u>\$ 348,692</u>	<u>\$ 3,183,073</u>	<u>\$ 234,331</u>

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B. Arbitrage Rebate Liability

The Tax Reform Act of 1986 placed restrictions on the non-purpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the non-purpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Non-purpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. Outstanding arbitrage rebate liabilities as of June 30, 2011 (in thousands):

<u>Primary Government</u>	
Department of Human Services	\$ 53
Department of Administrative Services	31
Oregon Business Development Department	279
Legislative Administration Committee	24
Military Department	10
Department of Veterans' Affairs	13,171
Department of Corrections	324
Department of Environmental Quality	2
Oregon Youth Authority	2
Oregon University System	275
Department of Education	708
Department of Forestry	2
Parks and Recreation Department	42
Department of Fish and Wildlife	1
Department of Transportation	13
Housing and Community Services Department	113
Total arbitrage rebate liability	<u>\$ 15,050</u>

11. POLLUTION REMEDIATION OBLIGATION

Pollution remediation obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement-related activities, and postremediation monitoring. Excluded from pollution remediation obligations are obligations for pollution prevention and control activities, fines and penalties, landfill closure and postclosure care, and other future remediation activities required upon retirement of an asset.

The State recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. At June 30, 2011, the State recognized an estimated liability of \$11 million for pollution remediation activities. The liability, which is reported in the government-wide statement of net assets, was recorded at the current value of the costs the State expects to incur to perform the work.

For many projects, the State can reasonably estimate the range of expected outlays early in the process, using the State's remediation history for similar sites as the basis for the calculations. In other cases, the estimated liability is based on the amount specified in a contract for remediation services or the estimate of the cleanup costs provided by an environmental consulting firm. Expected recoveries from responsible parties or potentially responsible parties and insurance recoveries are included in the estimates and reduce the State's expense. No material expected recoveries were included in the measurement of the State's pollution remediation obligation at June 30, 2011.

When new information indicates changes in expected outlays, the liability for pollution remediation is adjusted. Adjustments may occur due to price fluctuations resulting from delays in contracting specific remediation jobs, changes in technology, changes in legal or regulatory requirements, and changes in the remediation plan or operating conditions.

Currently, the Oregon Department of Environmental Quality (DEQ), as a government responsible for sharing costs under federal law, is obligated to clean up two Superfund sites. Both sites are contaminated with chemicals used in the wood-treatment industry. Contamination was found in the soil, groundwater, and

sediments of adjacent rivers. The Oregon Department of Transportation (ODOT) also performs ongoing pollution remediation. For example, to facilitate the agency's transportation goals, ODOT voluntarily conducts the cleanup of contaminated soil and ground water found within the footprint of a construction project and also removes lead-based paint when performing bridge repairs. In other cases, DEQ has named ODOT as a responsible party or potentially responsible party, or ODOT has entered the contaminated site into the DEQ's Voluntary Cleanup program as the responsible party.

As of June 30, 2011, the State is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of contamination in the Portland Harbor Superfund site. There are over 200 parties, private and public, that may eventually bear a share of the costs. It is too early in the Environmental Protection Agency's remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will be assessed against the State. The Portland Harbor Superfund site is discussed in greater detail in Note 23.

12. PLEDGED REVENUES

A. Unobligated Net Lottery Proceeds

The State has pledged future unobligated net lottery proceeds to repay \$1.2 billion of lottery revenue bonds. Unobligated net lottery proceeds consist of all revenues derived from the operation of the Oregon State Lottery except for revenues used for payment of prizes and expenses of the Lottery. Proceeds from lottery revenue bonds provide financing for economic development within the state, as well as for the improvement and expansion of state parks and school facilities. The bonds are payable solely from the pledged revenues and are payable through 2031. In fiscal year 2012, principal and interest payments on the bonds are expected to require approximately 24.2 percent of unobligated net lottery proceeds. The total principal and interest remaining to be paid on the bonds is \$1.8 billion. Principal and interest paid for the current year and total unobligated net lottery proceeds were \$127.5 million and \$553.7 million, respectively.

B. Highway User Taxes and Vehicle Registration Fees

The State has pledged future highway user taxes and vehicle registration fees, net of administrative expenses, operating transfers, and statutory transfers to counties, to repay \$2.2 billion of highway user tax revenue bonds. Proceeds from the bonds provide financing for the construction, reconstruction, improvement, repair, maintenance and operation, and use of public highways, roads, streets, and roadside rest areas for the State. The bonds are payable solely from the pledged revenues and are payable through November 2034. Fiscal year 2012 principal and interest payments on the bonds are expected to require approximately 25.1 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3.7 billion. Principal and interest paid for the current year and total pledged revenues were \$151.6 million and \$594 million, respectively.

13. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2011 (in thousands):

Due from Other Funds

Due to Other Funds	General	Health and Social Services	Public Transportation	Environmental Management	Common School
General	\$ -	\$ 1,684	\$ 75	\$ 4,520	\$ 563
Health and Social Services	37,178	-	-	142	-
Public Transportation	165	-	-	12,522	-
Environmental Management	2,161	33	4,155	-	237
Common School	24,373	-	-	829	-
Nonmajor Governmental Funds	11,996	687	476	224	-
Housing and Community Services	-	-	-	-	-
Lottery Operations	145,612	-	-	-	-
Unemployment Compensation	-	-	-	-	-
University System	-	-	-	-	-
Nonmajor Enterprise Funds	20,190	752	-	1,575	-
Internal Service Funds	20,226	-	-	-	-
Fiduciary Funds	-	-	-	-	-
Total	<u>\$ 261,901</u>	<u>\$ 3,156</u>	<u>\$ 4,706</u>	<u>\$ 19,812</u>	<u>\$ 800</u>

Advances to Other Funds

Advances from Other Funds	Common School	Nonmajor Enterprise Funds	Internal Service Funds	Total
General	\$ -	\$ -	\$ 677	\$ 677
Environmental Management	300	-	-	300
Nonmajor Governmental Funds	-	101	-	101
University System	-	91,144	-	91,144
Nonmajor Enterprise Funds	-	100	-	100
Internal Service Funds	-	226	-	226
Total	<u>\$ 300</u>	<u>\$ 91,571</u>	<u>\$ 677</u>	<u>\$ 92,548</u>

Interfund balances result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances to and from other funds are not expected to be repaid within one year.

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Nonmajor Governmental Funds	Housing and Community Services	Veterans' Loan	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ 129,752	\$ -	\$ -	\$ 4	\$ 7,550	\$ 1,078	\$ 87	\$ -	\$ 145,313
441	-	-	-	-	144	-	-	37,905
6,349	-	-	-	-	-	-	-	19,036
374	-	-	-	110	-	-	-	7,070
20	-	-	-	-	-	-	2	25,224
17,931	53	-	83	439	-	2,217	-	34,106
16	-	-	-	-	-	-	-	16
-	-	-	-	-	-	-	-	145,612
1,589	-	-	-	-	-	-	-	1,589
86	-	-	-	-	-	-	-	86
1	-	66	-	-	7	-	369	22,960
183	-	-	-	-	8	3	-	20,420
-	-	-	-	-	-	-	10,226	10,226
\$ 156,742	\$ 53	\$ 66	\$ 87	\$ 8,099	\$ 1,237	\$ 2,307	\$ 10,597	\$ 469,563

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Interfund transfers reported in the fund financial statements as of June 30, 2011 (in thousands):

Transfers from Other Funds					
Transfers to Other Funds	General	Health and Social Services	Public Transportation	Environmental Management	Common School
General	\$ -	\$ 14,611	\$ 788	\$ 84,630	\$ 243
Health and Social Services	69,443	-	-	675	-
Public Transportation	4,999	-	-	30,120	-
Environmental Management	21,625	84	352	-	8,709
Common School	48,745	-	-	5,530	-
Nonmajor Governmental Funds	623,055	39,969	954	616	-
Housing and Community Services	-	-	-	-	-
Veterans' Loan	-	-	-	-	-
Lottery Operations	553,723	-	-	-	-
Unemployment Compensation	-	-	-	-	-
University System	2,562	-	-	-	-
Nonmajor Enterprise Funds	123,141	7,980	5,081	87	-
Internal Service Funds	23,358	7,669	-	375	-
Total	\$ 1,470,651	\$ 70,313	\$ 7,175	\$ 122,033	\$ 8,952

Transfers are used to (1) move revenues from the fund required by statute or the State's budget to collect them to the fund authorized by statute or the State's budget to expend them; (2) move receipts restricted to debt service or capital construction to the appropriate funds; and (3) move unrestricted revenues collected by the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

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Nonmajor Governmental Funds	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ 605,703	\$ -	\$ 374,616	\$ 141,875	\$ -	\$ -	\$ 1,222,466
103,189	-	-	37,395	2,091	-	212,793
221,590	-	-	-	-	-	256,709
26,826	-	2,021	-	205	-	59,822
287	-	-	-	-	-	54,562
83,982	1,100	31,967	18,473	-	568	800,684
174	-	-	-	-	-	174
226	-	-	-	-	-	226
1,444	-	-	-	-	-	555,167
35,751	-	-	-	-	-	35,751
28,778	-	-	-	-	86	31,426
14,270	-	-	3,760	768	-	155,087
11,892	-	-	51	-	-	43,345
\$ 1,134,112	\$ 1,100	\$ 408,604	\$ 201,554	\$ 3,064	\$ 654	\$ 3,428,212

14. SEGMENT INFORMATION

Oregon Revised Statutes (ORS) 285B.410 through 285B.482 create the Special Public Works Fund and authorize the Oregon Business Development Department (OBDD) to issue revenue bonds to finance loans to municipalities for infrastructure projects. ORS 285B.560 through 285B.599 establish the Water Fund and authorize OBDD to issue revenue bonds to finance loans to municipalities for safe drinking water projects and waste water system improvement projects. Loan repayments are pledged to repay the outstanding bonds.

ORS 456.645 authorizes the Oregon Housing and Community Services Department (OHCS) to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Article XI-I (2) of the Oregon Constitution authorizes OHCS to finance multi-family housing for elderly and disabled persons. Mortgage payments and fees and rental revenues support these bonds.

Summary financial information for the Special Public Works Fund, the Water Fund, and OHCS's various bond funds for the year ended June 30, 2011 (in thousands):

Condensed balance sheet	Special Public Works Fund	Water Fund	Mortgage Revenue Bonds	Homeowner Revenue Bonds
Assets:				
Interfund receivables	\$ 7	\$ 100	\$ 5	\$ 8
Other current assets	146,697	20,045	44,124	68,020
Other noncurrent assets	223,617	104,408	1,050,697	92,232
Deferred outflows	-	-	24,338	-
Total assets	<u>\$ 370,321</u>	<u>\$ 124,553</u>	<u>\$ 1,119,164</u>	<u>\$ 160,260</u>
Liabilities:				
Due to other funds	\$ 1	\$ 5	\$ 8	\$ 37
Current liabilities	41,733	8,356	27,415	67,813
Noncurrent liabilities	98,157	53,079	1,003,388	90,221
Total liabilities	<u>139,891</u>	<u>61,440</u>	<u>1,030,811</u>	<u>158,071</u>
Net assets:				
Restricted	76,008	15,085	88,353	2,189
Unrestricted	154,422	48,028	-	-
Total net assets	<u>230,430</u>	<u>63,113</u>	<u>88,353</u>	<u>2,189</u>
Total liabilities and net assets	<u>\$ 370,321</u>	<u>\$ 124,553</u>	<u>\$ 1,119,164</u>	<u>\$ 160,260</u>

Condensed statement of revenues, expenses, and changes in fund net assets	Special Public Works Fund	Water Fund	Mortgage Revenue Bonds	Homeowner Revenue Bonds
Operating activities:				
Loan interest income	\$ 7,729	\$ 4,347	\$ 50,636	\$ 433
Other operating revenue	134	-	1	-
Amortization	-	-	(506)	(118)
Other operating expenses	(9,066)	(3,829)	(49,787)	(1,970)
Operating income (loss)	<u>(1,203)</u>	<u>518</u>	<u>344</u>	<u>(1,655)</u>
Total nonoperating revenues (expenses)	491	77	2,657	136
Transfers from other funds	18,049	523	1,955	3,563
Transfers to other funds	(11,683)	(3,434)	(4,300)	-
Change in net assets	5,654	(2,316)	656	2,044
Beginning net assets (as restated)	224,776	65,429	87,697	145
Ending net assets	<u>\$ 230,430</u>	<u>\$ 63,113</u>	<u>\$ 88,353</u>	<u>\$ 2,189</u>

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Condensed statement of cash flows	Special Public Works Fund	Water Fund	Mortgage Revenue Bonds	Homeowner Revenue Bonds
Net cash provided (used) by:				
Operating activities	\$ 32,197	\$ (1,514)	\$ 149,738	\$ (52,587)
Noncapital financing activities	(10,495)	1,506	(164,823)	39,993
Investing activities	491	77	11,587	13,085
Net increase (decrease)	22,193	69	(3,498)	491
Beginning cash and cash equivalents (as restated)	90,759	15,516	19,504	-
Ending cash and cash equivalents	<u>\$ 112,952</u>	<u>\$ 15,585</u>	<u>\$ 16,006</u>	<u>\$ 491</u>

Condensed balance sheet	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Assets:			
Current assets	\$ 8,587	\$ 1,323	\$ 20,704
Noncurrent assets	184,990	13,093	204,386
Deferred outflows	1,071	-	-
Total assets	<u>\$ 194,648</u>	<u>\$ 14,416</u>	<u>\$ 225,090</u>
Liabilities:			
Interfund payables	\$ -	\$ -	\$ 1
Other current liabilities	7,713	1,218	19,777
Noncurrent liabilities	166,046	3,731	140,508
Total liabilities	<u>173,759</u>	<u>4,949</u>	<u>160,286</u>
Net assets:			
Restricted	20,889	9,467	64,804
Total net assets	<u>20,889</u>	<u>9,467</u>	<u>64,804</u>
Total liabilities and net assets	<u>\$ 194,648</u>	<u>\$ 14,416</u>	<u>\$ 225,090</u>

Condensed statement of revenues, expenses, and changes in fund net assets	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Operating activities:			
Loan interest income	\$ 9,811	\$ 770	\$ 10,486
Other operating revenue	-	-	74
Depreciation and amortization	(123)	(21)	(117)
Other operating expenses	(8,223)	(640)	(10,151)
Operating income (loss)	<u>1,465</u>	<u>109</u>	<u>292</u>
Total nonoperating revenues (expenses)	(515)	48	687
Transfers from other funds	1,425	-	-
Transfers to other funds	(2,000)	(2,925)	(159)
Change in net assets	<u>375</u>	<u>(2,768)</u>	<u>820</u>
Beginning net assets (as restated)	20,514	12,235	63,984
Ending net assets	<u>\$ 20,889</u>	<u>\$ 9,467</u>	<u>\$ 64,804</u>

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Condensed statement of cash flows	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Net cash provided (used) by:			
Operating activities	\$ (613)	\$ 6,639	\$ (4,593)
Noncapital financing activities	2,464	(13,201)	(35,036)
Investing activities	(2,129)	6,123	5,912
Net increase (decrease)	(278)	(439)	(33,717)
Beginning cash and cash equivalents (as restated)	1,611	716	68,899
Ending cash and cash equivalents	<u>\$ 1,333</u>	<u>\$ 277</u>	<u>\$ 35,182</u>

15. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions

Public Employees Retirement System

The Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for units of State government, school districts, community colleges, and political subdivisions. PERS is administered under the Oregon Revised Statutes (ORS), Chapters 238 and 238A, and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board. Plan assets of the defined benefit, defined contribution, postemployment healthcare, and deferred compensation plans may legally be used to pay benefits only to the plan members or plan beneficiaries for whom the assets were accumulated. The PERS defined benefit plans provide pension benefits, death benefits, disability benefits, and postemployment healthcare benefits.

PERS features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. Participation in the PERS cost-sharing multiple-employer plan is mandatory for state agencies that comprise the primary government, as well as community colleges and school districts. PERS is an agent multiple-employer plan for political subdivisions that have not elected to join the State and Local Government Rate Pool. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 2011, PERS had 906 employer members consisting of:

State agencies	115
Community colleges	17
School districts	289
Political subdivisions	485

In 1995, the Oregon Legislature passed a bill that created a second tier of benefits for those employees who established membership on or after January 1, 1996. The second tier does not enjoy the Tier One assumed earnings rate guarantee and sets the normal retirement age at 60, compared to 58 for Tier One. As of June 30, 2011, there were 51,503 active and 21,119 inactive members for a total of 72,622 PERS Tier One plan members and 51,093 active and 17,115 inactive members for a total of 68,208 PERS Tier Two plan members.

In 2003, the Oregon Legislature enacted a bill that created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the defined benefit Pension Program and the defined contribution Individual Account Program (IAP). OPSRP is part of PERS and is administered by the PERS Board. Membership includes public employees hired on or after August 29, 2003. As of June 30, 2011, there were 80,753 active and 3,598 inactive members for a total of 84,351 OPSRP members.

Beginning January 1, 2004, active PERS Tier One and Tier Two plan members became members of the IAP. The Tier One and Tier Two plan members retain their existing PERS accounts; however, member contributions are now deposited into the members' IAP accounts.

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The PERS defined benefit and defined contribution retirement plans are reported as pension trust funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at:

http://oregon.gov/PERS/section/financial_reports/financials.shtml

Optional Plans

The 1995 Oregon Legislature enacted legislation that authorized the Oregon University System (OUS) to offer a defined contribution retirement plan as an alternative to PERS. Effective April 1, 1996, OUS established the Optional Retirement Plan (ORP), which was made available to OUS unclassified faculty and staff who are eligible for PERS membership. The ORP consists of three tiers. Membership in ORP Tier One and Tier Two is determined using the same criteria as PERS. The third tier is determined by membership in OPSRP.

In addition to PERS and ORP, eligible unclassified employees hired on or before September 9, 1995, may participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund retirement program. This defined contribution plan was closed to new enrollment at the time the ORP became effective in 1996.

Effective July 1, 1996, the Oregon Health and Science University (OHSU), which is a discretely presented component unit, established the University Pension Plan (UPP). The UPP is a defined contribution plan that is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a three to four-year period.

B. Summary of Significant Accounting Policies

The financial statements for the PERS retirement plans are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Expenses are recognized when incurred. Benefits and refunds are recognized when due and payable.

Plan investments are reported at fair value. The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and, generally, values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services. For securities that do not have an active market, such as private placements or commingled investment vehicles, the custodian's pricing agent or investment manager uses a similar benchmark security to estimate fair value. The benchmark used to value a debt security, for example, typically has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk.

Investments in private equities are recorded at fair value, as of June 30, 2011, as determined by PERS management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITS for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2011, as determined by PERS management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of

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investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity Portfolio are recorded at fair values as of June 30, 2011, as determined by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities.) Investments in the Opportunity Portfolio representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, real estate portfolio, and Opportunity Portfolio investment valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

C. Funding

Primary Government

To pay for PERS pension benefits, state agencies make required contributions based on a percentage of employee payrolls. The retirement contribution rates include an actuarially determined employer rate and a member contribution rate. The PERS Board updates the employer rates every two years, effective July 1 of each odd-numbered year. Currently, the member contribution, known as the 6% pick-up, is set by statute and is paid by state agencies. These two contributions are paid to the State's pension system and are invested at an acceptable level of investment risk as determined by the Oregon Investment Council.

The PERS employer contribution rates for state agencies for the biennium beginning July 1, 2009, and ending June 30, 2011, expressed as a percentage of covered payroll:

<u>Tier One and Tier Two Employer Rates</u>		<u>OPSRP Employer Rates</u>	
General Service	Police and Fire	General Service	Police and Fire
1.69%	9.87%	2.63%	5.34%

State agencies' employer contributions to PERS for fiscal years ended June 30, 2011, 2010, and 2009, totaled approximately \$79.5 million, \$66.4 million, and \$145.8 million, respectively. The actual contribution equaled the annual required contribution in each fiscal year. The required contribution rates for the biennium ending June 30, 2011, were significantly lower than the required contribution rates for the prior biennium.

In fiscal year 2004, the State issued \$2 billion in pension obligation bonds to reduce the PERS pension liability. As a result, the actual contribution exceeded the annual required contribution in that fiscal year, creating a net pension asset that is being amortized using the level dollar closed method over 22 years and an assumed interest rate of 8 percent. The primary government's employer cost for the PERS pension plan for fiscal year 2011 was \$136.6 million and included \$57.1 million of amortization. State agencies pay an additional assessment to cover the annual debt service requirements attributable to the pension bonds.

Oregon University System's Optional Retirement Plan (ORP)

Under the ORP, the employee contribution rate is 6 percent and is paid by OUS. The employer contribution rates for fiscal year 2011 were 11.9 percent for ORP Tier One and ORP Tier Two and 5.9 percent for the OPSRP equivalent. Total OUS employer contributions to the ORP for the years ended June 30, 2011, 2010, and 2009, were approximately \$21.6 million, \$21 million, and \$25.8 million, respectively. The OUS employee contributions to the ORP for the years ended June 30, 2011, 2010, and 2009, were approximately \$14.2 million, \$13.6 million, and \$13 million.

Discretely Presented Component Units

The SAIF Corporation's employer contributions to PERS for years ended December 31, 2010, 2009, and 2008, were approximately \$1.3 million, \$2.6 million, and \$3.7 million, respectively. Employer contributions to PERS for the Oregon Health and Science University (OHSU) for fiscal years ended June 30, 2011, 2010, and 2009, were approximately \$12.5 million, \$11.7 million, and \$11.8 million, respectively. For both component units, the actual contribution equaled the annual required contribution in each year.

The OHSU Board of Directors determines the contribution rate for OHSU's University Pension Plan (UPP). Employer contributions to the plan are 6 percent of salary and employee contributions are an additional 6 percent. Currently, OHSU is funding employee contributions. OHSU's employer contributions to the UPP for the years ended June 30, 2011, 2010, and 2009, were approximately \$21.6 million, \$18.4 million, and \$16.2 million, respectively, and were equal to the employee contributions for each year.

16. OTHER POSTEMPLOYMENT BENEFIT PLANS

A. Public Employees Retirement System

Plan Descriptions

The Public Employees Retirement System (PERS) board contracts for health insurance coverage on behalf of the members of PERS. Eligible retirees pay their own age-adjusted premiums. To help retirees defray the cost of these premiums, PERS also administers two separate defined benefit other postemployment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA).

The RHIA is a cost-sharing, multiple-employer OPEB plan in which 906 employers participate. Established under Oregon Revised Statute (ORS) 238.420, the plan provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible to receive 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 plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan. The number of RHIA plan members receiving benefits was 40,292 as of June 30, 2011.

The RHIPA is a single-employer OPEB plan established under ORS 238.415. The plan provides 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. PERS members are qualified to receive the RHIPA subsidy if they have eight or more years of qualifying service in PERS at the time of retirement or receive a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired on or after September 29, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations of the RHIPA plan. The number of RHIPA plan members receiving benefits was 1,004 as of June 30, 2011.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

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The RHIA and RHIPA defined benefit OPEB plans are reported separately under Other Employee Benefit Trust Funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at:
http://oregon.gov/PERS/section/financial_reports/financials.shtml

Summary of Significant Accounting Policies

The financial statements for the PERS OPEB plans are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Expenses are recognized when incurred. Benefits and refunds are recognized when due and payable. Plan investments are reported at fair value. The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and, generally, values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services. For securities that do not have an active market, such as private placements or commingled investment vehicles, the custodian's pricing agent or investment manager uses a similar benchmark security to estimate fair value. The benchmark used to value a debt security, for example, typically has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk.

Investments in private equities are recorded at fair value, as of June 30, 2011, as determined by PERS management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITS for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2011, as determined by PERS management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity Portfolio are recorded at fair values as of June 30, 2011, as determined by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities.) Investments in the Opportunity Portfolio representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by

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reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, Opportunity Portfolio, and real estate portfolio investment valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

Funding

Both of the OPEB plans administered by PERS are funded through actuarially determined employer contributions. For the biennium ended June 30, 2011, state agencies contributed 0.1 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIA benefits. In addition, state agencies contributed 0.19 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contributions were approximately \$5.8 million, \$5.8 million, and \$7.5 million for years ended June 30, 2011, 2010, and 2009, respectively. The actual contribution equaled the annual required contribution in each fiscal year. (See Note 15 for details concerning Tier One, Tier Two, and OPSRP membership in PERS.)

The funded status of the RHIA postemployment healthcare plan as of the most recent actuarial valuation date (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2010	\$232.3	\$547.1	\$314.8	42.5%	\$8,750.1	3.6%

For the biennium ended June 30, 2011, state agencies contributed 0.06 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIPA benefits. In addition, state agencies contributed 0.02 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contributions were approximately \$1.4 million, \$1.5 million, and \$2 million for the years ended June 30, 2011, 2010, and 2009, respectively. The actual contribution equaled the annual required contribution in each fiscal year.

The funded status of the RHIPA postemployment healthcare plan as of the most recent actuarial valuation date (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2010	\$5.7	\$33.9	\$28.2	16.8%	\$2,379.7	1.2%

Actuarial Methods and Assumptions

The PERS postemployment healthcare benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2010, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include an 8 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.75 percent for both the RHIA and RHIPA plans. The RHIPA plan uses a healthcare cost inflation adjustment

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graded from 7 percent in 2011 to 4.5 percent in 2029. The RHIPA plan's inflation assumption is 2.75 percent, which is a subcomponent of the payroll growth rate. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The actuarial value of plan assets for both the RHIA and the RHIPA is equal to the asset's fair market value on the valuation date. The amount of net assets available for other postemployment benefits for RHIA and RHIPA at June 30, 2011, was \$248 million and \$5.1 million, respectively.

B. Public Employees Benefit Board

Plan Description

The State participates in a defined benefit postemployment healthcare plan administered by the Public Employees Benefit Board (PEBB). This plan offers healthcare assistance to eligible retired employees and their beneficiaries. Chapter 243 of the Oregon Revised Statutes gives the board the authority to establish and amend the benefit provisions of the PEBB Plan. Eleven employers participate in the PEBB Plan, which is considered an agent multiple-employer plan for financial reporting purposes. As of June 30, 2011, PEBB Plan members consisted of 50,450 active employees and 1,963 retired employees and beneficiaries receiving benefits. PEBB does not issue a separate, publicly available financial report.

The PEBB Plan allows qualifying retired employees to continue their "active" health insurance coverage on a self-pay basis until they are eligible for Medicare. Participating retirees pay their own monthly premiums. However, the premium amount is based on a blended rate that is determined by pooling the qualifying retirees with active employees, thus, creating an "implicit rate subsidy."

Summary of Significant Accounting Policies

The PEBB plan's implicit rate subsidy, if not fully funded, represents an obligation of the State, the net OPEB obligation. The net OPEB obligation for the year ended June 30, 2011, is \$55.4 million and is allocated to the participating funds based on each fund's proportionate share of annual health insurance premium costs. The portion of the net OPEB obligation related to governmental activities is reported in the internal service funds balance sheet and the government-wide statement of net assets; the portion related to business-type activities is reported in the proprietary funds balance sheet and the government-wide statement of net assets. The portion related to fiduciary activities is reported in the statement of fiduciary net assets.

Funding

The PEBB's funding policy provides for employer contributions in amounts sufficient to fund the cost of active employee health benefits, including the retiree rate subsidy, on a pay-as-you-go basis. Administrative costs of the PEBB Plan are financed by up to 2 percent of employer and plan member contributions. For the year ended June 30, 2011, retired plan members contributed \$25.8 million through their required contributions. The average monthly contribution was \$1,097. Active employees do not make contributions.

The funded status of the PEBB postemployment healthcare plan as of the most recent actuarial valuation date (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	-	\$161.7	\$161.7	-	\$2,562.5	6.3%

The schedule of funding progress, which is included in the required supplementary information that immediately follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2009, using the entry age normal cost method. The

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State's annual OPEB expense is based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over thirty years. Significant assumptions used in the actuarial valuation include a 4 percent per annum rate of return on the investment of present and future assets, and a medical healthcare cost inflation adjustment graded from an average of 8.35 percent in 2010 to an average of 4.5 percent in 2026 and beyond. The dental healthcare cost inflation adjustment was graded from an average of 5.75 percent in 2010 to an average of 4.5 percent for 2026 and beyond. The vision healthcare cost inflation adjustment was graded at 3 percent for all years. The unfunded actuarial accrued liability is being amortized as a level dollar amount using an open 30-year period.

For fiscal years ended June 30, 2011, 2010, and 2009, the components of the PEBB Plan's annual OPEB cost, the amounts actually contributed, and changes to the net OPEB obligation (in millions):

	June 30, 2011	June 30, 2010	June 30, 2009
Annual required contribution	\$ 17.4	\$ 16.7	\$ 36.2
Interest on net OPEB obligation	1.9	1.6	0.9
ARC adjustment	<u>(2.7)</u>	<u>(2.3)</u>	<u>(1.3)</u>
Annual OPEB cost (expense)	16.6	16.0	35.8
Contributions made	<u>(8.9)</u>	<u>(8.4)</u>	<u>(16.0)</u>
Increase in net OPEB obligation	7.7	7.6	19.8
Net OPEB obligation - beginning of year	<u>47.7</u>	<u>40.1</u>	<u>20.3</u>
Net OPEB obligation - end of year	<u>\$ 55.4</u>	<u>\$ 47.7</u>	<u>\$ 40.1</u>
Percent of annual OPEB cost contributed	53.6%	52.5%	44.7%

C. Discretely Presented Component Units

SAIF Corporation

SAIF Corporation (SAIF) administers a single-employer defined benefit postemployment healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for the employee and eligible dependents until age 65. Retirees must pay the premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent that SAIF pays all or a portion of its active employees' premiums. 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. Benefit provisions are established by SAIF Corporation. The plan does not issue a separate, publicly available financial report.

SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. For the year ended December 31, 2010, retired plan members contributed \$645 thousand through their required contributions. The required contribution rate per member was an average of \$572 per month.

The funded status of the SAIF plan as of the most recent actuarial valuation date (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1/1/2009	-	\$5,701	\$5,701	-	\$57,228	10%

The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of January 1, 2009, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.5 percent investment rate of return. The annual medical healthcare cost trend rate is expected to increase 7.5 percent in the first year, 6.5 percent in the second year, 6 percent in the third through seventh year, 5.5 percent for the eighth through twenty-seventh

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year, and 5 percent thereafter. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis for 15 years.

For the years ended December 31, 2010, 2009, and 2008, the components of SAIF's annual OPEB cost, the amounts actually contributed to the plan, and changes in SAIF's net OPEB obligation (in thousands):

	December 31, 2010	December 31, 2009	December 31, 2008
Annual required contribution	\$ 762	\$ 730	\$ 408
Interest on net OPEB obligation	49	26	13
ARC adjustment	(68)	(36)	(19)
Annual OPEB cost (expense)	743	720	402
Contributions made	(376)	(299)	(174)
Increase in net OPEB obligation	367	421	228
Net OPEB obligation - beginning of year	893	472	244
Net OPEB obligation - end of year	<u>\$ 1,260</u>	<u>\$ 893</u>	<u>\$ 472</u>
Percent of annual OPEB cost contributed	50.6%	41.5%	43.3%

Oregon Health and Science University

The Oregon Health and Science University (OHSU) administers a single-employer defined benefit postemployment healthcare plan. OHSU retiring employees are eligible to receive medical coverage for themselves and spouses until age 65. Retirees must pay the full premium for the coverage elected. The plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Full-time active employees also 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. The plan does not issue a separate, publicly available financial report.

The funded status of the OHSU plan as of the most recent actuarial valuation date (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1/1/2010	-	\$19,185	\$19,185	-	\$669,000	2.9%

The actuarial valuation as of January 1, 2010, used an assumed discount rate of 3.5 percent. The assumed healthcare cost trend rate is 8.7 percent in 2011, declining gradually to 4.5 percent in 2027, and remaining at 4.5 percent thereafter. The actuarial cost method used is the projected unit credit method.

For fiscal years ended June 30, 2011, 2010, and 2009, the components of OHSU's annual OPEB cost, the amounts actually contributed to the plan, and changes in OHSU's net OPEB obligation (in thousands):

	June 30, 2011	June 30, 2010	June 30, 2009
Annual required contribution	\$ 1,719	\$ 2,262	\$ 2,355
Interest on net OPEB obligation	145	102	185
Annual OPEB cost (expense)	1,864	2,364	2,540
Contributions made	(1,008)	(1,064)	(960)
Increase in net OPEB obligation	856	1,300	1,580
Net OPEB obligation - beginning of year	4,215	2,915	1,335
Net OPEB obligation - end of year	<u>\$ 5,071</u>	<u>\$ 4,215</u>	<u>\$ 2,915</u>
Percent of annual OPEB cost contributed	54%	45%	38%

D. Using Actuarial Valuations

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

17. DEFERRED COMPENSATION PLANS

A. Primary Government

The Oregon Savings Growth Plan (OSGP) is a deferred compensation plan available to eligible state employees. Employee contributions are deposited into the Deferred Compensation Fund established by Oregon Revised Statute 243.411. To participate, an employee enters into an individual agreement with the State to defer current earnings to be paid at a future date. The Public Employees Retirement System (PERS) administers the plan. As trustee of the assets, PERS contracts with ING to maintain OSGP participant records. The Office of the State Treasurer, as custodian of the assets, contracts with State Street Bank and Trust Company to provide financial services. PERS may assess a charge to participants not to exceed 2 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 2011, averaged 0.25 percent of amounts deferred.

Participants direct the selection of investment options and also bear any market risk. Although the State has no liability for losses under the OSGP, the State does have the prudent investor responsibility of due care. Activity of the OSGP is reported under the Deferred Compensation Plan in the fiduciary funds combining financial statements. As of June 30, 2011, the fair value of the investments was \$1 billion.

B. Discretely Presented Component Units

SAIF Corporation

SAIF Corporation (SAIF), a discretely presented component unit, administers a deferred compensation plan (SAIF Plan) that is available to eligible SAIF employees. Employees may enter into an individual agreement with SAIF to defer current earnings to be paid at a future date. The SAIF Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or their beneficiaries. SAIF does not perform the investing function and has no fiduciary accountability for the plan. Therefore, plan assets and any related liability to plan participants are not reported in the SAIF financial statements as of December 31, 2010.

The OSGP and the SAIF Plan are administered in compliance with Internal Revenue Code Section 457. Participants are not required to pay federal or state income taxes on the deferred earnings until those earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances occurs: termination due to death, disability, resignation, or retirement; unforeseeable emergency; or by requesting a *de minimus* distribution from inactive accounts valued at less than \$5,000.

Oregon Health and Science University

The Oregon Health and Science University, a discretely presented component unit, offers all eligible employees the option to participate in one of two tax deferred savings plans through the University Voluntary Savings Program. One plan is administered under Internal Revenue Code Section 403 and the other under Section 457. The contribution and investment earnings under these plans are tax deferred and accumulated for distribution at a future date.

18. TERMINATION BENEFITS

Oregon State University (OSU) offered a voluntary tenure relinquishment plan from May 1 to December 1, 2010. Tenured faculty had to meet specific length of service and retirement eligibility criteria to qualify. In exchange for relinquishing tenure, faculty members will receive subsidy payments for health benefits for a

term not to exceed 36 months following retirement. The subsidy payment will be adjusted annually based on specified premium rates. Thirty-four faculty members entered into a contractual agreement with OSU to participate in this plan.

Eastern Oregon University (EOU) is offering a tenure relinquishment plan that closes November 30, 2011. Faculty members who accept the plan will retire December 31, 2011, and will receive a fixed subsidy amount for health benefits covering the term until the faculty member turns 65. As of June 30, 2011, three faculty members had selected retirement under this plan with terms ranging from 11 to 42 months.

Since 1998, Southern Oregon University (SOU) has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty members who elect this plan relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2011, ten retirees were participating in the health and benefits option of this plan.

The liability for early retirement benefits is reported in contracts, mortgages, and notes payable on the proprietary funds balance sheet under the University System Fund. The current and noncurrent portions of the liability are \$695 thousand and \$1.2 million, respectively. The amount of the liability was determined by calculating the discounted present value of expected future benefit payments using discount rates ranging from 0.65 to 6 percent.

19. RISK FINANCING

A. Property, Liability, and Workers' Compensation Coverage for State Government

The Department of Administrative Services, State Services Division, administers the State's property, liability, and workers' compensation insurance program. State Services Division has found it is more economical to manage the risk of loss internally and, therefore, minimize the purchase of commercial insurance policies to the extent possible. The moneys set aside by State Services Division under Chapter 278 of the Oregon Revised Statutes are used to service the following risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

State Services Division purchases commercial insurance for specific insurance needs not covered by self-funding. For example, the self-insured property and liability program is backed by an excess property policy with a limit of \$400 million and a blanket commercial crime policy with a limit of \$20 million. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions, and boards participate in the self-insured property and liability program. State Services Division allocates the cost of claims and claims administration by charging an assessment to each State entity, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

State Services Division purchases workers' compensation insurance for the State from SAIF Corporation, a discretely presented component unit, utilizing retrospective paid loss plans. These plans are ten years in length and have cash flow and investment earnings advantages. The accumulated claim loss liability for the plans was approximately \$60 million as of June 30, 2011. Independent actuaries determine biennial loss forecasts.

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Periodically, State Services Division reevaluates claims liabilities taking into consideration recently settled claims, the frequency of claims, and other economic and social factors. Contracted actuaries estimate claims and allocated and unallocated expenses using the last 20 to 25 years of State claims experience and the projected numbers of employees, payroll, vehicles, and other property. Liabilities include an amount for claims and legal expenses that have been incurred but not reported and are discounted at an annual rate of two percent. The actuaries forecast ultimate losses by line of coverage.

Changes in the balance of aggregate claims liabilities for the property, liability, and workers' compensation insurance program for the years ended June 30, 2011 and 2010 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2011	\$ 126,051	\$ 43,840	\$ (33,723)	\$ 136,168
2010	119,260	41,629	(34,838)	126,051

The June 30, 2011, balance of claims liabilities is included in claims and judgments payable on the combining balance sheet of the internal service funds under Central Services.

B. State Self-insured Healthcare Plans

Chapter 243 of the Oregon Revised Statutes authorizes the Public Employees' Benefit Board (PEBB) to establish and maintain medical, dental, and vision insurance plans for the benefit of PEBB members. Currently, the State provides these benefits through four self-insured plans.

PEBB is responsible for controlling expenditures, stabilizing benefit premium rates, and minimizing the risk of loss. Funds set aside in a stabilization fund may be used to offset any actual premium deficiencies in the self-funded plans. PEBB has not purchased stop-loss coverage on any of the plans. With the launch of a new statewide self-insured medical plan and a new self-insured vision plan beginning January 1, 2010, the liability reported for fiscal year ending June 30, 2010, increased significantly over the prior year but has stabilized in FY 2011.

Contracted actuaries and consultants estimate the claims liability. Incurred but not reported expenses are estimated by using claims lag triangles from the plans to develop completion factors. For the most recent months, incurred claims are estimated based upon reviewing the most recent claims experience per employee and adjusting for trend and seasonality to the projection month. Since most of the claims will be paid out within the year, the estimated amounts are not discounted. Specific adjustments for subrogation or other anticipated recoveries are not included. Overall, these adjustments are not expected to be significant.

For calendar year 2008, settlements exceeded coverage for the Samaritan Health Select medical plan. This regional self-insured plan was terminated December 31, 2008. In addition, vision claims exceeded self-insurance coverage during the first half of calendar year 2011.

Changes in the balance of aggregate claims liabilities for the self-insured healthcare plans for the years ended June 30, 2011 and 2010 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2011	\$ 83,502	\$ 573,549	\$ (599,639)	\$ 57,412
2010	2,906	320,311	(239,715)	83,502

The June 30, 2011, balance of claims liabilities is included in claims and judgments payable on the combining balance sheet of the internal service funds under Central Services.

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C. Supplemental Workers' Compensation Insurance

The Department of Consumer and Business Services operates several supplemental workers' compensation benefit programs. These programs are accounted for in special revenue funds. The primary program is the Retroactive Program, established by Oregon Revised Statute 656.506. It provides increased insurance benefits to claimants or their beneficiaries when current payment requirements exceed benefits in effect at the time of injury.

The Department of Consumer and Business Services determines the funding of supplemental workers' compensation insurance programs through cash flow projections based on historical data and economic forecasts. Employer work hour assessments, contributions by employees, workers' compensation insurance premium assessments, and investment and interest earnings pay for the programs. Long-term liabilities were actuarially computed as of June 30, 2011, using a 6 percent discount rate.

Changes in the balance of aggregate claims liabilities for supplemental workers' compensation insurance for the years ended June 30, 2011 and 2010 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2011	\$ 900,553	\$ -	\$ (37,219)	\$ 863,334
2010	887,411	13,142	-	900,553

The June 30, 2011, balance of claims liabilities is included in claims and judgments payable on the government-wide statement of net assets under governmental activities.

D. SAIF Corporation Workers' Compensation Insurance

The Legislature created SAIF Corporation (SAIF) to transact workers' compensation insurance and reinsurance business. SAIF is an independent public corporation, a discretely presented component unit of the State, and the largest workers' compensation insurer in Oregon.

SAIF has established a reserve for both reported and unreported insured events, which includes estimates of future payments of losses and related loss adjustment expenses. In estimating the liability for loss and loss adjustment expense, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors relating to workers' compensation insurance underwritten by SAIF.

The liability for loss and loss adjustment expense increased \$45.7 million in calendar year 2010, which was net of favorable development of \$45 million. The favorable development is attributed to the more recent accident years, as permanent total disability and permanent partial disability medical reserves had lower loss development than was expected. The favorable development was offset somewhat by unfavorable development for indemnity loss reserves, which may be due to fewer return-to-work opportunities. Loss adjustment expense reserves decreased \$11.8 million. The favorable loss adjustment expense development was largely attributed to a reduction in the long-term loss adjustment expense escalation rate due to the average increase in salary and benefits trending downward.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses on a tabular basis, using a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical unpaid losses, or unpaid loss adjustment expense. The gross reserve subject to tabular discounting for calendar year 2010 was \$269.3 million. The related discount was \$93.8 million as of December 31, 2010.

Anticipated salvage and subrogation of \$25.7 million was included as a reduction of the reserve for loss and loss adjustment expense at December 31, 2010.

As of December 31, 2010, SAIF had provided reserves of \$29 million for loss and loss adjustment expense related to asbestos claims. SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies.

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Changes in the balance of the liability for loss and loss adjustment expense related to workers' compensation insurance underwritten by SAIF for 2010 and 2009 (in thousands):

Calendar Year	Beginning Balance	Incurred Losses and Loss Adjustment Expenses	Loss and Loss Adjustment Expense Payments	Ending Balance
2010	\$ 2,958,911	\$ 365,150	\$ (319,422)	\$ 3,004,639
2009	2,911,309	377,118	(329,516)	2,958,911

This liability is reported as the reserve for loss and loss adjustment expense on the combining balance sheet of the discretely presented component units under SAIF Corporation.

E. Oregon Health and Science University Self-funded Insurance Programs

The Oregon Health and Science University (OHSU), which is also a discretely presented component unit of the State, maintains several self-funded insurance programs. Coverage for professional, general, automobile, directors and officers, and employment practices liabilities is provided through OHSU's solely-owned captive insurance company, OHSU Insurance Company.

OHSU has contracted with independent actuaries to estimate the ultimate cost of settlements related to the coverage provided by OHSU Insurance Company. The liability reported for fiscal year 2011 was calculated using a 5 percent discount rate. OHSU Insurance Company has also entered into reinsurance agreements with various insurers to fully reinsure claims that may exceed coverage limits for claims made prior to July 1, 2002, and claims made on or after July 1, 2009. Coverage is written on a claims made basis.

In addition, OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. OHSU utilized a third-party actuary to assist in the estimation of OHSU's liability for the employee health programs related to claims payable and those claims incurred but not yet paid or reported of approximately \$12.7 million as of June 30, 2011.

OHSU also purchases workers' compensation coverage from SAIF. The SAIF policy is written as a paid loss retrospective plan. OHSU's liability includes an estimate of claims incurred but not yet reported based on annual actuarial projections.

In December 2007, the Oregon Supreme Court found unconstitutional certain provisions of the Oregon Tort Claims Act that limited OHSU's liability for the acts of its employees and agents in large damages cases. The impact of this decision has been included in the liability for self-funded insurance programs in the accompanying financial statements.

Settlement of six malpractice claims exceeded OHSU's professional liability insurance coverage during fiscal year 2009. The amount of claims settlements did not exceed OHSU's self-insurance and commercial insurance coverage for fiscal years 2010 and 2011.

The total liability reported for OHSU's self-funded insurance programs was \$56.1 million and \$70.7 million for fiscal years ended June 30, 2011 and 2010, respectively. This liability is reported as claims and judgments payable on the combining balance sheet of the discretely presented component units under Oregon Health and Science University.

20. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

Proprietary fund revenues, including discretely presented component units, are reported net of discounts and allowances in the accompanying financial statements.

Discounts and allowances in proprietary funds for the year ended June 30, 2011 (in thousands):

Primary Government

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	\$ 1,270
Unemployment Compensation	Assessments	552
Unemployment Compensation	Fines and forfeitures	(81)
University System	Charges for services	160,691
Nonmajor Enterprise Funds	Charges for services	788
Nonmajor Enterprise Funds	Sales	5,515
Internal Service Funds	Other	169
Total primary government		<u>\$ 168,904</u>

Discretely Presented Component Units

Component Units	Type of Revenue	Amount
SAIF Corporation	Charges for services	\$ (79)
Oregon Health and Science University	Charges for services	1,125,757
Oregon Health and Science University	Gifts, grants and contracts	729
Total discretely presented component units		<u>\$ 1,126,407</u>

21. FUND EQUITY

A. Net Assets Restricted by Enabling Legislation

The following schedule summarizes the State's net assets at June 30, 2011, that are restricted by enabling legislation (in thousands). All of the legislative restrictions are in governmental activities.

	Restricted Net Assets
Expendable net assets restricted for:	
Health and social service programs	\$ 252,685
Public transportation programs	79,925
Natural resource programs	83,350
Education	237,232
Employment services	138,200
Consumer protection	70,767
Other programs	120,953
Nonexpendable net assets restricted for:	
Education	1,710
Residential assistance	23,551
Natural resource programs	1,500
Workers' compensation	250
Total net assets restricted by enabling legislation	<u>\$ 1,010,123</u>

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B. Changes to Beginning Fund Balance

As of June 30, 2011, the beginning fund balances were restated as follows (in thousands):

	Beginning Balance	Prior Period Adjustments	Accounting Changes	Beginning Balance-Restated
Governmental funds and activities:				
General	\$ (507,344)	\$ 2,213	\$ 264,471	\$ (240,660)
Health and Social Services	606,442	8,617	(28,582)	586,477
Public Transportation	1,027,785	(1,799)	-	1,025,986
Environmental Management	776,428	3,876	(12,578)	767,726
Common School	738,760	(2,492)	-	736,268
Oregon Rainy Day	125,579	-	(125,579)	-
Other (nonmajor)	1,754,294	24,548	(102,190)	1,676,652
Capital assets, net of depreciation	10,952,084	11,142	-	10,963,226
Other noncurrent assets	1,769,431	(6,096)	-	1,763,335
Long-term liabilities	(7,579,794)	1,452	-	(7,578,342)
Internal service funds	213,808	(6,111)	4,458	212,155
Total governmental funds and activities	<u>\$ 9,877,473</u>	<u>\$ 35,350</u>	<u>\$ -</u>	<u>\$ 9,912,823</u>
Proprietary funds and business-type activities:				
Housing and Community Services	\$ 206,725	\$ -	\$ -	\$ 206,725
Veterans' Loan	134,201	(89)	-	134,112
Lottery Operations	159,680	-	-	159,680
Unemployment Compensation	1,182,018	2,162	-	1,184,180
University System	1,413,794	-	-	1,413,794
Other (nonmajor)	634,123	61,693	-	695,816
Internal service funds adjustment	4,723	-	-	4,723
Total proprietary funds and business-type activities	<u>\$ 3,735,264</u>	<u>\$ 63,766</u>	<u>\$ -</u>	<u>\$ 3,799,030</u>
Fiduciary funds:				
Pension and Other Employee Benefit Trust	\$ 51,747,945	\$ (8,291)	\$ -	\$ 51,739,654
Private Purpose Trust	30,908	-	-	30,908
Investment Trust	3,867,013	-	-	3,867,013
Total fiduciary funds	<u>\$ 55,645,866</u>	<u>\$ (8,291)</u>	<u>\$ -</u>	<u>\$ 55,637,575</u>
Discretely presented component units:				
SAIF Corporation	\$ 945,589	\$ -	\$ -	\$ 945,589
Oregon Health and Science University	1,695,674	-	-	1,695,674
Oregon University System Foundations	1,206,594	-	-	1,206,594
Total discretely presented component units	<u>\$ 3,847,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,847,857</u>

Significant prior period adjustments were made in three governmental funds or activities. An \$8.7 million adjustment was made to correct expenditures that had been overstated in prior fiscal years in the Health and Social Services Fund. In the Other (nonmajor) Fund, an adjustment of \$11.3 million was made to recognize pension bond assessments that should have been accrued in the prior year. In addition, several agencies made corrections to their capital asset accounts, including a \$16.9 million adjustment to infrastructure capitalization and depreciation.

In the Unemployment Compensation Fund, adjustments of \$8.3 million to record interest income that should have been recognized in prior fiscal years and \$6 million to recognize federal revenue that should have been accrued in the prior fiscal year were offset by an \$11.9 million adjustment to recognize distributions to individuals that should have been accrued in the prior fiscal year.

Prior to fiscal year 2011, the activity of the Standard Retiree Health Insurance Account (SRHIA) was reported in a fiduciary fund. It has since been determined that the activity should be reported in a proprietary fund. To make this correction, a prior period adjustment of \$8.3 million was recorded in the Pension and Other

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Employee Benefit Trust Fund, with an offsetting entry in the Other (nonmajor) Proprietary Fund. In addition, a \$54.2 million prior period adjustment was recorded in the Other (nonmajor) Proprietary Fund to reflect certain deposits and estimated claims expenses of the SRHIA not reported in prior fiscal years.

All accounting changes reported in the governmental funds and activities are the result of implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement clarified that the foundation of a special revenue fund must be a specific revenue source which is restricted or committed to expenditure for a specific purpose other than debt service or capital projects. Activities previously accounted for in special revenue funds that do not meet this new definition are now reported in the General Fund.

C. Fund Balances – Governmental Funds

The following table displays in detail the June 30, 2011, fund balances that are reported in the aggregate on the governmental funds balance sheet (in thousands).

Fund balances:	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total
Nonspendable:							
Not in spendable form	\$ 79,887	\$ 108,813	\$ 27,315	\$ 27,675	\$ 4	\$ 4,097	\$ 247,791
Required to be maintained intact	4	52	40	352	-	27,227	27,675
Restricted for:							
Health and social service programs	16,854	351,165	-	-	-	-	368,019
Transportation programs	-	-	739,658	-	-	-	739,658
Natural resource programs	1,091	-	-	702,481	-	-	703,572
Education	-	-	-	-	945,285	150,775	1,096,060
Education stabilization	-	-	-	-	-	13,759	13,759
Community protection	-	-	-	-	-	140,461	140,461
Consumer protection	-	-	-	-	-	70,767	70,767
Employment services	-	-	-	-	-	138,200	138,200
Residential assistance	-	-	-	-	-	141,540	141,540
Debt service	-	-	-	-	-	404,767	404,767
Capital projects	-	-	-	-	-	109,613	109,613
Other purposes	18,937	-	-	-	-	65,574	84,511
Committed to:							
Health and social service programs	-	125,722	-	-	-	-	125,722
Natural resource programs	-	-	-	49,550	-	-	49,550
Education	-	-	-	-	-	12,886	12,886
Business development	-	-	-	-	-	23,421	23,421
Community protection	-	-	-	-	-	68,210	68,210
Consumer protection	-	-	-	-	-	27,990	27,990
Employment services	-	-	-	-	-	60,280	60,280
Residential assistance	-	-	-	-	-	134,531	134,531
Stabilization	10,400	-	-	-	-	-	10,400
Other purposes	-	-	-	-	-	1,007	1,007
Assigned to:							
Health and social service programs	-	4,040	-	-	-	-	4,040
Natural resource programs	-	-	-	7,542	-	-	7,542
Education	-	-	-	-	-	3,228	3,228
Community protection	-	-	-	-	-	8,275	8,275
Other purposes	7,864	-	-	-	-	6,061	13,925
Unassigned:	109,117	-	-	-	-	-	109,117
Total fund balances	\$ 244,154	\$ 589,792	\$ 767,013	\$ 787,600	\$ 945,289	\$ 1,612,669	\$ 4,946,517

Nonspendable fund balances include inventories and prepaid items, which are not in spendable form, and fund balances associated with the corpus of revolving funds and permanent fund principal, which are legally or contractually required to be maintained intact.

Restricted fund balances result from constraints imposed on net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments. Enabling legislation authorizes the State to levy, assess, charge, or otherwise mandate payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation.

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Committed fund balance results from constraints imposed by bills passed by the Legislature and signed into law by the Governor. The constraints on the use of resources are separate from the authorization to raise the underlying revenue and may be modified or rescinded only by passing additional legislation.

Assigned fund balance represents amounts that are constrained by the state's intent to use them for specific purposes, which are neither restricted nor committed. Assignments of fund balance may be made by the legislature, a budget committee, an agency head or other official who has been delegated the authority to assign amounts to specific purposes. Assigned fund balance is also the residual amount in governmental funds other than the General Fund.

D. Stabilization Arrangements

Oregon maintains two stabilization funds – the Oregon Rainy Day Fund and the Education Stability Fund.

Established by the 2007 Legislature, the Oregon Rainy Day Fund is funded from the General Fund's ending balance up to 1 percent of General Fund appropriations for the prior biennium. The Legislature may deposit additional funds as it did to create the fund, using surplus corporate income tax revenues from the 2005-07 biennium. The Rainy Day Fund also earns interest on the moneys in the fund. Fund balance is capped at 7.5 percent of General Fund revenues in the prior biennium.

Stabilization amounts in the Oregon Rainy Day Fund may be spent only if approved by three-fifths of the members of the Legislative Assembly and if one of the following conditions exists:

- The last quarterly economic and revenue forecast for a biennium indicates that moneys available to the General Fund for the next biennium will be at least 3 percent less than appropriations from the General Fund for the current biennium;
- There has been a decline for two or more consecutive quarters in the last 12 months in seasonally adjusted nonfarm payroll employment; or
- A quarterly economic and revenue forecast projects that revenues in the General Fund in the current biennium will be at least 2 percent below what the revenues were projected to be in the revenue forecast on which the legislatively adopted budget for the current biennium was based.

For any one biennium, the Legislative Assembly may not appropriate more than two-thirds of the amount that is in the Oregon Rainy Day Fund at the beginning of that biennium. If the appropriation is for a biennium that has not yet begun, the Legislative Assembly may use as the base the most recent estimate of the amount that will be in the Oregon Rainy Day Fund at the beginning of the biennium for which the appropriation is made. The fund balance of the Oregon Rainy Day Fund as of June 30, 2011, was \$10.4 million.

The Education Stability Fund is authorized in the Oregon Constitution, Article XV. Section 4, part (4)(d), requires that 18 percent of net Lottery proceeds be deposited in the fund. Earnings on moneys in the fund are continuously appropriated to finance public education under Oregon Revised Statute 348.696. The balance in the fund may not exceed 5 percent of General Fund revenues of the prior biennium.

Amounts in the Education Stability Fund may be spent under the same conditions as those required for spending moneys in the Oregon Rainy Day Fund. However, if none of the conditions are met, the Education Stability Fund can also be used by the Legislature for public education in Oregon if the Governor declares an emergency and the expenditure is approved by a three-fifths majority in each chamber of the Legislature. The fund balance of the Education Stability Fund as of June 30, 2011, was \$13.8 million.

22. COMMITMENTS

The State has significant commitments as of June 30, 2011, in addition to the construction contract commitments disclosed in Note 6. Commitments are defined as existing arrangements to enter into future transactions or events, such as contractual obligations with vendors for future purchases or services at specified prices and sometimes at specified quantities. Commitments may also include agreements to make grants and loans.

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Commitments in effect as of June 30, 2011, and the anticipated sources of funding (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	\$ 417,019	\$ 558,461	\$ 4,748	\$ 42,823	\$ 1,023,051
Grant & loan commitments	30,239	175,515	52,143	287,439	545,336
Personal services contracts	84,539	64,936	270	22,125	171,870
Equipment purchases	142	414	7,343	1	7,900
Public defense contracts	42,673	-	-	-	42,673
Systems development	497	3,425	-	4,955	8,877
Total	\$ 575,109	\$ 802,751	\$ 64,504	\$ 357,343	\$ 1,799,707

The Oregon Investment Council has entered into agreements that commit the investment managers for the Public Employees Retirement Fund (PERF), the Common School Fund (CSF), and the Oregon University System (OUS) Endowment Fund, upon request, to make additional investment purchases up to a predetermined amount. The Oregon Growth Account (OGA) Board makes similar commitments for investment purchases. As of June 30, 2011, the PERF had \$7.8 billion in commitments to purchase private equity investments, \$1.8 billion to purchase real estate investments, and \$489.9 million to purchase Opportunity Fund investments. As of June 30, 2011, the CSF, OUS Endowment Fund, and the OGA had \$73.3 million, \$4.6 million, and \$35.9 million, respectively, in commitments to purchase private equity investments. These amounts are unfunded and are not recorded in the financial statements.

23. CONTINGENCIES

A. Litigation

Several Oregon employees filed lawsuits challenging various aspects of the 2003 legislation that enacted significant changes to the Public Employees Retirement System (PERS). The PERS legislation, among other things, reduces the earnings credited to certain members' accounts. The initial challenges to the PERS legislation were consolidated and decided by the Oregon Supreme Court in 2005 and the federal courts in 2008.

The PERS legislation, however, also provided a statutory remedy to a prior case filed by the City of Eugene and other public employers. Several cases were filed challenging, among other things, the settlement, the adjustment of crediting to member accounts, and the recovery of over-credited amounts from retirees. The Oregon Supreme Court recently issued opinions in those cases that upheld all but one of the Board's actions. The Court held that it did not have enough information to determine whether transferring \$61 million from a contingency reserve to employer accounts was reasonable and remanded that issue back to the trial court to decide whether the amount of the transfer was consistent with the Board's fiduciary duty.

The most recent actuarial valuations of the PERS system take into account the court decisions in existence when the valuations were completed.

Two state agencies are involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a ten-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency (EPA) has listed as a Superfund site under the federal Superfund law (CERCLA). There are over 200 parties, private companies, and public entities that may eventually be found liable for a share of the costs related to investigation and cleanup of the site.

The Oregon Department of Transportation (ODOT) and the Oregon Department of State Lands (DSL) have received General Notice Letters from the EPA informing them that the State, by and through those agencies, is a potentially responsible party (PRP) under CERCLA for cleanup costs at the site. It is too early in the process to estimate the total amount of the cleanup costs although some parties predict that cleanup costs could be in the \$1 billion range. Also, it is too early to estimate the proportionate share of liability for cleanup costs, if any, that may ultimately be assessed against either of the State agencies. When the mediation will end is not known but it could be as late as 2015.

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The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources, known as natural resource damages (NRD), caused by contamination at the site. The NRD claim is asserted against all PRPs, including ODOT and DSL, by the Portland Harbor natural resource trustees, a group composed of tribal, federal, and state trustees. The trustees have initiated a cooperative injury assessment process that provides an opportunity for early settlement of the NRD claim. The allocation of liability for this NRD claim is taking place at the same time as the allocation of liability for remedial costs. It is too early to estimate what, if any, share of the liability the State may ultimately bear for natural resource damages.

Another potential risk for the state involves the Superfund law's orphan share obligations. When the EPA negotiates a settlement with the liable parties for the Portland Harbor Superfund, it may agree to pay some portion of the financial responsibility assigned to potentially responsible parties who are insolvent or defunct, and unaffiliated with any other viable liable party (the orphan share). As authorized by the Superfund law, the State may be asked to pay 10 percent of any orphan share payment made by the EPA, plus the costs of continuing operation and maintenance of the orphan site. At this time, whether the State would enter into such an agreement and the amount the State would pay are unknown and will depend on the outcome of negotiations with the EPA.

B. Debt Guarantees

Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt issued by Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. The State has not issued, nor does it expect to issue, any bonds under this authorization. Several other sources of State funds are expected to be used to pay debt service on any defaulting bonds prior to issuing State general obligation bonds for this purpose. As of June 30, 2011, Oregon school districts, community colleges, and education service districts had issued a total of \$3.1 billion of bonds that are guaranteed under these provisions.

C. Unemployment Benefits

State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. The amount of future benefit payments to claimants and the resulting liability to the State cannot be reasonably estimated. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2011, totaled approximately \$20.4 million.

D. Federal Issues

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State. Institutions of higher education and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Certain state agencies may not be in total compliance with these regulations. Failure to comply with these regulations may result in the disallowance of related direct and indirect charges claimed under the grant agreements.

24. SUBSEQUENT EVENTS

A. Long-term Debt Issues

Long-term debt issued, including refundings, since July 1, 2011 (in thousands):

General Obligation Bonds

Department of Administrative Services	\$ 141,635
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Revenue Bonds

Housing and Community Services Department	\$ 18,000
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Loans

Department of Transportation	\$ 265,270
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B. Bond Calls

Bond calls that have occurred since July 1, 2011 (in thousands):

General Obligation Bonds

Housing and Community Services Department	\$ 16,290
Department of Veterans' Affairs	1,025

Revenue Bonds

Housing and Community Services Department	\$ 22,195
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C. Conversions

The Housing and Community Services Department converted \$27 million of New Issue Bond Program escrow bonds from short-term debt to long-term debt.

D. Tax Anticipation Notes Issuance

On July 28, 2011, the State issued \$788 million of full faith and credit Tax Anticipation Notes, 2011 Series A. The proceeds of these notes will be used to meet seasonal cash needs of the State and for cash management purposes within the 2011-2013 biennium.

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E. Debt Guarantees

Under Article XI-K of the Oregon Constitution, \$257.5 million in bonds for school districts were issued and guaranteed following the fiscal year ended June 30, 2011, as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

School District	Series	Amount
Central Curry County School District	2011	\$ 3,150
Crook County School District	2011	1,510
Jackson County School District 4 (Phoenix-Talent)	2011	2,490
Lane County School District 4J (Eugene)	2011A	15,870
Lane County School District 4J (Eugene)	2011B	15,000
Lane County School District 4J (Eugene)	2011C	4,127
Lincoln County Unified School District	2011A	48,000
Lincoln County Unified School District	2011B	15,000
Multnomah County School District 3 (Parkrose)	2011A	48,000
Multnomah County School District 3 (Parkrose)	2011B	15,000
Washington County School District 23J (Tigard-Tualatin)	2011A	10,004
Washington County School District 23J (Tigard-Tualatin)	2011B	10,000
Washington County School District 48J (Beaverton)	2011	42,175
Yamhill County School District 29J (Newberg)	2011A	12,140
Yamhill County School District 29J (Newberg)	2011B	15,000
Total Debt Guarantees		<u><u>\$257,466</u></u>

F. Liquidity – Dexia Credit Local

Department of Veterans' Affairs

Effective October 12, 2011, the Department of Veterans' Affairs (ODVA) terminated its Standby Bond Purchase Agreements (SBPAs) with Dexia Credit Local (Dexia). These SBPAs, which in the aggregate totaled \$165.4 million, had provided liquidity support for the Series 83, 84, 85, 86, 87C, 88B, and 90B bonds and were outstanding as of June 30, 2011. Effective October 7, 2011, ODVA, working with the Oregon State Treasury, entered into new SBPAs with U.S. Bank and the Bank of Tokyo-Mitsubishi to provide liquidity support for the affected bonds. The Bank of Tokyo-Mitsubishi SBPA, in the amount of \$79.9 million, provides liquidity support on the Series 83, 84, and 90B bonds and the U.S. Bank SBPA, in the amount of \$85.5 million, provides liquidity support for the Series 85, 86, 87C, and 88B bonds.

In conjunction with the change in liquidity providers, ODVA remarketed the affected bonds described above, which had a total par value outstanding of \$165.4 million. The remarketing occurred on October 7, 2011.

Department of Transportation

Effective November 16, 2011, the Department of Transportation (ODOT) terminated its SBPAs with Dexia. These SBPAs, which in the aggregate totaled \$265.3 million, had provided liquidity support for the Series 2006B and 2007B bonds and were outstanding as of June 30, 2011. Effective November 9, 2011, ODOT, working with the Oregon State Treasury, entered into a new Direct Placement Floating Rate Note with Citigroup Global Markets Inc. to refund the affected bonds.

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Required Supplementary Information

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Budgeted Appropriated Funds

The State accounts for budgetary activities based on the source of moneys used to pay expenditures. Separate appropriated funds are established for each funding source.

General Fund

This fund accounts for expenditures made with general fund revenue. General fund revenue consists largely of personal and corporate income taxes.

Federal Funds

This fund accounts for budgeted expenditures made with federal revenue.

Lottery Funds

This fund accounts for expenditures made with lottery funds. These funds, which are earned by the State Lottery, are transferred to the Economic Development Fund at the Department of Administrative Services for disbursement to agencies where the funds are expended.

Other Funds

This fund accounts for budgeted expenditures other than those funded by general, federal and lottery funds.

**Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ending June 30, 2011
(In Thousands)**

	General Fund				
	2009-2011 Original Budget	2009-2011 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
Revenues:					
Personal Income Taxes	\$ 11,545,697	\$ 10,345,265	\$ 4,807,017	\$ 5,494,274	\$ (43,974)
Corporate Income Taxes	831,615	873,904	359,008	468,606	(46,290)
Tobacco Taxes	102,668	117,202	57,473	65,563	5,834
Motor Fuels Taxes	-	-	-	-	-
Weight Mile Taxes	-	-	-	-	-
Vehicle Registration Taxes	-	-	-	-	-
Employer-Employee Taxes	-	-	-	-	-
Other Taxes	296,068	290,739	145,204	118,704	(26,831)
Licenses and Fees	96,770	92,100	40,019	53,105	1,024
Federal	62,000	-	-	-	-
Charges for Services	8,760	8,174	4,104	4,070	-
Fines and Forfeitures	3,566	3,566	3,932	3,840	4,206
Rents and Royalties	-	-	3	-	3
Investment Income	50,521	24,021	2,946	1,981	(19,094)
Sales	1,562	612	605	631	624
Donations and Grants	-	-	5	14	19
Pension Bond Debt Service Assessments	-	-	-	-	-
Other	41,549	23,998	9,529	10,761	(3,708)
Total Revenues	13,040,776	11,779,581	5,429,845	6,221,549	(128,187)
Expenditures:					
Education	6,833,410	6,455,014	3,581,362	2,815,985	(57,667)
Human Services	3,532,080	3,284,649	1,588,194	1,654,708	(41,747)
Public Safety	1,881,331	1,784,342	903,876	847,837	(32,629)
Economic and Community Development	24,463	27,105	11,448	14,524	(1,133)
Natural Resources	145,065	142,434	71,405	66,734	(4,295)
Transportation	10,000	18,860	8,039	8,754	(2,067)
Consumer and Business Services	13,157	11,928	5,686	6,072	(170)
Administration	197,507	185,152	95,401	86,433	(3,318)
Legislative	151,326	72,877	32,453	37,118	(3,306)
Judicial	510,226	495,901	358,304	133,139	(4,458)
Total Expenditures	13,298,565	12,478,262	6,656,168	5,671,304	(150,790)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(257,789)	(698,681)	(1,226,323)	550,245	22,603
Other Financing Sources (Uses):					
Transfers from Other Funds	1,234,567	1,279,181	817,241	1,099,962	638,022
Transfers to Other Funds	(699,655)	(751,543)	(397,118)	(822,418)	(467,993)
Long-term Debt Issued	-	-	-	-	-
Debt Issuance Premium	-	-	-	-	-
Loan Proceeds	-	-	-	-	-
Gain(Loss) on Disposition of Assets	-	-	-	-	-
Capital Contributions	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 277,123	\$ (171,043)	(806,200)	827,789	\$ 192,632
Budgetary Fund Balances - Beginning			137,086	(306,729)	
Prior Period Adjustments			(40,093)	1,548	
Budgetary Fund Balances - Beginning - As Restated			96,993	(305,181)	
Prior Biennium Transactions			402,478	(296)	
Budgetary Fund Balances - Ending			\$ (306,729)	\$ 522,312	

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Federal Funds					Lottery Funds				
2009-2011 Original Budget	2009-2011 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)	2009-2011 Original Budget	2009-2011 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	57	57	-	-	-	-	-
-	-	807	815	1,622	-	-	-	-	-
9,641,666	9,814,829	4,750,613	5,472,707	408,491	-	-	-	-	-
-	-	1,965	3,205	5,170	-	-	-	-	-
-	-	670	349	1,019	-	-	-	-	-
-	-	266	236	502	-	-	-	-	-
-	-	315	247	562	-	-	6,038	1,397	7,435
-	-	144	179	323	-	-	-	-	-
-	-	415	-	415	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	87,476	103,460	190,936	43,334	44,403	405	321	(43,677)
<u>9,641,666</u>	<u>9,814,829</u>	<u>4,842,671</u>	<u>5,581,255</u>	<u>609,097</u>	<u>43,334</u>	<u>44,403</u>	<u>6,443</u>	<u>1,718</u>	<u>(36,242)</u>
1,458,038	1,599,911	598,169	712,277	(289,465)	536,376	705,006	159,952	538,089	(6,965)
8,050,825	8,461,093	3,738,861	4,178,605	(543,627)	11,558	10,904	5,784	3,716	(1,404)
528,724	559,028	216,458	225,497	(117,073)	7,224	7,224	3,293	3,184	(747)
581,978	650,740	313,703	297,469	(39,568)	122,403	119,875	58,772	56,159	(4,944)
304,528	317,992	96,568	139,184	(82,240)	181,921	182,021	52,124	78,999	(50,898)
89,937	130,751	46,250	48,309	(36,192)	85,445	85,445	41,481	38,958	(5,006)
1,906	5,153	1,363	2,409	(1,381)	-	-	-	-	-
12,264	12,264	5,052	4,005	(3,207)	12,086	11,967	3,661	6,471	(1,835)
-	-	-	-	-	-	-	-	-	-
859	1,119	419	658	(42)	-	-	-	-	-
<u>11,029,059</u>	<u>11,738,051</u>	<u>5,016,843</u>	<u>5,608,413</u>	<u>(1,112,795)</u>	<u>957,013</u>	<u>1,122,442</u>	<u>325,067</u>	<u>725,576</u>	<u>(71,799)</u>
(1,387,393)	(1,923,222)	(174,172)	(27,158)	1,721,892	(913,679)	(1,078,039)	(318,624)	(723,858)	35,557
24,955	24,955	194,625	237,249	406,919	2,933,885	2,972,815	925,536	939,537	(1,107,742)
(427,175)	(427,175)	(69,797)	(102,921)	254,457	(1,662,918)	(1,681,849)	(284,020)	(372,416)	1,025,413
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>\$ (1,789,613)</u>	<u>\$ (2,325,442)</u>	<u>(49,344)</u>	<u>107,170</u>	<u>\$ 2,383,268</u>	<u>\$ 357,288</u>	<u>\$ 212,927</u>	<u>322,892</u>	<u>(156,737)</u>	<u>\$ (46,772)</u>
		15,188	(51,376)				149,549	(64,259)	
		2,231	12,778				199	79	
		17,419	(38,598)				149,748	(64,180)	
		(19,451)	(3,046)				(536,899)	(13,606)	
		<u>\$ (51,376)</u>	<u>\$ 65,526</u>				<u>\$ (64,259)</u>	<u>\$ (234,523)</u>	

(continued on next page)

State of Oregon

**Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ending June 30, 2011
(In Thousands)
(continued from previous page)**

	Other Funds				
	2009-2011 Original Budget	2009-2011 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
Revenues:					
Personal Income Taxes	\$ 15	\$ 15	\$ 10,611	\$ 5,175	\$ 15,771
Corporate Income Taxes	-	-	23,558	9,143	32,701
Tobacco Taxes	411,100	411,100	180,820	194,762	(35,518)
Motor Fuels Taxes	889,774	889,774	370,624	441,815	(77,335)
Weight Mile Taxes	506,071	506,071	171,692	237,047	(97,332)
Vehicle Registration Taxes	-	-	219,006	272,560	491,566
Employer-Employee Taxes	628,615	628,615	-	-	(628,615)
Other Taxes	2,631,354	2,572,367	265,306	369,350	(1,937,711)
Licenses and Fees	923,888	925,356	352,205	388,151	(185,000)
Federal	1,997,596	1,997,596	540,321	708,000	(749,275)
Charges for Services	3,050,138	3,056,769	1,070,642	1,241,016	(745,111)
Fines and Forfeitures	198,364	198,364	74,794	74,742	(48,828)
Rents and Royalties	130,795	131,230	53,235	58,585	(19,410)
Investment Income	217,555	217,555	32,892	27,446	(157,217)
Sales	517,318	517,318	124,071	122,921	(270,326)
Donations and Grants	369,598	364,578	11,251	40,892	(312,435)
Pension Bond Debt Service Assessments	-	-	126,237	139,313	265,550
Other	1,969,682	1,994,917	255,218	295,424	(1,444,275)
Total Revenues	14,441,863	14,411,625	3,882,483	4,626,342	(5,902,800)
Expenditures:					
Education	2,385,328	2,503,553	843,471	1,121,199	(538,883)
Human Services	1,954,569	2,005,348	650,765	1,049,622	(304,961)
Public Safety	768,378	578,859	217,616	253,846	(107,397)
Economic and Community Development	350,451	353,999	108,296	148,968	(96,735)
Natural Resources	739,020	778,000	301,866	325,105	(151,029)
Transportation	3,875,956	4,148,126	1,564,966	1,719,850	(863,310)
Consumer and Business Services	324,894	329,557	145,439	146,040	(38,078)
Administration	1,305,868	1,325,603	600,410	616,591	(108,602)
Legislative	6,407	8,468	3,571	3,389	(1,508)
Judicial	62,084	97,511	28,266	64,438	(4,807)
Total Expenditures	11,772,955	12,129,024	4,464,666	5,449,048	(2,215,310)
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,668,908	2,282,601	(582,183)	(822,706)	(3,687,490)
Other Financing Sources (Uses):					
Transfers from Other Funds	8,349,551	8,376,417	2,535,810	2,528,343	(3,312,264)
Transfers to Other Funds	(9,458,503)	(9,484,515)	(3,458,155)	(2,516,510)	3,509,850
Long-term Debt Issued	3,132,230	3,360,964	1,109,244	352,195	(1,899,525)
Debt Issuance Premium	-	-	21,605	22,518	44,123
Loan Proceeds	-	-	13,188	99,076	112,264
Gain(Loss) on Disposition of Assets	-	-	6,015	2,825	8,840
Capital Contributions	-	-	-	10,426	10,426
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 4,692,186</u>	<u>\$ 4,535,467</u>	(354,476)	(323,833)	<u>\$ (5,213,776)</u>
Budgetary Fund Balances - Beginning			4,237,187	3,617,554	
Prior Period Adjustments			34,476	4,725	
Budgetary Fund Balances - Beginning - As Restated			4,271,663	3,622,279	
Prior Biennium Transactions			(299,633)	(134,732)	
Budgetary Fund Balances - Ending			<u>\$ 3,617,554</u>	<u>\$ 3,163,714</u>	

State of Oregon

Total All Budgeted Appropriated Funds

2009-2011 Original Budget	2009-2011 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ 11,545,712	\$ 10,345,280	\$ 4,817,628	\$ 5,499,449	\$ (28,203)
831,615	873,904	382,566	477,749	(13,589)
513,768	528,302	238,293	260,325	(29,684)
889,774	889,774	370,624	441,815	(77,335)
506,071	506,071	171,692	237,047	(97,332)
-	-	219,006	272,560	491,566
628,615	628,615	-	-	(628,615)
2,927,422	2,863,106	410,510	488,111	(1,964,485)
1,020,658	1,017,456	393,031	442,071	(182,354)
11,701,262	11,812,425	5,290,934	6,180,707	(340,784)
3,058,898	3,064,943	1,076,711	1,248,291	(739,941)
201,930	201,930	79,396	78,931	(43,603)
130,795	131,230	53,504	58,821	(18,905)
268,076	241,576	42,191	31,071	(168,314)
518,880	517,930	124,820	123,731	(269,379)
369,598	364,578	11,671	40,906	(312,001)
-	-	126,237	139,313	265,550
2,054,565	2,063,318	352,628	409,966	(1,300,724)
<u>37,167,639</u>	<u>36,050,438</u>	<u>14,161,442</u>	<u>16,430,864</u>	<u>(5,458,132)</u>
11,213,152	11,263,484	5,182,954	5,187,550	(892,980)
13,549,032	13,761,994	5,983,604	6,886,651	(891,739)
3,185,657	2,929,453	1,341,243	1,330,364	(257,846)
1,079,295	1,151,719	492,219	517,120	(142,380)
1,370,534	1,420,447	521,963	610,022	(288,462)
4,061,338	4,383,182	1,660,736	1,815,871	(906,575)
339,957	346,638	152,488	154,521	(39,629)
1,527,725	1,534,986	704,524	713,500	(116,962)
157,733	81,345	36,024	40,507	(4,814)
573,169	594,531	386,989	198,235	(9,307)
<u>37,057,592</u>	<u>37,467,779</u>	<u>16,462,744</u>	<u>17,454,341</u>	<u>(3,550,694)</u>
110,047	(1,417,341)	(2,301,302)	(1,023,477)	(1,907,438)
12,542,958	12,653,368	4,473,212	4,805,091	(3,375,065)
(12,248,251)	(12,345,082)	(4,209,090)	(3,814,265)	4,321,727
3,132,230	3,360,964	1,109,244	352,195	(1,899,525)
-	-	21,605	22,518	44,123
-	-	13,188	99,076	112,264
-	-	6,015	2,825	8,840
-	-	-	10,426	10,426
<u>\$ 3,536,984</u>	<u>\$ 2,251,909</u>	(887,128)	454,389	<u>\$ (2,684,648)</u>
		4,539,010	3,195,190	
		(3,187)	19,130	
		4,535,823	3,214,320	
		(453,505)	(151,680)	
		<u>\$ 3,195,190</u>	<u>\$ 3,517,029</u>	

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The State's budget is approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. The Governor is required to submit budget recommendations to the Legislature no later than December 1 preceding the biennium. The Governor establishes priorities for the State based on function (i.e., education, human services, etc.) and the budget is summarized by these functions. Expenditures are budgeted based on the following revenue sources: general, federal, lottery, and other.

The regular legislative session begins in January of each odd-numbered year and lasts approximately six months. The budget is adopted by the Legislature's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State. Appropriation bills include one or more appropriations (budgeted expenditure items) which may be at the agency, program, or activity level. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the State may not budget a deficit and is required to compensate for any revenue shortfalls within each biennium.

Also included in the Governor's budget recommendations are legally authorized, nonappropriated budget items that are not legislatively limited by an appropriation bill. These nonlimited funds include other funds, federal funds, and other funds debt service. Spending plans for nonbudgeted financial activities are also established by agencies for certain expenditures to enhance fiscal control. These nonbudgeted items include federal funds and other funds and are not included in the Governor's budget recommendations.

When the Legislature is not in session, the Legislative Emergency Board is authorized to amend the legally adopted budget. The Emergency Board authorizes and allocates all changes in funding and takes other actions to meet emergency needs. Emergency Board approval is required to authorize the transfer of expenditure authority between appropriations. Management can reallocate within an appropriation without Emergency Board approval.

The State does not budget by the prescribed fund types of generally accepted accounting principles (GAAP). Appropriations may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. The Relational Statewide Accounting and Reporting System (R*STARS) controls expenditures by budgeted expenditure item as established in approved appropriation bills. Each item on an approved appropriation bill is assigned an appropriation number. In R*STARS, the appropriated funds are tied to one or more appropriation numbers to ensure expenditures do not exceed approved appropriations. The following budgeted appropriated fund types have been established in R*STARS to account for the State's budgetary activities: General Fund, Federal Funds, Lottery Funds, and Other Funds.

Budgets are prepared on the cash basis. Spending limits are established through the use of quarterly allotments. Allotments are required for both appropriated and nonappropriated items. The spending limits are monitored by the Budget and Management Division of the Department of Administrative Services and are controlled by R*STARS. Encumbrance accounting provides additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. For budgetary reporting purposes, encumbrances are treated like expenditures and are shown as a reduction of fund balance.

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not presented at the legal level of budgetary control. Such a presentation would be extremely cumbersome. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2009-2011 biennium as of June 30, 2011. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE, U50, Salem, Oregon 97301-3969.

Unexpended appropriations at the end of each biennium are available for subsequent expenditure to the extent liabilities have been incurred at June 30, provided payment of those liabilities occurs during the succeeding six-month period of July 1 through December 31. Any remaining unexpended appropriations lapse December 31 following the end of the biennium, except for appropriations related to capital construction.

State of Oregon
Notes to Required Supplementary Information – Budgetary Schedule

Agencies are required to provide estimates of expected revenues for program revenue and segregated revenue categories. General Fund revenues consist primarily of general taxes and other receipts that are paid into the General Fund and are then available for appropriation by the Legislature. Revenues not recorded in the General Fund consist of function specific revenues, which are credited by law to an appropriation to finance a specified program, and segregated revenues that are paid into separate identifiable funds.

The original budget amounts reported for revenues in the accompanying “Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds” represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budget amounts reported for expenditures represent the original budget modified by legally authorized legislative and executive changes, as well as Emergency Board actions taken during the year.

The major differences between budgetary (non-GAAP) basis and GAAP basis are:

- Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
- Revenues are recognized when received in cash (budgetary basis) versus when they are susceptible to accrual (GAAP basis).
- Expenditures are recognized when paid in cash or encumbered (budgetary basis) as opposed to when the liability is incurred (GAAP basis).
- Nonappropriated and nonbudgeted funds are not included in the budgetary schedule.
- Timing differences occur because of a six-month lapse period between June 30 and December 31 of each odd-numbered year.

These different accounting principles may result in basis, perspective, entity, and timing differences in the excess (deficiency) of revenues and other financial resources over (under) expenditures and other uses of financial resources. A reconciliation of these differences is presented in Note 2 of the required supplementary information.

2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP Basis) - All Budgeted Appropriated Funds" presents comparisons of the legally approved budget (more fully described in Note 1) with actual data on a budgetary basis.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation of the resulting differences in excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2011, is presented below. Governmental funds are reconciled to the net change in fund balances. Proprietary funds and fiduciary fund types are reconciled to the change in net assets.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (in thousands)									
Budgetary Balances Classified into GAAP Fund Structure									
GAAP Fund	Budgeted General Fund	Budgeted Federal Funds	Budgeted Lottery Funds	Budgeted Other Funds	Total Budgeted Funds	Timing Differences	Basis Differences	Non- Budgeted Funds	GAAP Balances
General	\$ 827,789	\$ -	\$ (8,904)	\$ (7,411)	\$ 811,474	\$ (4,377)	\$1,878,591	\$ (2,197,672)	\$ 488,016
Health and Social Services	-	51,512	754	(146,867)	(94,601)	(3,499)	112,966	(11,835)	3,031
Public Transportation	-	1,526	-	(227,572)	(226,046)	(1,224)	(28,867)	(3,781)	(259,918)
Environmental Management	-	(2,299)	(405)	(3,506)	(6,210)	(13,544)	(14,974)	49,179	14,451
Common School	-	-	-	126	126	96	(783)	209,582	209,021
Nonmajor Governmental	-	56,393	(153,151)	68,183	(28,575)	(8,191)	(29,563)	2,551	(63,778)
Housing and									
Community Services	-	-	-	1,763	1,763	-	(404)	1,877	3,236
Veterans' Loan	-	-	-	(6,660)	(6,660)	158	(451)	6,132	(821)
Lottery Operations	-	-	-	-	-	-	-	(23,082)	(23,082)
Unemployment Compensation	-	-	-	-	-	-	-	74,512	74,512
University System	-	-	4,404	(19,542)	(15,138)	(149,518)	164,656	140,619	140,619
Nonmajor Proprietary	-	38	565	9,923	10,526	(55)	(50,616)	290,479	250,334
Internal Service	-	-	-	7,516	7,516	(9,609)	5,775	56,007	59,689
Pension and Other									
Employee Benefit Trust	-	-	-	123	123	(510)	(40,131)	9,490,639	9,450,121
Private Purpose Trust	-	-	-	91	91	-	(60)	(2,265)	(2,234)
Investment Trust	-	-	-	-	-	-	-	329,097	329,097
Totals	\$ 827,789	\$ 107,170	\$ (156,737)	\$ (323,833)	\$ 454,389	\$ (190,273)	\$1,996,139	\$ 8,412,039	\$10,672,294

**Required Supplementary Information
Schedule of Funding Progress
Other Postemployment Benefit Plans
(Dollars in Millions)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)³	Funded Ratio (a/b)³	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Public Employees Benefit Board (PEBB) Plan						
7/1/2007	\$ -	\$ 323.4	\$ 323.4	-	\$ 2,187.2	14.8%
7/1/2009 ¹	-	161.7	161.7	-	2,562.5	6.3%
Retiree Health Insurance Premium Account (PERS Plan)²						
12/31/2008	\$ 5.7	\$ 21.3	\$ 15.6	26.7%	\$ 2,217.9	0.7%
12/31/2009	6.4	24.5	18.2	25.9%	2,371.8	0.8%
12/31/2010	5.7	33.9	28.2	16.8%	2,379.7	1.2%

¹ The July 1, 2009, PEBB Plan actuarial valuation included notable changes from the previous valuation. The retiree head count decreased from 3,392 to 2,475, while the ratio of retiree contributions compared to projected retiree claims increased from approximately 65 percent to approximately 75-80 percent. Given that retiree contributions are high in proportion to projected retiree claims, the plan's net obligation is highly sensitive to small changes in these assumptions. As a result, the plan experienced a significant decrease in the actuarial accrued liability and annual required contribution compared to the previous valuation.

² The benefits of the Retiree Health Insurance Premium Account (RHIPA) are funded through a separate account within the Public Employees Retirement System (PERS) trust. The normal cost rates for RHIPA are very sensitive to the participation assumption and the effects of current and assumed future healthcare cost inflation. According to the latest valuation report, benefit payments increased significantly in 2010, leading to a decline in total assets despite investment gains. To address this issue the Board has shortened the amortization period to more rapidly improve the funded status of the program. The State's contribution rates, effective July 2011, will reflect the accelerated amortization.

PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

³ Differences due to rounding.

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Combining Fund Financial Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds from specific revenue sources that are used to finance specified activities as required by law or administrative regulations.

Agricultural Resources Fund

This fund accounts for programs related to the promotion, inspection, and regulation of the State's agricultural industry. Funding for these programs include licenses and fees, charges for services, and federal grants.

Business Development Fund

This fund is used to account for programs that expand existing businesses as well as attract and promote new businesses. Federal grants, transfers from other funds, and revenue bond proceeds comprise the main funding sources for these programs.

Community Protection Fund

This fund accounts for a variety of activities that help to ensure the safety of the State's citizens and their property through the courts, police, military, and correctional facilities. The main funding sources for these programs include federal grants, fines, and state court fees.

Consumer Protection Fund

This fund is used to account for programs that regulate existing businesses and license various professionals and organizations. Funding is generated mainly from public utilities taxes and business license fees.

Educational Support Fund

This fund accounts for programs that provide students with opportunities to develop their academic abilities to the fullest from early childhood to postgraduate research, not including activities accounted for in the Common School Fund. The principal funding sources for these programs include federal grants and transfers from other funds.

Employment Services Fund

This fund accounts for programs that provide workers with a safe and secure workplace. Funding for these employment-related programs include federal grants, employer and employee taxes, and workers' compensation insurance taxes.

Nutritional Support Fund

This fund accounts for programs to improve the diets of low-income households and school children. Federal grants provide the main source of revenue for these programs.

Residential Assistance Fund

This fund accounts for programs that help to meet the housing and energy needs of low-income Oregonians. Major funding sources include federal grants, senior citizen property tax repayments, and public utilities taxes.

Other Special Revenue Funds

This fund accounts for a variety of small programs that are funded mainly by federal grants and charges for services.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for the payment of principal and interest on long-term obligations.

Revenue Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term revenue bonds not reported in proprietary funds. The portion of these bonds that is not self-supporting is funded by a legislative appropriation.

Certificates of Participation Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on certificates of participation not reported in proprietary funds. Debt service requirements are funded by a legislative appropriation.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation bonds not reported in the general fund or in proprietary funds. The issuance of general obligation debt is authorized in the Oregon Constitution. The portion of these bonds that is not self-supporting is funded by a legislative appropriation.

General Appropriation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general appropriation bonds not reported in the general fund or in proprietary funds. The issuance of general appropriation bonds is authorized by the Oregon Legislature. Debt service requirements are funded by a legislative appropriation.

Capital Projects Fund

The capital projects fund is used to account for financial resources, other than general funds, segregated for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund

The permanent fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the State's programs. The interest income provides funding for programs such as the upkeep on fish hatcheries, scholarship funds for injured workers, special library book purchases, and homes for the developmentally disabled.

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011
(In Thousands)**

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
ASSETS			
Cash and Cash Equivalents	\$ 24,557	\$ 44,913	\$ 211,333
Investments	-	-	-
Custodial Assets	-	-	-
Securities Lending Collateral	4,725	13,172	43,411
Accounts and Interest Receivable (net)	3,180	1,328	42,693
Taxes Receivable (net)	-	-	-
Due from Other Funds	194	2,502	7,163
Due from Other Governments	-	-	-
Inventories	151	22	665
Prepaid Items	46	-	-
Net Contracts, Notes, and Other Receivables	-	51	224,037
Loans Receivable (net)	-	1,707	-
Total Assets	\$ 32,853	\$ 63,695	\$ 529,302
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	\$ 1,902	\$ 1,591	\$ 21,116
Obligations Under Securities Lending	4,725	13,172	43,411
Due to Other Funds	73	581	17,804
Due to Other Governments	-	2,264	3,618
Deferred Revenue	147	705	225,082
Custodial Liabilities	652	2,486	588
Advances from Other Funds	-	-	-
Total Liabilities	7,499	20,799	311,619
Fund Balances:			
Nonspendable	223	22	737
Restricted by:			
Federal Laws and Regulations	-	1,479	31,146
Oregon Constitution	1,522	9,363	24,136
Enabling Legislation	21,501	8,251	19,464
Debt Covenants	-	4	64,603
Donors and Other External Parties	-	-	1,112
Committed	-	23,421	68,210
Assigned	2,108	356	8,275
Total Fund Balances	25,354	42,896	217,683
Total Liabilities and Fund Balances	\$ 32,853	\$ 63,695	\$ 529,302

State of Oregon

Special Revenue Funds

Consumer Protection	Education Support	Employment Services	Nutritional Support	Residential Assistance	Other Special Revenue
\$ 105,069	\$ 143,221	\$ 48,099	\$ 42	\$ 109,470	\$ 18,836
-	27,815	137,492	-	16,906	-
2,295	-	-	-	-	-
33,202	43,472	24,525	19	20,516	5,927
2,559	127,822	56,100	20,746	8,940	427
226	1,600	-	-	-	-
356	12,872	1,687	3	3,254	5
-	1	-	-	-	-
64	-	1,178	-	20	931
37	204	386	-	300	805
3,693	-	57,135	-	506	-
-	-	-	-	154,248	34
\$ 147,501	\$ 357,007	\$ 326,602	\$ 20,810	\$ 314,160	\$ 26,965
\$ 2,428	\$ 115,259	\$ 36,282	\$ 13,273	\$ 10,977	\$ 1,662
33,202	43,472	24,525	19	20,516	5,927
6,861	4,376	209	2,265	191	65
-	11,250	-	519	4,259	16
3,694	1,753	61,504	108	521	-
2,450	36	3,935	-	-	12
-	-	-	-	-	-
48,635	176,146	126,455	16,184	36,464	7,682
109	213	1,667	-	320	1,022
-	1,328	-	3,642	86,603	13,690
-	89,489	-	-	-	-
70,767	11,148	138,200	984	32,754	2,927
-	61,245	-	-	21,774	-
-	1,324	-	-	409	872
27,990	12,886	60,280	-	134,531	745
-	3,228	-	-	1,305	27
98,866	180,861	200,147	4,626	277,696	19,283
\$ 147,501	\$ 357,007	\$ 326,602	\$ 20,810	\$ 314,160	\$ 26,965

(continued on next page)

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011
(In Thousands)
 (continued from previous page)

	Debt Service Funds			
	Revenue Bond	Certificates of Participation	General Obligation Bond	General Appropriation Bond
ASSETS				
Cash and Cash Equivalents	\$ 164,483	\$ 7,991	\$ 40,157	\$ 7
Investments	63,175	-	-	-
Custodial Assets	-	-	-	-
Securities Lending Collateral	-	-	-	-
Accounts and Interest Receivable (net)	1	-	11,652	-
Taxes Receivable (net)	-	-	-	-
Due from Other Funds	117,525	-	-	-
Due from Other Governments	-	-	-	-
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Net Contracts, Notes, and Other Receivables	-	-	-	-
Loans Receivable (net)	-	-	-	-
Total Assets	\$ 345,184	\$ 7,991	\$ 51,809	\$ 7
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Interest Payable	\$ 183	\$ -	\$ -	\$ -
Obligations Under Securities Lending	-	-	-	-
Due to Other Funds	-	-	41	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
Custodial Liabilities	-	-	-	-
Advances from Other Funds	-	-	-	-
Total Liabilities	183	-	41	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted by:				
Federal Laws and Regulations	-	-	-	-
Oregon Constitution	248,715	-	-	-
Enabling Legislation	-	-	-	-
Debt Covenants	96,286	7,991	51,768	7
Donors and Other External Parties	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Total Fund Balances	345,001	7,991	51,768	7
Total Liabilities and Fund Balances	\$ 345,184	\$ 7,991	\$ 51,809	\$ 7

Capital Projects Fund	Permanent Fund	Total
\$ 112,705	\$ 28,656	\$ 1,059,539
-	-	245,388
-	-	2,295
-	8,866	197,835
4,835	5	280,288
-	-	1,826
11,181	-	156,742
-	-	1
-	-	3,031
-	-	1,778
-	-	285,422
-	-	155,989
\$ 128,721	\$ 37,527	\$ 2,390,134

\$ 13,002	\$ 70	\$ 217,745
-	8,866	197,835
1,627	13	34,106
-	-	21,926
2,076	-	295,590
3	-	10,162
101	-	101
16,809	8,949	777,465

-	27,011	31,324
205	95	138,188
1,895	-	375,120
1,648	1,244	308,888
105,865	-	409,543
-	-	3,717
34	228	328,325
2,265	-	17,564
111,912	28,578	1,612,669
\$ 128,721	\$ 37,527	\$ 2,390,134

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011
(In Thousands)**

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
Revenues:			
Public Utilities Taxes	\$ -	\$ -	\$ -
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	-	-	-
Licenses and Fees	17,852	2,777	55,566
Federal	7,248	17,326	177,833
Charges for Services	8,429	536	15,046
Fines and Forfeitures	29	15	55,165
Rents and Royalties	-	-	1,950
Investment Income	149	320	740
Sales	11	1,580	751
Donations and Grants	49	11,547	901
Contributions to Permanent Funds	-	-	-
Pension Bond Debt Service Assessments	-	-	-
Other	602	1,153	47,295
Total Revenues	34,369	35,254	355,247
Expenditures:			
Current:			
Education	-	-	-
Human Services	-	-	1,797
Public Safety	-	2,735	293,607
Economic and Community Development	-	50,885	-
Natural Resources	39,368	131	-
Transportation	-	-	12,056
Consumer and Business Services	-	-	-
Administration	-	10,356	802
Legislative	-	-	-
Judicial	-	-	81,357
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	6,248
Interest	-	-	101
Other Debt Service	-	281	463
Total Expenditures	39,368	64,388	396,431
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,999)	(29,134)	(41,184)
Other Financing Sources (Uses):			
Transfers from Other Funds	5,483	22,002	91,007
Transfers to Other Funds	(689)	(24,906)	(103,833)
Insurance Recoveries	-	-	63
Long-term Debt Issued	-	25,871	45,236
Debt Issuance Premium	-	665	3,266
Refunding Debt Issued	-	79	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	4,794	23,711	35,739
Net Change in Fund Balances	(205)	(5,423)	(5,445)
Fund Balances - Beginning	25,568	98,159	244,313
Cumulative Effect of Change in Accounting Principle	-	(49,811)	(21,372)
Prior Period Adjustments	-	-	225
Fund Balances - Beginning - As Restated	25,568	48,348	223,166
Change in Inventories	(9)	(29)	(38)
Fund Balances - Ending	\$ 25,354	\$ 42,896	\$ 217,683

State of Oregon

Special Revenue Funds

Consumer Protection	Education Support	Employment Services	Nutritional Support	Residential Assistance	Other Special Revenue
\$ 43,730	\$ -	\$ -	\$ -	\$ 28,209	\$ -
-	-	69,831	-	-	-
-	-	34,942	-	-	-
15,082	167	-	-	6,375	-
87,249	316	2,267	-	487	-
2,865	778,768	238,346	1,337,022	240,870	4,157
1,988	4,366	18,130	1,972	4,676	1,366
1,026	-	2,928	-	68	-
-	93	-	-	-	676
(344)	(4,252)	9,950	7	15,082	101
37	401	280	9	-	737
63	40,132	621	41	50	312
-	-	-	-	-	-
-	-	-	-	-	-
1,744	5,613	4,090	15,394	638	86
<u>153,440</u>	<u>825,604</u>	<u>381,385</u>	<u>1,354,445</u>	<u>296,455</u>	<u>7,435</u>
2,599	787,649	63,527	165,672	-	-
-	-	-	1,183,719	-	-
-	-	-	-	-	-
-	-	180,655	1,767	227,437	2,415
2,796	-	-	-	399	-
8	-	-	-	-	-
129,850	-	144,700	-	6,408	-
11,111	32,395	715	49	20,759	12,894
-	-	-	-	-	3,201
-	-	-	-	-	-
-	-	-	-	-	-
-	2,157	-	-	-	12
-	4,842	13	-	-	2
-	314	-	-	57	5
<u>146,364</u>	<u>827,357</u>	<u>389,610</u>	<u>1,351,207</u>	<u>255,060</u>	<u>18,529</u>
7,076	(1,753)	(8,225)	3,238	41,395	(11,094)
10,739	372,988	35,878	-	18,433	2,599
(31,736)	(578,748)	(51,215)	(1,719)	(2,194)	(1,886)
-	-	-	-	-	-
-	41,468	-	-	7,359	-
-	1,407	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(20,997)</u>	<u>(162,885)</u>	<u>(15,337)</u>	<u>(1,719)</u>	<u>23,598</u>	<u>713</u>
<u>(13,921)</u>	<u>(164,638)</u>	<u>(23,562)</u>	<u>1,519</u>	<u>64,993</u>	<u>(10,381)</u>
116,775	351,676	222,518	2,016	212,706	39,452
(8,337)	(6,177)	-	-	-	(16,428)
4,354	-	1,192	1,091	-	6,760
112,792	345,499	223,710	3,107	212,706	29,784
(5)	-	(1)	-	(3)	(120)
<u>\$ 98,866</u>	<u>\$ 180,861</u>	<u>\$ 200,147</u>	<u>\$ 4,626</u>	<u>\$ 277,696</u>	<u>\$ 19,283</u>

(continued on next page)

State of Oregon

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011
(In Thousands)
(continued from previous page)

	Debt Service Funds			
	Revenue Bond	Certificates of Participation	General Obligation Bond	General Appropriation Bond
Revenues:				
Public Utilities Taxes	\$ -	\$ -	\$ -	\$ -
Employer-Employee Taxes	-	-	-	-
Workers' Compensation Insurance Taxes	-	-	-	-
Other Taxes	-	-	-	-
Licenses and Fees	-	-	-	-
Federal	11,922	2,670	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Rents and Royalties	-	-	-	-
Investment Income	3,770	(97)	399	31
Sales	-	-	-	-
Donations and Grants	-	-	-	-
Contributions to Permanent Funds	-	-	-	-
Pension Bond Debt Service Assessments	-	-	5,608	-
Other	-	-	-	-
Total Revenues	15,692	2,573	6,007	31
Expenditures:				
Current:				
Education	-	-	-	-
Human Services	-	-	-	-
Public Safety	-	-	-	-
Economic and Community Development	-	-	-	-
Natural Resources	-	-	-	-
Transportation	-	-	-	-
Consumer and Business Services	-	-	-	-
Administration	-	-	-	-
Legislative	-	-	-	-
Judicial	-	-	-	-
Capital Improvements and Capital Construction	-	-	-	-
Debt Service:				
Principal	119,133	3,975	36,830	60,545
Interest	147,593	14,155	125,178	9,624
Other Debt Service	110	605	469	-
Total Expenditures	266,836	18,735	162,477	70,169
Excess (Deficiency) of Revenues Over (Under) Expenditures	(251,144)	(16,162)	(156,470)	(70,138)
Other Financing Sources (Uses):				
Transfers from Other Funds	296,937	2,928	153,792	70,084
Transfers to Other Funds	(6)	-	(244)	-
Insurance Recoveries	-	-	-	-
Long-term Debt Issued	336	4,168	-	-
Debt Issuance Premium	2,969	14,019	-	-
Refunding Debt Issued	22,242	90,555	-	-
Refunded Debt Payment to Escrow Agent	(25,105)	(103,969)	-	-
Total Other Financing Sources (Uses)	297,373	7,701	153,548	70,084
Net Change in Fund Balances	46,229	(8,461)	(2,922)	(54)
Fund Balances - Beginning	298,772	16,517	43,360	61
Cumulative Effect of Change in Accounting Principle	-	(65)	-	-
Prior Period Adjustments	-	-	11,330	-
Fund Balances - Beginning - As Restated	298,772	16,452	54,690	61
Change in Inventories	-	-	-	-
Fund Balances - Ending	\$ 345,001	\$ 7,991	\$ 51,768	\$ 7

Capital Projects Fund	Permanent Fund	Total
\$ -	\$ -	\$ 71,939
-	-	69,831
-	-	34,942
-	-	21,624
-	-	166,514
46,166	-	2,865,193
-	-	56,509
-	-	59,231
-	-	2,719
265	173	26,294
7	-	3,813
-	1	53,717
-	14	14
-	-	5,608
1,516	17	78,148
<u>47,954</u>	<u>205</u>	<u>3,516,096</u>
-	-	1,019,447
-	2,413	1,187,929
-	-	296,342
-	-	463,159
-	158	42,852
-	-	12,064
-	4	280,962
-	-	89,081
-	-	3,201
-	-	81,357
127,409	-	127,409
-	-	228,900
-	-	301,508
-	-	2,304
<u>127,409</u>	<u>2,575</u>	<u>4,136,515</u>
(79,455)	(2,370)	(620,419)
51,228	14	1,134,112
(2,454)	(1,054)	(800,684)
-	-	63
84,604	-	209,042
7,980	-	30,306
-	-	112,876
-	-	(129,074)
<u>141,358</u>	<u>(1,040)</u>	<u>556,641</u>
<u>61,903</u>	<u>(3,410)</u>	<u>(63,778)</u>
50,420	31,981	1,754,294
-	-	(102,190)
(411)	7	24,548
<u>50,009</u>	<u>31,988</u>	<u>1,676,652</u>
-	-	(205)
<u>\$ 111,912</u>	<u>\$ 28,578</u>	<u>\$ 1,612,669</u>

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Nonmajor Enterprise Funds

Enterprise Funds account for goods and services provided to the general public on a continuous basis, either when all or most of the cost involved in operating the enterprise is intended to be financed from user charges, or when periodic measurement of the results of operations is appropriate for management control or accountability.

Energy Loan Fund

This fund accounts for activities to provide low-interest loans for renewable energy resource and energy conservation projects. Funding is from the issuance of bonds that are repaid from the interest and principal payments on loans.

Safe Drinking Water

This fund accounts for the Safe Drinking Water financing program which provides low-cost financing for construction and/or improvements of public and private water systems.

Business Development Fund

This fund accounts for resources used to finance land, buildings, machinery, and permanent working capital for eligible activities including those determined to diversify an economic base.

Special Public Works Fund

This fund accounts for loans and grants to local governments for construction of infrastructure required to support needed public services. The Special Public Works Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

State Hospitals Fund

This fund accounts for the operations of State hospitals and State operated residential group homes that provide treatment services for specific citizens as well as training and care for developmentally disabled persons. Clinical programs include the adult psychiatric program, the child and adolescent treatment program, the forensic and correctional treatment program, and the geropsychiatric treatment and medical service program.

Liquor Control Fund

This fund accounts for the operation of the Oregon Liquor Control Commission that regulates the sale and use of alcoholic beverages and promotes responsible alcohol use.

Veterans' Home Fund

This fund accounts for activities of the Oregon Veterans' Home, which provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans.

Water Fund

This fund accounts for loans and grants to municipalities to improve compliance with federal and State of Oregon water quality standards. The Water Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

Other Enterprise Funds

This fund is used to account for the sale of goods and services to other than governmental entities through activities not specifically accounted for in another enterprise fund. The fund includes programs within the following state agencies: the Business Development Department, the Department of Administrative Services, the Department of Corrections, the Department of Environmental Quality, the Department of Forestry, the Judicial Department, the Legislative Administration Committee, the Office of the State Treasurer, Oregon Corrections Enterprises, the Oregon Facilities Authority, the Public Employees Retirement System, and the Water Resources Department.

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2011
(In Thousands)**

	Energy Loan	Safe Drinking Water	Business Development
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 44,284	\$ 15,182
Cash and Cash Equivalents - Restricted	-	-	-
Securities Lending Collateral	-	13,701	4,697
Accounts and Interest Receivable (net)	2,282	2,175	548
Due from Other Funds	1,078	144	-
Inventories	-	-	-
Prepaid Items	-	-	-
Total Current Assets	3,360	60,304	20,427
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	49,476	-	-
Deferred Charges	1,827	-	-
Advances to Other Funds	91,471	-	-
Net Contracts, Notes, and Other Receivables	-	-	-
Loans Receivable (net)	114,463	145,241	24,932
Capital Assets:			
Land	-	-	-
Buildings, Property, and Equipment	264	-	-
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Other Nondepreciable Assets	-	-	-
Less Accumulated Depreciation and Amortization	(264)	-	-
Total Noncurrent Assets	257,237	145,241	24,932
Total Assets	\$ 260,597	\$ 205,545	\$ 45,359
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	\$ 2,903	\$ 33	\$ 4
Obligations Under Securities Lending	-	13,701	4,697
Due to Other Funds	-	2	-
Due to Other Governments	-	-	-
Unearned Revenue	68	-	-
Matured Bonds/COPS and Coupons Payable	-	-	-
Compensated Absences Payable	24	21	18
Claims and Judgments Payable	-	-	-
Custodial Liabilities	2,958	-	-
Bonds/COPS Payable	21,098	-	-
Total Current Liabilities	27,051	13,757	4,719
Noncurrent Liabilities:			
Compensated Absences Payable	12	11	9
Custodial Liabilities	-	-	-
Bonds/COPS Payable	231,270	-	-
Advances from Other Funds	-	100	-
Net OPEB Obligation	10	3	5
Total Noncurrent Liabilities	231,292	114	14
Total Liabilities	258,343	13,871	4,733
Net Assets:			
Invested in Capital Assets, Net of Related Debt	-	-	-
Expendable Net Assets Restricted for:			
Debt Service	2,254	-	-
Unrestricted	-	191,674	40,626
Total Net Assets	2,254	191,674	40,626
Total Liabilities and Net Assets	\$ 260,597	\$ 205,545	\$ 45,359

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ 107,125	\$ 1,587	\$ 26,647	\$ 14,413	\$ 13,149	\$ 107,007	\$ 329,394
-	-	-	-	-	129	129
33,144	487	8,029	4,459	4,068	4,539	73,124
6,428	12,653	155	1,376	2,828	3,861	32,306
7	-	-	-	-	8	1,237
-	520	21,743	-	-	6,259	28,522
-	647	-	-	-	213	860
146,704	15,894	56,574	20,248	20,045	122,016	465,572
5,827	-	-	-	2,436	-	57,739
1,533	-	-	-	693	-	4,053
-	-	-	-	100	-	91,571
-	-	-	27	-	-	27
216,257	-	-	-	101,279	16,508	618,680
-	41	1,456	2,100	-	3,385	6,982
-	270,193	22,763	12,762	-	40,774	346,756
-	84	-	1,567	-	-	1,651
-	1,390	-	-	-	-	1,390
-	-	-	40	-	-	40
-	(17,486)	(11,086)	(4,202)	-	(22,827)	(55,865)
223,617	254,222	13,133	12,294	104,508	37,840	1,073,024
\$ 370,321	\$ 270,116	\$ 69,707	\$ 32,542	\$ 124,553	\$ 159,856	\$ 1,538,596
\$ 2,650	\$ 8,069	\$ 16,642	\$ 1,125	\$ 1,264	\$ 2,292	\$ 34,982
33,144	487	8,029	4,459	4,068	4,539	73,124
1	11,300	9,642	66	5	1,944	22,960
-	-	-	-	-	8	8
-	-	131	94	-	-	293
-	-	-	-	-	129	129
54	5,967	727	3	18	751	7,583
-	-	-	-	-	23,492	23,492
215	4	364	-	1	1,491	5,033
5,670	-	-	-	3,005	1,247	31,020
41,734	25,827	35,535	5,747	8,361	35,893	198,624
28	3,074	374	2	9	285	3,804
151	-	-	-	213	-	364
97,961	-	-	-	52,851	4,435	386,517
-	-	-	-	-	-	100
17	2,551	238	-	6	207	3,037
98,157	5,625	612	2	53,079	4,927	393,822
139,891	31,452	36,147	5,749	61,440	40,820	592,446
-	254,221	13,133	12,266	-	15,651	295,271
76,008	-	-	-	15,085	2,673	96,020
154,422	(15,557)	20,427	14,527	48,028	100,712	554,859
230,430	238,664	33,560	26,793	63,113	119,036	946,150
\$ 370,321	\$ 270,116	\$ 69,707	\$ 32,542	\$ 124,553	\$ 159,856	\$ 1,538,596

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2011
(In Thousands)**

	Energy Loan	Safe Drinking Water	Business Development
Operating Revenues:			
Licenses and Fees	\$ 490	\$ -	\$ -
Federal	-	-	-
Charges for Services	634	-	63
Fines and Forfeitures	123	-	-
Rents and Royalties	-	-	7
Sales	-	-	-
Loan Interest Income	10,617	3,078	1,311
Other	31	-	2
Total Operating Revenues	11,895	3,078	1,383
Operating Expenses:			
Salaries and Wages	717	517	467
Services and Supplies	809	26	77
Cost of Goods Sold	-	-	-
Distributions to Other Governments	-	62	-
Special Payments	579	16,299	-
Bond and COP Interest	9,876	-	-
Other Debt Service	3	-	-
Depreciation and Amortization	-	-	-
Bad Debt Expense	1,139	-	186
Total Operating Expenses	13,123	16,904	730
Operating Income (Loss)	(1,228)	(13,826)	653
Nonoperating Revenues (Expenses):			
Investment Income (Loss)	289	247	77
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	-
Insurance Recoveries	-	-	-
Other Nonoperating Items	-	(36)	(11)
Total Nonoperating Revenues (Expenses)	289	211	66
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	(939)	(13,615)	719
Capital Contributions	-	-	-
Transfers from Other Funds	1,078	40,109	9,618
Transfers to Other Funds	(29)	(21)	(318)
Change in Net Assets	110	26,473	10,019
Net Assets - Beginning	2,144	165,201	30,607
Prior Period Adjustments	-	-	-
Net Assets - Beginning - As Restated	2,144	165,201	30,607
Net Assets - Ending	\$ 2,254	\$ 191,674	\$ 40,626

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ -	\$ -	\$ 4,195	\$ -	\$ -	\$ 3,074	\$ 7,759
-	-	-	5,151	-	-	5,151
-	81,258	-	7,465	-	191,899	281,319
-	-	380	-	-	15	518
-	39	-	-	-	20	66
-	216	438,274	-	-	21,796	460,286
7,729	-	-	-	4,347	475	27,557
134	1,728	259	2	-	2,017	4,173
7,863	83,241	443,108	12,618	4,347	219,296	786,829
1,325	189,218	16,099	217	448	17,847	226,855
378	51,978	47,107	11,225	163	25,971	137,734
-	-	214,145	-	-	15,549	229,694
1,568	-	46,917	-	591	196	49,334
457	236	268	-	-	152,562	170,401
5,232	-	-	-	2,589	254	17,951
106	-	-	-	38	-	147
-	3,202	877	316	-	1,428	5,823
-	-	-	-	-	-	1,325
9,066	244,634	325,413	11,758	3,829	213,807	839,264
(1,203)	(161,393)	117,695	860	518	5,489	(52,435)
576	-	-	26	90	173	1,478
-	-	16,204	-	-	-	16,204
-	(3,438)	3	-	-	-	(3,435)
-	-	12	-	-	-	12
(85)	-	-	(4)	(13)	(12)	(161)
491	(3,438)	16,219	22	77	161	14,098
(712)	(164,831)	133,914	882	595	5,650	(38,337)
-	229,482	-	12,722	-	-	242,204
18,049	131,179	-	947	523	51	201,554
(11,683)	(6,848)	(131,746)	(9)	(3,434)	(999)	(155,087)
5,654	188,982	2,168	14,542	(2,316)	4,702	250,334
224,776	49,709	31,392	12,251	65,429	52,614	634,123
-	(27)	-	-	-	61,720	61,693
224,776	49,682	31,392	12,251	65,429	114,334	695,816
\$ 230,430	\$ 238,664	\$ 33,560	\$ 26,793	\$ 63,113	\$ 119,036	\$ 946,150

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2011
(In Thousands)

	Energy Loan	Safe Drinking Water	Business Development
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 1,230	\$ -	\$ 70
Receipts from Other Funds for Services	-	-	-
Loan Principal Repayments	14,864	4,441	2,540
Loan Interest Received	9,598	2,551	1,304
Payments to Employees for Services	(740)	(523)	(476)
Payments to Suppliers	(1,126)	(15)	(34)
Payments to Other Funds for Services	(215)	(9)	(42)
Claims Paid	-	-	-
Loans Made	(63,900)	(39,003)	(4,830)
Distributions to Other Governments	-	(62)	-
Other Receipts (Payments)	1,426	-	2
Net Cash Provided (Used) in Operating Activities	<u>(38,863)</u>	<u>(32,620)</u>	<u>(1,466)</u>
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	85,458	-	-
Principal Payments on Bonds/COPS	(29,104)	-	-
Interest Payments on Bonds/COPS	(9,928)	-	-
Bond/COP Issuance Costs	(670)	-	-
Taxes and Assessments Received	-	-	-
Insurance Recoveries for Other than Capital Assets	-	-	-
Transfers from Other Funds	517	40,046	9,618
Transfers to Other Funds	(29)	(21)	(318)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>46,244</u>	<u>40,025</u>	<u>9,300</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Acquisition of Capital Assets	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Capital Contributions	-	-	-
Insurance Recoveries for Capital Assets	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities:			
Interest on Investments and Cash Balances	289	198	61
Interest Income from Securities Lending	-	51	16
Interest Expense from Securities Lending	-	(36)	(11)
Net Cash Provided (Used) in Investing Activities	<u>289</u>	<u>213</u>	<u>66</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,670	7,618	7,900
Cash and Cash Equivalents - Beginning	41,806	36,666	7,282
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	<u>\$ 49,476</u>	<u>\$ 44,284</u>	<u>\$ 15,182</u>

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ -	\$ 82,723	\$ 442,904	\$ 12,805	\$ -	\$ 216,058	\$ 755,790
-	6	-	-	-	-	6
30,259	-	-	-	9,361	539	62,004
9,896	-	-	-	4,495	446	28,290
(1,309)	(188,466)	(16,816)	(219)	(450)	(17,547)	(226,546)
(666)	(34,883)	(259,641)	(10,220)	(186)	(22,287)	(329,058)
(237)	(2,468)	(2,507)	(899)	(106)	(598)	(7,081)
-	-	-	-	-	(150,423)	(150,423)
(5,019)	-	-	-	(14,142)	(6,548)	(133,442)
(1,266)	-	(51,160)	-	(621)	(211)	(53,320)
539	1,715	193	(4)	135	(16,792)	(12,786)
32,197	(141,373)	112,973	1,463	(1,514)	2,637	(66,566)
7,560	-	-	-	13,995	-	107,013
(18,985)	-	-	-	(7,060)	79	(55,070)
(5,544)	-	-	-	(2,495)	-	(17,967)
108	-	-	-	(23)	-	(585)
-	-	16,231	-	-	-	16,231
-	-	5	-	-	-	5
18,049	131,561	-	947	523	-	201,261
(11,683)	(6,848)	(132,174)	(9)	(3,434)	(995)	(155,511)
(10,495)	124,713	(115,938)	938	1,506	(916)	95,377
-	-	-	-	-	(1,195)	(1,195)
-	-	-	-	-	(293)	(293)
-	(1,520)	(694)	(1,656)	-	(775)	(4,645)
-	-	3	-	-	-	3
-	-	-	11,223	-	-	11,223
-	-	8	-	-	-	8
-	(1,520)	(683)	9,567	-	(2,263)	5,101
458	-	-	21	72	156	1,255
118	-	-	5	18	17	225
(85)	-	-	(3)	(13)	(12)	(160)
491	-	-	23	77	161	1,320
22,193	(18,180)	(3,648)	11,991	69	(381)	35,232
90,759	19,767	30,295	2,422	15,516	23,735	268,248
-	-	-	-	-	83,782	83,782
\$ 112,952	\$ 1,587	\$ 26,647	\$ 14,413	\$ 15,585	\$ 107,136	\$ 387,262

(continued on next page)

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2011
(In Thousands)
(continued from previous page)

	Energy Loan	Safe Drinking Water	Business Development
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (1,228)	\$ (13,826)	\$ 653
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	-	-	-
Amortization of Bond/COP Issuance Costs	205	-	-
Amortization of Bond/COP Premium and Discount	(335)	-	-
Amortization of Deferred Charges	12	-	-
Bad Debt Expense	1,139	-	186
Interest Payments Reported as Operating Expense	10,250	-	-
Bond/COP Issuance Costs Reported as Operating Expense	670	-	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(1,048)	(527)	45
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Deferred Charges	(884)	-	-
Advances to Other Funds	(33,872)	-	-
Loans Receivable	(15,164)	(18,177)	(2,343)
Net Contracts, Notes, and Other Receivables	-	-	-
Accounts and Interest Payable	4	(91)	(9)
Due to Other Funds	-	2	-
Due to Other Governments	-	(1)	-
Custodial Liabilities	1,426	-	-
Unearned Revenue	(18)	-	-
Claims and Judgments Payable	-	-	-
Compensated Absences Payable	(21)	(1)	1
Net OPEB Obligation	1	1	1
Total Adjustments	(37,635)	(18,794)	(2,119)
Net Cash Provided (Used) by Operating Activities	\$ (38,863)	\$ (32,620)	\$ (1,466)
Noncash Investing and Capital and Related Financing Activities:			
Capital Assets Transferred from Governmental Funds	\$ -	\$ -	\$ -
Capital Assets Contributed	-	-	-
Total Noncash Investing and Capital and Related Financing Activities	\$ -	\$ -	\$ -

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ (1,203)	\$ (161,393)	\$ 117,695	\$ 860	\$ 518	\$ 5,489	\$ (52,435)
-	3,202	877	316	-	1,428	5,823
62	-	-	-	22	-	289
2	-	-	-	1	(36)	(368)
39	-	-	-	16	-	67
-	-	-	-	-	-	1,325
5,544	-	-	-	2,588	(452)	17,930
(108)	-	-	-	25	-	587
2,710	1,154	72	179	148	(393)	2,340
14	(1,252)	-	-	-	-	(1,238)
-	19	(2,141)	-	-	(842)	(2,964)
-	50	20	-	-	(36)	34
(92)	-	-	-	(189)	-	(1,165)
-	-	-	-	-	-	(33,872)
25,201	-	-	-	(4,616)	(5,199)	(20,298)
-	-	-	(27)	-	-	(27)
1	4,268	(3,476)	107	(146)	(1,249)	(591)
1	11,787	-	(1)	5	233	12,027
9	-	-	-	(21)	10	(3)
3	(2)	(120)	(6)	135	1,365	2,801
-	-	36	37	-	-	55
-	-	-	-	-	2,130	2,130
12	414	(22)	(2)	(1)	167	547
2	380	32	-	1	22	440
33,400	20,020	(4,722)	603	(2,032)	(2,852)	(14,131)
\$ 32,197	\$ (141,373)	\$ 112,973	\$ 1,463	\$ (1,514)	\$ 2,637	\$ (66,566)
\$ -	\$ 229,481	\$ -	\$ -	\$ -	\$ -	\$ 229,481
-	-	-	1,500	-	-	1,500
\$ -	\$ 229,481	\$ -	\$ 1,500	\$ -	\$ -	\$ 230,981

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Internal Service Funds

Internal Service Funds account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis.

Central Services Fund

This fund accounts for activities to provide various services to state agencies. These services include accounting, budgeting, personnel, mail and shuttle, purchasing, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund.

Legal Services Fund

This fund accounts for activities of the Department of Justice Attorney General's office to represent and advise the State's elected and appointed officials, agencies, boards, and commissions.

Banking Services Fund

This fund accounts for activities of the Office of the State Treasurer to provide banking, investment, and debt management services to state agencies.

Audit Services Fund

This fund accounts for activities of the Secretary of State, Audits Division, to provide independent auditing services to state agencies.

Forestry Services Fund

This fund accounts for activities of the Department of Forestry to operate an equipment and maintenance pool that provides transportation, heavy equipment, and aircraft support for operating programs and other state agencies.

Other Internal Service Funds

This fund accounts for the sale of goods and services to other governmental units through activities not specifically accounted for in another internal service fund.

Combining Balance Sheet
Internal Service Funds
June 30, 2011
(In Thousands)

	Central Services	Legal Services
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 112,539	\$ 2
Securities Lending Collateral	143,331	5,480
Accounts and Interest Receivable (net)	77,788	5,161
Due from Other Funds	-	2,306
Inventories	995	201
Prepaid Items	211	-
Total Current Assets	334,864	13,150
Noncurrent Assets:		
Cash and Cash Equivalents - Restricted	87,042	17,710
Investments - Restricted	60,487	-
Deferred Charges	730	-
Advances to Other Funds	677	-
Net Contracts, Notes, and Other Receivables	-	28
Capital Assets:		
Land	9,343	-
Buildings, Property, and Equipment	551,746	4,438
Construction in Progress	6,002	10
Infrastructure	637	-
Works of Art and Other Nondepreciable Assets	167	-
Less Accumulated Depreciation and Amortization	(285,264)	(2,590)
Total Noncurrent Assets	431,567	19,596
Total Assets	\$ 766,431	\$ 32,746
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts and Interest Payable	\$ 26,963	\$ 624
Obligations Under Securities Lending	143,331	5,480
Due to Other Funds	14,242	6,140
Unearned Revenue	406	-
Compensated Absences Payable	3,170	2,962
Claims and Judgments Payable	29,305	-
Arbitrage Rebate Payable	21	-
Custodial Liabilities	5,007	1
Bonds/COPS Payable	13,899	-
Obligations Under Capital Leases	3,782	-
Total Current Liabilities	240,126	15,207
Noncurrent Liabilities:		
Compensated Absences Payable	1,633	1,526
Claims and Judgments Payable	164,275	-
Custodial Liabilities	3,271	-
Bonds/COPS Payable	118,280	-
Obligations Under Capital Leases	5,195	-
Advances from Other Funds	226	-
Net OPEB Obligation	801	628
Total Noncurrent Liabilities	293,681	2,154
Total Liabilities	533,807	17,361
Net Assets:		
Invested in Capital Assets, Net of Related Debt	141,338	1,858
Unrestricted	91,286	13,527
Total Net Assets	232,624	15,385
Total Liabilities and Net Assets	\$ 766,431	\$ 32,746

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ 4,427	\$ 2,169	\$ 5,875	\$ 3,575	\$ 128,587
1,370	673	1,818	1,106	153,778
2,883	41	95	174	86,142
-	-	-	1	2,307
6	-	209	9	1,420
-	23	-	-	234
8,686	2,906	7,997	4,865	372,468
-	-	-	-	104,752
-	-	-	-	60,487
-	-	-	-	730
-	-	-	-	677
-	-	-	-	28
-	-	-	-	9,343
2,555	444	18,564	5,272	583,019
-	-	-	-	6,012
-	-	-	-	637
-	-	-	-	167
(2,426)	(435)	(13,880)	(3,240)	(307,835)
129	9	4,684	2,032	458,017
\$ 8,815	\$ 2,915	\$ 12,681	\$ 6,897	\$ 830,485
\$ 576	\$ 120	\$ 240	\$ 124	\$ 28,647
1,370	673	1,818	1,106	153,778
-	-	-	38	20,420
-	-	-	-	406
459	231	108	7	6,937
-	-	-	-	29,305
-	-	-	-	21
-	-	-	1	5,009
-	-	-	-	13,899
-	-	-	-	3,782
2,405	1,024	2,166	1,276	262,204
236	119	56	4	3,574
-	-	-	-	164,275
-	-	-	-	3,271
-	-	-	-	118,280
-	-	-	-	5,195
-	-	-	-	226
85	65	31	6	1,616
321	184	87	10	296,437
2,726	1,208	2,253	1,286	558,641
129	8	4,685	2,032	150,050
5,960	1,699	5,743	3,579	121,794
6,089	1,707	10,428	5,611	271,844
\$ 8,815	\$ 2,915	\$ 12,681	\$ 6,897	\$ 830,485

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2011
(In Thousands)

	Central Services	Legal Services
Operating Revenues:		
Charges for Services	\$ 847,898	\$ 70,220
Rents and Royalties	42,939	-
Sales	7,952	40
Other	3,720	-
Total Operating Revenues	<u>902,509</u>	<u>70,260</u>
Operating Expenses:		
Salaries and Wages	60,428	53,651
Services and Supplies	705,123	10,140
Cost of Goods Sold	10,364	-
Distributions to Other Governments	-	955
Special Payments	125	-
Bond and COP Interest	6,161	-
Other Debt Service	260	-
Depreciation and Amortization	34,315	400
Total Operating Expenses	<u>816,776</u>	<u>65,146</u>
Operating Income (Loss)	<u>85,733</u>	<u>5,114</u>
Nonoperating Revenues (Expenses):		
Investment Income	3,547	-
Gain (Loss) on Disposition of Assets	(847)	-
Insurance Recoveries	179	-
Loan Interest Income	41	-
Loan Interest Expense	(14)	-
Other Nonoperating Items	(1,240)	-
Total Nonoperating Revenues (Expenses)	<u>1,666</u>	<u>-</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	87,399	5,114
Capital Contributions	1,390	-
Transfers from Other Funds	3,064	-
Transfers to Other Funds	(31,170)	(8,215)
Change in Net Assets	<u>60,683</u>	<u>(3,101)</u>
Net Assets - Beginning	173,863	18,533
Prior Period Adjustments	(6,380)	(47)
Cumulative Effect of Change in Accounting Principles	4,458	-
Net Assets - Beginning - As Restated	<u>171,941</u>	<u>18,486</u>
Net Assets - Ending	<u>\$ 232,624</u>	<u>\$ 15,385</u>

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ 20,088	\$ 8,493	\$ 4,749	\$ 1,676	\$ 953,124
-	-	1,054	-	43,993
-	-	334	21	8,347
1	-	1	244	3,966
<u>20,089</u>	<u>8,493</u>	<u>6,138</u>	<u>1,941</u>	<u>1,009,430</u>
9,407	5,314	1,856	241	130,897
6,368	1,865	2,557	1,112	727,165
-	-	-	-	10,364
-	-	-	-	955
-	-	-	-	125
-	-	-	-	6,161
-	-	-	-	260
243	116	1,208	375	36,657
<u>16,018</u>	<u>7,295</u>	<u>5,621</u>	<u>1,728</u>	<u>912,584</u>
<u>4,071</u>	<u>1,198</u>	<u>517</u>	<u>213</u>	<u>96,846</u>
-	-	-	-	3,547
-	-	48	(18)	(817)
-	-	13	25	217
-	-	-	-	41
-	-	-	-	(14)
-	-	-	-	(1,240)
<u>-</u>	<u>-</u>	<u>61</u>	<u>7</u>	<u>1,734</u>
4,071	1,198	578	220	98,580
-	-	-	-	1,390
-	-	-	-	3,064
(418)	(2,809)	(585)	(148)	(43,345)
<u>3,653</u>	<u>(1,611)</u>	<u>(7)</u>	<u>72</u>	<u>59,689</u>
2,436	3,197	10,240	5,539	213,808
-	121	195	-	(6,111)
-	-	-	-	4,458
<u>2,436</u>	<u>3,318</u>	<u>10,435</u>	<u>5,539</u>	<u>212,155</u>
<u>\$ 6,089</u>	<u>\$ 1,707</u>	<u>\$ 10,428</u>	<u>\$ 5,611</u>	<u>\$ 271,844</u>

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011
(In Thousands)

	Central Services	Legal Services
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 690,320	\$ 19,739
Receipts from Other Funds for Services	191,617	53,448
Payments to Employees for Services	(65,426)	(55,461)
Payments to Suppliers	(716,822)	(11,520)
Payments to Other Funds for Services	(27,516)	(3,401)
Claims Paid	(12,604)	-
Distributions to Other Governments	-	(896)
Other Receipts (Payments)	51,513	223
Net Cash Provided (Used) in Operating Activities	111,082	2,132
Cash Flows from Noncapital Financing Activities:		
Insurance Recoveries Other than Capital Assets	-	-
Transfers from Other Funds	4,852	-
Transfers to Other Funds	(16,670)	(12)
Net Cash Provided (Used) in Noncapital Financing Activities	(11,818)	(12)
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Bonds/COPS	(22,968)	-
Interest Payments on Bonds/COPS	(6,648)	-
Bond/COP Issuance Costs	(62)	-
Repayments on Advances Received	28	-
Interest on Advances	41	-
Principal Payments on Loans	(34)	-
Interest Payments on Loans	(14)	-
Acquisition of Capital Assets	(16,258)	(223)
Proceeds from Disposition of Capital Assets	2,733	-
Insurance Recoveries for Capital Assets	179	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(43,003)	(223)
Cash Flows from Investing Activities:		
Purchases of Investments	(26,546)	-
Proceeds from Sales and Maturities of Investments	21,850	-
Interest on Investments and Cash Balances	3,668	-
Interest Income from Securities Lending	307	-
Interest Expense from Securities Lending	(220)	-
Net Cash Provided (Used) in Investing Activities	(941)	-
Net Increase (Decrease) in Cash and Cash Equivalents	55,320	1,897
Cash and Cash Equivalents - Beginning	140,370	15,815
Prior Period Adjustments Restating Beginning Cash Balances	3,891	-
Cash and Cash Equivalents - Ending	\$ 199,581	\$ 17,712

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ -	\$ -	\$ -	\$ -	\$ 710,059
17,625	8,661	6,082	1,819	279,252
(9,875)	(5,511)	(1,919)	(250)	(138,442)
(5,131)	(1,321)	(2,323)	(881)	(737,998)
(1,020)	(484)	(136)	(127)	(32,684)
-	-	-	-	(12,604)
-	-	-	-	(896)
1	-	1	244	51,982
1,600	1,345	1,705	805	118,669
-	-	13	25	38
3,548	-	-	183	8,583
(3,548)	(2,590)	(513)	(309)	(23,642)
-	(2,590)	(500)	(101)	(15,021)
-	-	-	-	(22,968)
-	-	-	-	(6,648)
-	-	-	-	(62)
-	-	-	-	28
-	-	-	-	41
-	-	-	-	(34)
-	-	-	-	(14)
(114)	-	(397)	(173)	(17,165)
-	-	92	28	2,853
-	-	-	-	179
(114)	-	(305)	(145)	(43,790)
-	-	-	-	(26,546)
-	-	-	-	21,850
-	-	-	-	3,668
-	-	-	-	307
-	-	-	-	(220)
-	-	-	-	(941)
1,486	(1,245)	900	559	58,917
2,941	3,414	4,975	3,016	170,531
-	-	-	-	3,891
\$ 4,427	\$ 2,169	\$ 5,875	\$ 3,575	\$ 233,339

(continued on next page)

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011
(In Thousands)
(continued from previous page)

	Central Services	Legal Services
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 85,733	\$ 5,114
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	34,315	400
Amortization of Bond/COP Issuance Costs	24	-
Amortization of Bond/COP Premium and Discount	(508)	-
Amortization of Deferred Charges	219	-
Interest Payments Reported as Operating Expense	6,648	-
Bond/COP Issuance Costs Reported as Operating Expense	82	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	124,535	(80)
Due from Other Funds	-	(91)
Inventories	137	21
Prepaid Items	385	-
Deferred Charges	193	-
Net Contracts, Notes, and Other Receivables	651	3
Accounts and Interest Payable	(33,879)	(2,286)
Due to Other Funds	85	(92)
Custodial Liabilities	(75,185)	(3)
Unearned Revenue	(17,404)	(1,256)
Claims and Judgments Payable	(15,973)	-
Compensated Absences Payable	909	319
Net OPEB Obligation	115	83
Total Adjustments	25,349	(2,982)
Net Cash Provided (Used) by Operating Activities	\$ 111,082	\$ 2,132
 Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	\$ (472)	\$ -
Capital Assets Transferred from Governmental Funds	1,390	-
Capital Leases Entered into During the Year	1,751	-
Capital Assets Transferred to Governmental Funds	(1,020)	-
Total Noncash Investing and Capital and Related Financing Activities	\$ 1,649	\$ -

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ 4,071	\$ 1,198	\$ 517	\$ 213	\$ 96,846
243	115	1,208	375	36,656
-	-	-	-	24
-	-	-	-	(508)
-	-	-	-	219
-	-	-	-	6,648
-	-	-	-	82
(2,623)	168	(56)	123	122,067
-	-	-	82	(9)
8	-	12	-	178
-	(18)	-	-	367
-	-	-	-	193
-	-	-	-	654
(47)	(134)	14	13	(36,319)
-	-	-	(2)	(9)
-	-	-	-	(75,188)
-	-	-	-	(18,660)
-	-	-	-	(15,973)
(64)	8	6	1	1,179
12	8	4	-	222
(2,471)	147	1,188	592	21,823
\$ 1,600	\$ 1,345	\$ 1,705	\$ 805	\$ 118,669
\$ -	\$ -	\$ -	\$ -	(472)
-	-	-	-	1,390
-	-	-	-	1,751
-	-	-	-	(1,020)
\$ -	\$ -	\$ -	\$ -	\$ 1,649

Fiduciary Funds

Combining Pension and Other Employee Benefit Trust Funds

Pension Trust Funds

Pension Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System (PERS) for the payment of retirement, disability, and death benefits to members of the retirement system.

Public Employees Defined Benefit Pension Plan Fund

This fund accounts for the activities of the defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. Also included in this fund are the activities of the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003, as well as inactive PERS members who return to employment following a six-month or greater break in service, participate in the OPSRP pension program. The plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238 and section 401(a) of the Internal Revenue Code.

Individual Account Program Defined Contribution Pension Plan Fund

This fund accounts for the activities of the defined contribution portion of the Oregon Public Service Retirement Plan (OPSRP). Beginning January 1, 2004, PERS member contributions, account earnings and losses, as well as administrative costs of the plan are reflected in this fund. The OPSRP is administered by the Public Employees Retirement System.

Other Employee Benefit Trust Funds

Other Employee Benefit Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System (PERS) for the payment of postemployment healthcare and deferred compensation benefits to members of the retirement system.

Retirement Health Insurance Account (RHIA) OPEB Plan Fund

This fund accounts for the activities of the RHIA cost-sharing multiple-employer Other Postemployment Benefit (OPEB) plan administered by PERS for units of state government, political subdivisions, community colleges, and school districts. The RHIA is a defined benefit OPEB plan established pursuant to section 401(h) of the Internal Revenue Code. The plan authorizes a payment of up to \$60 towards the monthly cost of health insurance for eligible PERS members participating in PERS-sponsored health insurance plans. Employer contributions, investment income, healthcare premium subsidy payments, and administrative costs are accounted for within this fund.

Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund

This fund accounts for the activities of the RHIPA single-employer OPEB plan administered by PERS. The RHIPA is a defined benefit OPEB plan established pursuant to section 401(h) of the Internal Revenue Code. The plan authorizes payment to eligible retired state employees of the average difference between the health insurance premiums paid by retirees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Employer contributions, investment income, healthcare premium subsidy payments, and administrative costs are accounted for within this fund.

Standard Retiree Health Insurance Account Fund

This fund previously accounted for the collection of health insurance premiums from retirees and the payment of health insurance coverage and administrative costs for units of state government, political subdivisions, community colleges, and school districts that participate in PERS-sponsored health insurance plans. In fiscal year 2011, this activity is accounted for and reported in the Other Enterprise Fund.

Deferred Compensation Plan Fund

This fund accounts for the activities of the Deferred Compensation Plan, an Internal Revenue Code Section 457 compensation plan, offered to employees of the State and administered by the Public Employees Retirement System.

**Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2011
(In Thousands)**

	Pension Trust Funds	
	Public Employees Defined Benefit Pension Plan	Individual Account Program Defined Contribution Pension Plan
ASSETS		
Cash and Cash Equivalents	\$ 2,444,682	\$ 216,423
Investments		
Fixed Income	13,735,242	992,702
Equity	21,745,438	1,503,101
Real Estate	5,697,757	411,800
Private Equity	12,767,522	922,761
Opportunity Portfolio	1,061,352	76,708
Total Investments	55,007,311	3,907,072
Securities Lending Collateral	2,512,073	184,566
Receivables:		
Employer Contributions	8,581	-
Plan Member Contributions	-	10,874
Interest and Dividends	318,583	23,025
Member Loans	-	-
Investment Sales	724,983	51,693
From Other Funds	1,097	8,824
Total Receivables	1,053,244	94,416
Prepaid Items	8,804	588
Capital Assets (net of \$10,863 accumulated depreciation):		
Land	944	-
Construction in Progress	165	-
Buildings, Property, and Equipment	37,807	400
Total Assets	61,065,030	4,403,465
LIABILITIES		
Accounts and Interest Payable	2,670,037	173,970
Obligations Under Securities Lending	2,528,403	185,746
Due to Other Funds	9,221	263
Deferred Revenue	214	-
Custodial Liabilities	58,412	6,580
Bonds/COPS Payable	3,615	-
Net OPEB Obligation	279	69
Total Liabilities	5,270,181	366,628
NET ASSETS		
Held in Trust for:		
Pension Benefits	55,794,849	4,036,837
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Total Net Assets	\$ 55,794,849	\$ 4,036,837

Other Employee Benefit Trust Funds

Other Postemployment Benefits

Retirement Health Insurance Account OPEB Plan	Retiree Health Insurance Premium Account OPEB Plan	Standard Retiree Health Insurance Account	Deferred Compensation Plan	Total
\$ 12,742	\$ 357	\$ -	\$ 54,299	\$ 2,728,503
61,068	1,255	-	242,732	15,032,999
92,466	1,900	-	800,253	24,143,158
25,332	521	-	-	6,135,410
56,765	1,167	-	-	13,748,215
4,719	97	-	-	1,142,876
240,350	4,940	-	1,042,985	60,202,658
11,311	241	-	160	2,708,351
510	4	-	-	9,095
-	-	-	-	10,874
1,416	29	-	441	343,494
-	-	-	8,671	8,671
3,186	66	-	78	780,006
664	10	-	-	10,595
5,776	109	-	9,190	1,162,735
37	1	-	-	9,430
-	-	-	-	944
-	-	-	-	165
-	-	-	-	38,207
270,216	5,648	-	1,106,634	66,850,993
10,764	222	-	332	2,855,325
11,384	243	-	160	2,725,936
69	60	-	613	10,226
-	-	-	546	760
-	-	-	-	64,992
-	-	-	-	3,615
8	1	-	7	364
22,225	526	-	1,658	5,661,218
-	-	-	-	59,831,686
247,991	5,122	-	-	253,113
-	-	-	1,104,976	1,104,976
\$ 247,991	\$ 5,122	\$ -	\$ 1,104,976	\$ 61,189,775

**Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2011
(In Thousands)**

	Pension Trust Funds	
	Public Employees Defined Benefit Pension Plan	Individual Account Program Defined Contribution Pension Plan
ADDITIONS		
Contributions:		
Employer	\$ 424,101	\$ -
Plan Members	14,024	513,716
Total Contributions	<u>438,125</u>	<u>513,716</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	9,875,363	658,925
Interest, Dividends, and Other Investment Income	1,402,288	99,720
Total Investment Income	<u>11,277,651</u>	<u>758,645</u>
Less Investment Expense	<u>346,571</u>	<u>22,972</u>
Net Investment Income	<u>10,931,080</u>	<u>735,673</u>
Other Income	312	22
Total Additions	<u>11,369,517</u>	<u>1,249,411</u>
DEDUCTIONS		
Pension Benefits	3,196,332	133,971
Death Benefits	7,607	-
Contributions Refunded	26,487	-
Healthcare Premium Subsidies	-	-
Deferred Compensation Benefits	-	-
Administrative Expenses	29,257	6,810
Total Deductions	<u>3,259,683</u>	<u>140,781</u>
Change in Net Assets Held in Trust For:		
Pension Benefits	8,109,834	1,108,630
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Net Assets - Beginning	<u>47,685,015</u>	<u>2,928,207</u>
Prior Period Adjustments	-	-
Net Assets - Beginning - As Restated	<u>47,685,015</u>	<u>2,928,207</u>
Net Assets - Ending	<u>\$ 55,794,849</u>	<u>\$ 4,036,837</u>

Other Employee Benefit Trust Funds

Other Postemployment Benefits

Retirement Health Insurance Account OPEB Plan	Retiree Health Insurance Premium Account OPEB Plan	Standard Retiree Health Insurance Account	Deferred Compensation Plan	Total
\$ 22,177	\$ 1,428	\$ -	\$ -	\$ 447,706
-	-	-	73,292	601,032
22,177	1,428	-	73,292	1,048,738
42,651	1,024	-	169,367	10,747,330
6,234	148	-	9,233	1,517,623
48,885	1,172	-	178,600	12,264,953
1,526	37	-	2,430	373,536
47,359	1,135	-	176,170	11,891,417
-	-	-	829	1,163
69,536	2,563	-	250,291	12,941,318
-	-	-	-	3,330,303
-	-	-	-	7,607
-	-	-	-	26,487
29,252	3,024	-	-	32,276
-	-	-	55,929	55,929
1,039	162	-	1,327	38,595
30,291	3,186	-	57,256	3,491,197
-	-	-	-	9,218,464
39,245	(623)	-	-	38,622
-	-	-	193,035	193,035
208,746	5,745	8,291	911,941	51,747,945
-	-	(8,291)	-	(8,291)
208,746	5,745	-	911,941	51,739,654
\$ 247,991	\$ 5,122	\$ -	\$ 1,104,976	\$ 61,189,775

Agency Fund

The Agency Fund accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Combining Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2011

(In Thousands)

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Custodial Assets	\$ 1,848,940	\$ 1,940,865	\$ 2,187,240	\$ 1,602,565
Accounts and Interest Receivable	8,767	3,741	1,445	11,063
Net Contracts, Notes, and Other Receivables	104,496	25,723	21,558	108,661
Receivership Assets	67,036	-	2,939	64,097
Total Assets	\$ 2,029,239	\$ 1,970,329	\$ 2,213,182	\$ 1,786,386
LIABILITIES				
Accounts and Interest Payable	\$ 537	\$ 380,884	\$ 381,381	\$ 40
Due to Other Governments	8,345	5,684	8,345	5,684
Custodial Liabilities	2,020,357	1,464,628	1,704,323	1,780,662
Total Liabilities	\$ 2,029,239	\$ 1,851,196	\$ 2,094,049	\$ 1,786,386



Statistical Section

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Statistical Section Index

This part of the State of Oregon's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.

Schedule 1	Net Assets by Component
Schedule 2	Changes in Net Assets
Schedule 3	Fund Balance – Governmental Funds
Schedule 4	Changes in Fund Balance – Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the State's most significant revenue source, personal income taxes.

Schedule 5	Personal Income by Industry
Schedule 6	Personal Income Tax Rates
Schedule 7	Personal Income Tax Filers and Liability by Income Level

Debt Capacity

These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

Schedule 8	Outstanding Debt by Type
Schedule 9	Ratios of General Bonded Debt Outstanding
Schedule 10	Legal Debt Margin Calculation
Schedule 11	Legal Debt Margin Information
Schedule 12	Pledged Revenues

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.

Schedule 13	Demographic and Economic Indicators
Schedule 14	Employment by Industry

Operating Information

These schedules contain operating data to help the reader understand how the information in the State's financial report relates to the services it provides and the activities it performs.

Schedule 15	Government Employees
Schedule 16	Operating Indicators and Capital Asset Information by Function

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Schedule 1
NET ASSETS BY COMPONENT
 Last Ten Fiscal Years (In Thousands)
 (Accrual basis of accounting)

	2002	2003	2004	2005
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	\$ 10,031,651	\$ 9,928,983	\$ 9,555,705	\$ 9,151,443
Restricted	526,189	342,793	334,292	904,848
Unrestricted	(70,371)	131,349	(2,158,668)	155,880
Total Governmental Activities Net Assets	<u>\$ 10,487,469</u>	<u>\$ 10,403,125</u>	<u>\$ 7,731,329</u>	<u>\$ 10,212,171</u>
Business-type Activities				
Invested in Capital Assets, Net of Related Debt	\$ 282,782	\$ 579,928	\$ 549,148	\$ 562,325
Restricted	2,477,458	2,453,241	2,233,534	2,550,548
Unrestricted	539,431	223,601	527,165	570,121
Total Business-type Activities Net Assets	<u>\$ 3,299,671</u>	<u>\$ 3,256,770</u>	<u>\$ 3,309,847</u>	<u>\$ 3,682,994</u>
Primary Government				
Invested in Capital Assets, Net of Related Debt	\$ 10,314,433	\$ 10,508,911	\$ 10,104,853	\$ 9,713,768
Restricted	3,003,647	2,796,034	2,567,826	3,455,396
Unrestricted	469,060	354,950	(1,631,503)	726,001
Total Primary Government Net Assets	<u>\$ 13,787,140</u>	<u>\$ 13,659,895</u>	<u>\$ 11,041,176</u>	<u>\$ 13,895,165</u>

Schedule 1 (continued)
NET ASSETS BY COMPONENT
 Last Ten Fiscal Years (In Thousands)
 (Accrual basis of accounting)

2006	2007	2008	2009	2010	2011
\$ 8,901,594	\$ 8,696,793	\$ 8,554,126	\$ 9,094,498	\$ 8,672,407	\$ 8,107,685
1,021,026	1,098,817	950,491	1,126,942	1,287,403	2,582,708
1,116,586	1,077,586	954,809	(99,401)	(82,337)	138,387
\$ 11,039,206	\$ 10,873,196	\$ 10,459,426	\$ 10,122,039	\$ 9,877,473	\$ 10,828,780
\$ 594,247	\$ 756,814	\$ 807,968	\$ 897,150	\$ 977,224	\$ 1,195,629
2,857,577	2,998,195	3,177,420	2,399,089	556,589	670,672
584,655	640,968	656,919	677,037	2,201,451	2,378,452
\$ 4,036,479	\$ 4,395,977	\$ 4,642,307	\$ 3,973,276	\$ 3,735,264	\$ 4,244,753
\$ 9,495,841	\$ 9,453,607	\$ 9,362,094	\$ 9,991,648	\$ 9,649,631	\$ 9,303,314
3,878,603	4,097,012	4,127,911	3,526,031	1,843,992	3,253,380
1,701,241	1,718,554	1,611,728	577,636	2,119,114	2,516,839
\$ 15,075,685	\$ 15,269,173	\$ 15,101,733	\$ 14,095,315	\$ 13,612,737	\$ 15,073,533

Schedule 2
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

	2002	2003	2004	2005
Expenses				
Governmental activities:				
Education	\$ 3,363,716	\$ 2,915,016	\$ 3,485,891	\$ 3,204,580
Human Services	4,399,183	4,348,175	4,276,235	4,675,846
Public Safety	862,219	842,881	857,643	928,483
Economic and Community Development	289,051	328,202	296,497	340,653
Natural Resources	494,385	523,941	488,514	582,788
Transportation	1,239,599	1,417,844	1,410,741	1,882,649
Consumer and Business Services	319,913	278,486	388,336	282,875
Administration	567,717	700,611	2,693,591	622,036
Legislative	27,914	30,717	25,480	31,447
Judicial	232,185	205,874	239,773	249,036
Interest on Long-term Debt	N/A	4,106	164,461	254,840
Total governmental activities expenses	11,795,882	11,595,853	14,327,162	13,055,233
Business-type activities:				
Housing and Community Services	94,686	93,326	88,653	89,583
Veterans' Loan	79,922	73,663	59,106	51,479
Lottery Operations	485,299	505,038	494,628	504,102
Unemployment Compensation	1,030,423	1,287,629	1,106,005	577,396
University System	1,551,981	1,605,464	1,617,687	1,729,107
State Hospitals	N/A	N/A	N/A	162,651
Liquor Control	N/A	N/A	N/A	237,604
Other Business-type Activities	409,472	411,495	442,676	75,182
Total business-type activities expenses	3,651,783	3,976,615	3,808,755	3,427,104
Total primary government expenses	\$ 15,447,665	\$ 15,572,468	\$ 18,135,917	\$ 16,482,337
Program Revenues				
Governmental activities:				
Charges for Services:				
Human Services	\$ 282,692	\$ 196,489	\$ 139,353	\$ 221,522
Public Safety	46,360	37,561	138,377	35,107
Natural Resources	233,344	293,441	252,952	270,465
Transportation	113,083	103,888	106,598	129,351
Consumer and Business Services	127,581	130,866	152,899	158,999
Administration	25,734	72,910	94,970	203,275
Judicial	97,782	137,126	78,870	29,522
Other governmental activities	38,685	35,716	41,379	32,442
Operating Grants and Contributions	4,036,264	4,452,645	4,378,480	4,850,141
Capital Grants and Contributions	9,957	3,414	5,869	6,566
Total governmental activities program revenues	5,011,482	5,464,056	5,389,747	5,937,390

Schedule 2 (continued)
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

	2006	2007	2008	2009	2010	2011
\$	3,622,117	\$ 3,761,800	\$ 4,174,928	\$ 4,224,991	\$ 4,303,106	\$ 3,979,440
	4,873,613	4,814,964	5,316,540	6,057,047	6,861,998	7,535,059
	1,008,285	1,023,202	1,183,931	1,185,507	1,199,579	1,180,405
	311,713	335,103	355,133	397,032	455,453	480,196
	541,084	580,778	613,329	658,553	593,122	629,222
	1,598,419	1,709,786	2,251,391	2,249,632	1,858,705	1,566,210
	394,886	340,266	461,015	408,803	463,489	424,534
	640,561	467,931	570,903	470,583	474,624	376,821
	29,602	36,660	39,142	44,683	33,012	37,801
	271,714	286,460	311,828	307,916	308,574	313,886
	242,664	265,100	315,530	297,308	299,467	351,713
	<u>13,534,658</u>	<u>13,622,050</u>	<u>15,593,670</u>	<u>16,302,055</u>	<u>16,851,129</u>	<u>16,875,287</u>
	93,288	98,683	100,706	91,010	84,337	78,194
	49,730	53,279	46,652	26,855	19,685	19,365
	525,277	564,110	573,203	537,332	518,076	510,401
	535,190	546,970	687,363	1,875,259	3,020,372	2,306,502
	1,858,254	1,893,227	1,808,424	1,948,793	2,003,668	2,146,867
	166,810	184,513	203,818	215,576	222,311	248,072
	263,725	284,298	307,380	314,563	312,980	325,410
	76,804	76,911	75,134	87,977	89,505	269,217
	<u>3,569,078</u>	<u>3,701,991</u>	<u>3,802,680</u>	<u>5,097,365</u>	<u>6,270,934</u>	<u>5,904,028</u>
\$	<u>17,103,736</u>	<u>17,324,041</u>	<u>19,396,350</u>	<u>21,399,420</u>	<u>23,122,063</u>	<u>22,779,315</u>
\$	298,666	\$ 215,222	\$ 230,058	\$ 250,524	\$ 237,722	\$ 289,686
	70,979	48,170	67,869	94,613	75,511	80,842
	284,857	325,638	300,685	282,380	313,587	285,394
	108,552	104,830	153,423	138,400	115,507	138,383
	202,305	239,561	258,299	313,602	276,359	270,467
	214,866	230,328	282,977	111,537	107,625	115,365
	130,549	132,447	136,327	158,736	145,548	185,523
	26,909	32,829	32,467	28,662	37,507	38,068
	4,952,825	5,097,007	5,162,489	6,017,307	7,691,076	8,324,841
	14,992	21,718	27,611	86,563	45,398	97,682
	<u>6,305,500</u>	<u>6,447,750</u>	<u>6,652,205</u>	<u>7,482,324</u>	<u>9,045,840</u>	<u>9,826,251</u>

(continued on next page)

Schedule 2 (continued)
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

	2002	2003	2004	2005
Business-type activities:				
Charges for Services:				
Lottery Operations	817,490	853,812	892,672	938,370
Unemployment Compensation	649,892	588,003	726,680	783,594
University System	650,248	663,214	735,556	799,122
Liquor Control	N/A	N/A	N/A	313,308
Other Business-type Activities	522,951	526,603	507,666	210,964
Operating Grants and Contributions	848,800	1,196,853	908,594	770,971
Capital Grants and Contributions	85,982	-	-	-
Total business-type activities program revenues	3,575,363	3,828,485	3,771,168	3,816,329
Total primary government program revenues	\$ 8,586,845	\$ 9,292,541	\$ 9,160,915	\$ 9,753,719
Net (Expense)/Revenue				
Governmental activities	\$ (6,784,400)	\$ (6,131,797)	\$ (8,937,415)	\$ (7,117,843)
Business-type activities	(76,420)	(148,130)	(37,587)	389,225
Total primary government net expense	\$ (6,860,820)	\$ (6,279,927)	\$ (8,975,002)	\$ (6,728,618)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Personal Income Taxes	\$ 4,096,359	\$ 4,073,262	\$ 4,294,369	\$ 4,746,727
Corporate Income Taxes	190,346	220,175	314,510	211,016
Tobacco Taxes	175,115	255,482	252,885	255,035
Healthcare Provider Taxes	N/A	N/A	N/A	N/A
Inheritance and Gift Taxes	N/A	N/A	N/A	N/A
Public Utilities Taxes	N/A	N/A	N/A	N/A
Insurance Premium Taxes	N/A	N/A	N/A	N/A
Other Taxes	356,319	369,614	412,531	503,666
Motor Fuels Taxes	397,713	406,736	406,317	407,729
Weight Mile Taxes	201,315	213,935	224,078	253,419
Vehicle Registration Taxes	113,262	120,711	165,270	204,787
Workers' Compensation Insurance Taxes	N/A	N/A	N/A	N/A
Employer-Employee Taxes	255,279	252,810	249,822	266,688
Unrestricted Investment Earnings	17,146	29,737	11,134	44,662
Contributions to Permanent Fund	48,638	-	4,701	11,453
Capital Contributions	1,475	1,736	389	407
Transfers	(61,903)	16,428	(44,272)	31,901
Total governmental activities	5,791,064	5,960,626	6,291,734	6,937,490
Business-type activities:				
Other Taxes	12,676	13,327	13,666	13,964
Capital Contributions	649	658	660	700
Additions to Permanent Endowments	-	-	-	-
Special Items	-	-	21,868	-
Transfers	61,903	(16,428)	44,272	(31,901)
Total business-type activities	75,228	(2,443)	80,466	(17,237)
Total primary government	\$ 5,866,292	\$ 5,958,183	\$ 6,372,200	\$ 6,920,253
Change in Net Assets				
Governmental activities	\$ (993,336)	\$ (171,171)	\$ (2,645,681)	\$ (180,353)
Business-type activities	(1,192)	(150,573)	42,879	371,988
Total primary government	\$ (994,528)	\$ (321,744)	\$ (2,602,802)	\$ 191,635

Schedule 2 (continued)
CHANGES IN NET ASSETS
 Last Ten Fiscal Years (In Thousands)
 (Accrual basis of accounting)

2006	2007	2008	2009	2010	2011
1,093,196	1,203,821	1,229,486	1,100,228	1,027,735	1,038,805
758,350	676,838	638,186	662,346	859,790	1,022,592
860,042	887,183	954,039	1,003,897	1,156,843	1,288,143
349,454	379,741	406,421	418,559	425,374	443,120
192,481	217,402	213,758	236,151	267,585	431,470
803,972	891,998	664,179	1,064,383	2,238,266	1,986,426
-	-	-	87,425	108,257	60,081
4,057,495	4,256,983	4,106,069	4,572,989	6,083,850	6,270,637
\$ 10,362,995	\$ 10,704,733	\$ 10,758,274	\$ 12,055,313	\$ 15,129,690	\$ 16,096,888
\$ (7,229,158)	\$ (7,174,300)	\$ (8,941,465)	\$ (8,819,731)	\$ (7,805,289)	\$ (7,049,036)
488,417	554,992	303,389	(524,376)	(187,084)	366,609
\$ (6,740,741)	\$ (6,619,308)	\$ (8,638,076)	\$ (9,344,107)	\$ (7,992,373)	\$ (6,682,427)
\$ 5,404,020	\$ 4,486,068	\$ 6,102,900	\$ 5,182,743	\$ 4,958,569	\$ 5,597,821
443,425	518,260	448,010	253,685	387,639	502,862
254,836	276,419	254,524	250,243	250,135	258,453
131,371	128,199	154,460	143,535	192,077	233,826
N/A	81,068	116,186	77,622	91,845	80,482
N/A	84,455	89,621	88,295	80,790	71,939
N/A	55,463	42,721	46,952	70,291	90,085
419,786	106,101	123,907	140,726	144,931	119,882
417,916	416,792	413,858	399,048	406,179	449,462
266,221	256,000	237,296	210,055	208,573	240,056
207,581	205,205	201,245	185,202	245,699	275,344
N/A	47,745	40,733	36,635	30,065	34,942
281,974	77,504	76,576	71,119	65,977	69,429
37,934	90,210	81,815	17,717	3,193	3,306
-	4,192	-	259	288	14
1,473	2,853	4,482	-	-	-
124,307	214,557	154,510	157,663	129,016	(62,910)
7,990,844	7,051,091	8,542,844	7,261,499	7,265,267	7,964,993
14,851	15,203	16,086	16,340	16,754	16,204
855	3,615	71,716	-	-	-
2,580	70	-	-	-	-
-	-	-	-	-	-
(124,307)	(214,557)	(154,510)	(157,663)	(129,016)	62,910
(106,021)	(195,669)	(66,708)	(141,323)	(112,262)	79,114
\$ 7,884,823	\$ 6,855,422	\$ 8,476,136	\$ 7,120,176	\$ 7,153,005	\$ 8,044,107
\$ 761,686	\$ (123,209)	\$ (398,621)	\$ (1,558,232)	\$ (540,022)	\$ 915,957
382,396	359,323	236,681	(665,699)	(299,346)	445,723
\$ 1,144,082	\$ 236,114	\$ (161,940)	\$ (2,223,931)	\$ (839,368)	\$ 1,361,680

Schedule 3
FUND BALANCE – GOVERNMENTAL FUNDS
 Last Ten Fiscal Years (In Thousands)
 (Modified accrual basis of accounting)

Reserved Balances

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund				
Reserved	\$ 204,730	\$ 83,063	\$ 157,183	\$ 63,788
Unreserved	(1,178,320)	19,298	(501,913)	237,769
Total General Fund	<u>\$ (973,590)</u>	<u>\$ 102,361</u>	<u>\$ (344,730)</u>	<u>\$ 301,557</u>

All Other Governmental Funds

Reserved	\$ 1,055,359	\$ 760,307	\$ 799,074	\$ 785,135
Unreserved, reported in:				
Special revenue funds	1,629,004	1,414,757	1,517,921	1,911,255
Capital projects fund	63,506	32,073	37,305	64,405
Permanent fund	28,972	3,875	5,823	5,749
Total all other governmental funds	<u>\$ 2,776,841</u>	<u>\$ 2,211,012</u>	<u>\$ 2,360,123</u>	<u>\$ 2,766,544</u>

Restricted Balances

	<u>2011</u>
General Fund	
Restricted	\$ 36,882
Unrestricted	207,272
Total General Fund	<u>\$ 244,154</u>

All Other Governmental Funds

Restricted	\$ 3,941,649
Unrestricted, reported in:	
Special revenue funds	731,176
Capital projects fund	2,299
Permanent fund	27,239
Total all other governmental funds	<u>\$ 4,702,363</u>

Note: Due to changes in the State's fund structure with the implementation of GASB Statement No. 54, fund balance information beginning with 2011 is no longer comparable to previous years. See Note 1 for additional information.

Schedule 3 (continued)
FUND BALANCE – GOVERNMENTAL FUNDS
 Last Ten Fiscal Years (In Thousands)
 (Modified accrual basis of accounting)

2006	2007	2008	2009	2010
\$ 86,253	\$ 70,317	\$ 202,823	\$ 29,040	\$ 35,403
736,196	113,579	1,095	(333,796)	(542,747)
<u>\$ 822,449</u>	<u>\$ 183,896</u>	<u>\$ 203,918</u>	<u>\$ (304,756)</u>	<u>\$ (507,344)</u>
\$ 823,590	\$ 953,764	\$ 1,180,823	\$ 1,082,369	\$ 1,429,016
2,640,061	3,658,675	3,446,971	3,523,322	3,544,868
118,136	47,930	23,218	130,498	50,420
6,757	6,691	8,067	3,788	4,984
<u>\$ 3,588,544</u>	<u>\$ 4,667,060</u>	<u>\$ 4,659,079</u>	<u>\$ 4,739,977</u>	<u>\$ 5,029,288</u>

Schedule 4
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
Last Ten Fiscal Years (In Thousands)
(Modified accrual basis of accounting)

	2002	2003	2004	2005
Revenues				
Taxes	\$ 5,728,923	\$ 5,836,554	\$ 6,303,389	\$ 6,817,329
Licenses and Fees	275,439	286,619	312,609	369,626
Federal	3,767,499	4,160,747	4,233,648	4,608,759
Charges for Services	232,711	234,459	214,485	223,109
Fines and Forfeitures	81,899	91,349	116,191	68,399
Rents and Royalties	6,331	6,015	7,244	20,226
Investment Income	90,423	98,185	76,594	205,808
Sales	112,287	110,945	111,905	125,399
Donations and Grants	116,152	138,599	12,409	13,447
Contributions to Permanent Funds	-	-	4,701	11,453
Tobacco Settlement Proceeds	86,524	85,255	72,065	73,142
Pension Bond Debt Service Assessments	-	-	21,579	121,895
Unclaimed Property Revenue	-	-	-	-
Other	280,478	244,775	288,622	275,937
Total Revenues	10,778,666	11,293,502	11,775,441	12,934,529
Expenditures				
Education	3,347,415	2,900,408	3,484,917	3,203,813
Human Services	4,402,681	4,347,675	4,269,562	4,665,643
Public Safety	778,997	783,712	842,487	905,510
Economic and Community Development	281,481	319,732	298,654	341,807
Natural Resources	460,214	508,367	484,410	573,781
Transportation	1,016,600	1,184,102	1,266,474	1,767,779
Consumer and Business Services	323,653	325,140	338,971	362,765
Administration	511,415	652,000	663,545	587,665
Legislative	26,718	29,637	25,181	30,688
Judicial	231,580	204,908	239,157	250,438
Capital Improvements/Construction	81,681	63,726	32,576	83,784
Debt Service:				
Principal	58,859	88,379	85,736	131,004
Interest	60,041	113,765	164,461	266,330
Other Debt Service	3,637	5,610	10,773	4,959
Total Expenditures	11,584,972	11,527,161	12,206,904	13,175,966
Excess of Revenues Over (Under) Expenditures	(806,306)	(233,659)	(431,463)	(241,437)
Other Financing Sources (Uses)				
Transfers from Other Funds	3,300,534	1,691,017	1,292,842	1,596,919
Transfers to Other Funds	(3,438,615)	(1,670,815)	(3,413,477)	(1,474,364)
Insurance Recoveries	-	-	-	-
Debt Issued	302,638	704,710	2,241,043	593,065
Refunding Debt Issued	260,435	60,130	127,577	21,625
Leases Incurred	7	107	-	3,939
Refunded Debt Payment to Escrow Agent	(270,769)	(62,543)	(144,206)	(130,389)
Contributions to Permanent Funds	48,638	-	-	-
Total Other Financing Sources (Uses)	202,868	722,606	103,779	610,795
Net Change in Fund Balances	\$ (603,438)	\$ 488,947	\$ (327,684)	\$ 369,358
Debt service as a percentage of noncapital expenditures	1.07%	1.84%	2.14%	3.17%

Schedule 4 (continued)
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
Last Ten Fiscal Years (In Thousands)
(Modified accrual basis of accounting)

	2006	2007	2008	2009	2010	2011
\$	7,839,265	\$ 6,783,293	\$ 8,259,483	\$ 7,004,715	\$ 7,123,205	\$ 7,952,882
	389,766	407,044	438,508	450,855	486,159	515,591
	4,661,448	4,670,353	4,973,781	6,044,251	7,413,272	7,971,721
	228,606	249,069	307,778	269,196	275,885	289,562
	89,559	101,714	100,175	87,915	88,718	81,049
	16,387	15,092	18,185	15,779	14,428	14,930
	253,152	438,158	168,314	(95,131)	198,153	270,265
	128,945	127,808	125,282	107,427	106,400	97,178
	20,637	33,525	36,940	71,339	24,552	57,757
	-	4,192	-	259	288	14
	67,145	70,281	90,297	98,078	82,327	77,426
	119,778	120,139	121,035	4,509	6,216	5,608
	-	-	-	-	13,716	50,827
	360,081	328,888	354,518	345,339	298,061	342,268
	14,174,769	13,349,556	14,994,296	14,404,531	16,131,380	17,727,078
	3,620,721	3,762,869	4,174,922	4,224,170	4,304,099	3,978,423
	4,877,485	4,825,597	5,347,990	6,120,267	7,031,421	7,716,623
	984,969	1,016,728	1,175,881	1,170,452	1,177,382	1,158,601
	309,614	333,064	354,396	397,936	456,169	483,292
	538,831	603,695	629,624	658,484	600,470	656,626
	1,461,987	1,656,189	1,636,160	1,709,819	1,898,077	1,956,722
	381,576	424,068	466,917	480,212	446,994	463,899
	626,743	436,933	526,691	417,348	435,164	399,918
	29,381	35,711	37,456	39,977	32,036	36,058
	270,927	288,445	311,716	317,665	310,468	317,297
	114,088	123,885	78,195	90,695	121,440	127,409
	131,702	136,294	179,171	229,599	264,679	300,823
	238,247	259,986	306,488	288,892	315,650	354,718
	4,823	5,588	2,320	8,162	9,248	4,961
	13,591,094	13,909,052	15,227,927	16,153,678	17,403,297	17,955,370
	583,675	(559,496)	(233,631)	(1,749,147)	(1,271,917)	(228,292)
	1,655,297	2,212,181	2,215,963	2,407,080	2,450,401	2,813,236
	(1,530,001)	(1,997,976)	(2,058,113)	(2,216,338)	(2,277,548)	(2,607,036)
	1,432	3,718	4,046	5,002	2,476	3,140
	586,744	786,524	99,721	1,166,080	1,058,693	425,955
	29,610	200,745	14,310	33,997	106,354	112,876
	-	-	134	17	558	18
	(38,777)	(210,383)	(15,036)	(35,261)	(182,531)	(129,074)
	-	-	-	-	-	-
	704,305	994,809	261,025	1,360,577	1,158,403	619,115
\$	1,287,980	\$ 435,313	\$ 27,394	\$ (388,570)	\$ (113,514)	\$ 390,823
	2.84%	3.03%	3.24%	3.27%	3.55%	3.85%

Schedule 5
PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(In Thousands)

	2001	2002	2003	2004
Farm earnings	\$ 828,185	\$ 829,111	\$ 1,133,222	\$ 1,266,992
Forestry, fishing, and related activities	1,202,356	1,268,658	1,312,549	1,331,352
Mining	95,413	108,317	110,338	129,145
Utilities	487,042	493,940	499,151	544,222
Construction	5,683,098	5,519,066	5,420,905	5,735,371
Manufacturing	12,068,658	11,477,755	11,692,933	12,444,768
Wholesale trade	4,590,286	4,684,768	4,932,924	5,369,704
Retail trade	5,940,814	6,012,167	6,143,951	6,427,161
Transportation and warehousing	2,652,130	2,699,411	2,794,115	3,032,861
Information	2,314,135	2,152,139	2,232,758	2,347,099
Finance and insurance	3,691,743	3,910,658	4,203,121	4,207,548
Real estate, rental, and leasing	1,759,380	1,786,438	1,798,816	1,797,189
Professional and technical services	5,191,634	5,062,805	5,032,742	5,451,694
Management of companies	2,085,570	1,988,387	2,082,404	2,192,056
Administrative and waste services	2,632,039	2,803,570	2,856,657	2,960,600
Educational services	692,734	765,148	825,098	940,048
Health care and social assistance	7,274,163	7,885,861	8,546,013	9,193,333
Arts, entertainment, and recreation	682,171	728,496	707,968	703,050
Accommodation and food services	2,383,381	2,449,514	2,592,964	2,771,718
Other services	2,730,684	3,080,209	3,128,763	3,331,909
Federal government, civilian	2,102,828	2,208,127	2,318,754	2,483,111
Military	269,098	344,069	465,924	495,087
State government	2,702,590	3,166,059	3,350,143	4,075,149
Local government	7,814,702	9,190,074	9,747,125	8,167,816
Other ¹	23,562,995	24,075,056	24,557,572	25,574,851
Total personal income	\$ 101,437,829	\$ 104,689,803	\$ 108,486,910	\$ 112,973,834
 Overall effective tax rate ²	 5.6%	 5.5%	 5.6%	 5.7%

Source: US Department of Commerce, Bureau of Economic Analysis and the Oregon Department of Revenue.

¹ Includes income from all sources other than wages, salaries, tips, etc.

² Overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). Overall effective tax rate for 2010 will not be available until May 2012.

Schedule 5 (continued)
PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(In Thousands)

	2005	2006	2007	2008	2009	2010
\$	1,251,155	\$ 1,395,741	\$ 1,446,619	\$ 1,375,002	\$ 1,124,466	\$ 1,199,494
	1,285,359	1,325,672	1,320,397	1,246,607	1,070,428	1,034,099
	149,690	176,688	175,259	165,695	123,108	117,990
	493,631	578,150	559,584	677,434	629,868	615,539
	6,300,773	7,136,634	7,323,047	7,129,886	5,773,539	5,564,543
	12,995,354	13,581,233	13,820,953	13,740,951	11,955,013	12,258,330
	5,727,877	6,117,489	6,510,830	6,611,501	6,154,276	6,296,290
	6,720,002	7,117,110	7,273,389	6,948,067	6,554,105	6,731,501
	3,237,643	3,398,816	3,513,825	3,376,090	3,113,532	3,170,913
	2,361,907	2,574,771	2,810,477	3,040,964	2,785,134	2,786,317
	4,549,970	4,937,162	4,981,382	4,724,625	4,651,584	4,703,753
	1,914,613	1,905,530	1,621,759	2,015,599	1,627,867	1,762,769
	5,844,322	6,445,319	6,823,824	7,315,781	6,705,903	7,089,436
	2,388,593	2,648,253	2,934,364	2,997,362	2,833,849	2,857,015
	3,272,372	3,571,935	3,666,746	3,664,589	3,386,396	3,507,504
	970,480	1,064,265	1,082,558	1,174,448	1,220,068	1,279,571
	9,663,907	10,423,447	11,101,613	11,983,058	12,168,977	12,627,611
	704,638	753,178	836,956	815,080	789,296	830,927
	2,923,274	3,093,413	3,337,472	3,305,510	3,122,343	3,363,755
	3,638,057	3,880,457	3,989,333	3,800,334	3,717,876	3,833,602
	2,556,461	2,637,867	2,725,309	2,834,507	2,904,332	3,002,662
	562,473	536,067	549,063	591,889	680,635	671,840
	2,937,564	3,067,642	3,257,357	3,532,111	3,763,455	3,831,591
	8,789,153	9,062,157	9,530,473	10,102,314	10,336,113	10,564,248
	26,394,808	29,974,094	32,628,679	37,779,547	38,282,306	40,140,638
\$	117,634,076	\$ 127,403,090	\$ 133,821,268	\$ 140,948,951	\$ 135,474,469	\$ 139,841,938
	5.7%	5.7%	5.7%	5.5%	5.5%	N/A

**Schedule 6
PERSONAL INCOME TAX RATES
Last Ten Calendar Years**

**Top Income Tax Rate is
Applied to Taxable Income in
Excess of**

Year	Top Rate	Single & Married Filing Separately	Married Filing Jointly & Head of Household	Overall Effective Tax Rate ¹
2001	9.0%	6,300	12,600	5.6%
2002	9.0%	6,250	12,500	5.5%
2003	9.0%	6,350	12,700	5.6%
2004	9.0%	6,500	13,000	5.7%
2005	9.0%	6,650	13,300	5.7%
2006	9.0%	6,850	13,700	5.7%
2007	9.0%	7,150	14,300	5.7%
2008	9.0%	7,300	14,600	5.5%
2009	11.0% ²	250,000	500,000	5.5%
2010	11.0%	250,000	500,000	N/A

Source: Oregon Department of Revenue

¹ The overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). The overall effective tax rate for 2010 will not be available until May 2012.

² The increases in the top tax rate and applicable taxable income levels in 2009 and 2010 are the result of the voters' passage of Oregon Measure 66 in January 2010. For tax year beginning 2012, the tax rate on households with income above \$250,000 (above \$125,000 for single filers) will drop to 9.9%.

Schedule 7
PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
 Calendar Years 2000 and 2009
 (Dollars In Thousands)

2000				
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$500,001 and higher	5,988	0.37%	\$ 674,832	16.08%
\$100,001–\$500,000	107,299	6.59%	1,217,250	29.01%
\$80,001–\$100,000	73,850	4.54%	399,873	9.53%
\$60,001–\$80,000	143,204	8.79%	562,083	13.39%
\$40,001–\$60,000	241,831	14.85%	623,983	14.87%
\$20,001–\$40,000	399,300	24.52%	540,196	12.87%
\$10,001–\$20,000	291,555	17.90%	142,114	3.39%
\$10,000 and lower	365,386	22.44%	35,918	0.86%
Total	1,628,413	100.00%	\$ 4,196,249	100.00%

2009				
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$500,001 and higher	5,704	0.32%	\$ 606,747	13.03%
\$100,001–\$500,000	179,713	10.16%	1,791,738	38.48%
\$80,001–\$100,000	109,040	6.17%	508,330	10.92%
\$60,001–\$80,000	169,472	9.58%	573,448	12.31%
\$40,001–\$60,000	250,429	14.16%	568,840	12.22%
\$20,001–\$40,000	406,962	23.01%	472,139	10.14%
\$10,001–\$20,000	284,295	16.08%	111,340	2.39%
\$10,000 and lower	362,782	20.52%	23,653	0.51%
Total	1,768,397	100.00%	\$ 4,656,235	100.00%

Source: Oregon Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Tax year 2009 is the most current year available.

Schedule 8
OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(Dollars In Thousands)

	2002	2003	2004	2005
Governmental Activities				
General Obligation Bonds	\$ 68,715	\$ 163,231	\$ 2,347,854	\$ 2,336,014
Revenue Bonds	749,042	807,478	763,110	1,093,936
Certificates of Participation	784,839	779,105	783,180	895,231
General Appropriation Bonds	-	469,960	466,214	440,372
Capital Leases	5	79	47	3,954
Business-type Activities				
General Obligation Bonds	2,317,143	2,149,557	2,016,631	2,009,091
Revenue Bonds	1,441,640	1,574,960	1,667,734	1,783,305
Certificates of Participation	28,018	25,475	18,288	20,633
Capital Leases	1,381	897	527	711
Total Primary Government	\$ 5,390,783	\$ 5,970,742	\$ 8,063,585	\$ 8,583,247
Percentage of Personal Income ¹	5.15%	5.50%	7.14%	7.30%
Per Capita ¹	\$ 1.53	\$ 1.68	\$ 2.26	\$ 2.38

Note: Details regarding the State's debt can be found in Notes 9 and 10 of the financial statements. Amounts of outstanding debt for bonds and certificates of participation represent the outstanding principal, net of discounts, premiums, and other adjustments.

¹ Ratios are calculated using personal income and population data found in Schedule 13.

Schedule 8 (continued)
OUTSTANDING DEBT BY TYPE
 Last Ten Fiscal Years
 (Dollars In Thousands)

2006	2007	2008	2009	2010	2011
\$ 2,321,899	\$ 2,334,620	\$ 2,325,539	\$ 2,361,621	\$ 2,333,486	\$ 2,656,983
1,458,648	2,098,181	2,040,137	2,770,290	3,326,393	3,344,929
1,090,086	1,090,193	1,081,694	1,283,559	1,496,727	1,295,323
413,026	383,655	351,958	296,002	235,916	171,624
3,464	2,949	2,480	1,899	13,250	9,638
1,991,627	2,065,472	2,271,016	2,335,703	2,265,774	2,422,682
1,694,009	1,672,267	1,761,874	1,669,920	1,645,617	1,584,235
22,916	31,589	31,320	97,097	120,933	111,319
490	335	164	137	697	615
\$ 8,996,165	\$ 9,679,261	\$ 9,866,182	\$ 10,816,228	\$ 11,438,793	\$ 11,597,348
7.06%	7.23%	7.00%	7.98%	8.18%	7.81%
\$ 2.45	\$ 2.60	\$ 2.62	\$ 2.84	\$ 2.98	\$ 3.00

Schedule 9
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
 Last Ten Fiscal Years
 (Dollars In Thousands)

Year	General Obligation Bonds	Percentage of Personal Income ¹	Per Capita
2002	\$ 2,385,858	2.28%	\$ 0.68
2003	2,312,788	2.13%	0.65
2004	4,364,485	3.86%	1.22
2005	4,345,105	3.69%	1.20
2006	4,313,526	3.39%	1.18
2007	4,400,092	3.29%	1.18
2008	4,596,555	3.26%	1.22
2009	4,697,324	3.47%	1.23
2010	4,599,260	3.29%	1.20
2011	5,079,665	3.42%	1.32

Note: Details regarding the State's debt can be found in Notes 9 and 10 of the financial statements. Amounts of outstanding general bonded debt represent the outstanding principal, net of discounts, premiums, and other adjustments.

¹ Ratios are calculated using personal income and population data found in Schedule 13.

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**Schedule 10
LEGAL DEBT MARGIN CALCULATION
For Fiscal Year 2011**

	Constitutional/Statutory Provision	Constitutional Debt Limit ¹	Statutory Debt Limit
General Obligation Bonds			
General Purpose	Article XI Section 7	0.00%	\$ -
State Highway	Article XI Section 7	1.00%	-
Veterans' Welfare	Article XI-A	8.00%	-
State Power Development	Article XI-D	1.50%	-
Forest Rehabilitation ²	Article XI-E	0.19%	-
Higher Education	Article XI-F(1) & XI-G	1.50%	-
Pollution Control	Article XI-H/ORS 468.195	1.00%	260,000,000
Water Resources	Article XI-I(1)	1.50%	-
Elderly and Disabled Housing	Article XI-I(2)	0.50%	-
Alternate Energy Projects	Article XI-J	0.50%	-
Oregon School Bond Guarantee	Article XI-K	0.50%	-
Oregon Opportunity Bonds (OHSU) ³	Article XI-L/ORS 353.556	0.50%	203,175,000
Seismic Rehab-Public Education Buildings	Article XI-M	0.20%	-
Seismic Rehab-Emergency Service Building	Article XI-N	0.20%	-
Pension Obligation	Article XI-O	1.00%	-
General Purpose GO's	Article XI-Q	1.00%	-
Revenue Bonds			
Transportation Infrastructure Bank	ORS 367.030	0.00%	\$ 200,000,000
Highway User Tax	ORS 367.620	0.00%	3,240,000,000
Single and Multi-Family Housing Programs	ORS 456.661	0.00%	2,500,000,000
Oregon State Fair	ORS 565.095	0.00%	10,000,000

Source: Office of the State Treasurer, Debt Management Division, and Oregon Constitution

Note: The legal debt limit for lottery revenue bonds is based on the requirement that unobligated net lottery proceeds be at least 400 percent of the maximum annual debt service on outstanding bonds, including the estimated debt service on proposed new bonds. The debt limit for lottery bonds is not a specific dollar amount; the limit varies based on changes in the amount of net lottery proceeds and changes in estimated debt service on proposed new bonds. Therefore, lottery revenue bonds are not included in this schedule.

¹ Percentages listed are of Real Market Value (RMV) of all taxable real property in the State, based on the January 1, 2010 RMV of \$458,518,867,537.

² Issuance of Forest Rehabilitation bonds is limited by statute to \$750,000 per year.

³ Bonds issued to finance capital costs of Oregon Health and Science University shall be in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million plus the amount of any costs and expenses of issuing the bonds.

Schedule 10 (continued)
LEGAL DEBT MARGIN CALCULATION
 For Fiscal Year 2011

Legal Debt Limit	Amount Outstanding	Legal Debt Margin
\$ 50,000	\$ -	\$ 50,000
4,585,188,675	-	4,585,188,675
36,681,509,403	374,341,959	36,307,167,444
6,877,783,013	-	6,877,783,013
859,722,877	-	859,722,877
6,877,783,013	1,776,051,015	5,101,731,998
260,000,000	42,234,082	217,765,918
6,877,783,013	-	6,877,783,013
2,292,594,338	146,038,240	2,146,556,098
2,292,594,338	247,295,113	2,045,299,225
2,292,594,338	-	2,292,594,338
203,175,000	157,200,663	45,974,337
917,037,735	11,435,983	905,601,752
917,037,735	11,260,916	905,776,819
4,585,188,675	2,017,160,000	2,568,028,675
4,585,188,675	296,646,941	4,288,541,734
\$ 81,105,230,828	\$ 5,079,664,912	\$ 76,025,565,916
\$ 200,000,000	\$ -	\$ 200,000,000
3,240,000,000	2,840,025,238	399,974,762
2,500,000,000	1,356,452,939	1,143,547,061
10,000,000	-	10,000,000
\$ 5,950,000,000	\$ 4,196,478,177	\$ 1,753,521,823

**Schedule 11
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(Dollars In Thousands)**

	2002	2003	2004	2005
General Obligation Bonds				
Debt limit	\$ 41,878,725	\$ 45,244,118	\$ 52,440,336	\$ 56,691,300
Total debt applicable to limit	2,385,858	2,312,788	4,364,485	4,345,105
Legal debt margin	<u>\$ 39,492,867</u>	<u>\$ 42,931,330</u>	<u>\$ 48,075,851</u>	<u>\$ 52,346,195</u>
Total debt applicable to the limit as a percentage of debt limit	5.70%	5.11%	8.32%	7.66%
Revenue Bonds				
Debt limit	\$ 3,110,000	\$ 3,110,000	\$ 4,838,000	\$ 4,838,000
Total debt applicable to limit	1,702,414	1,790,178	1,877,507	2,326,329
Legal debt margin	<u>\$ 1,407,586</u>	<u>\$ 1,319,822</u>	<u>\$ 2,960,493</u>	<u>\$ 2,511,671</u>
Total debt applicable to the limit as a percentage of debt limit	54.74%	57.56%	38.81%	48.08%

Source: Office of the State Treasurer, Debt Management Division, and state agencies' disclosures.

Note: Amounts of outstanding debt applicable to the debt limit represent the outstanding principal, net of discounts, premiums and other adjustments.

Schedule 11 (continued)
LEGAL DEBT MARGIN INFORMATION
 Last Ten Fiscal Years
 (Dollars In Thousands)

2006	2007	2008	2009	2010	2011
\$ 60,648,799	\$ 72,505,925	\$ 83,591,921	\$ 87,606,697	\$ 83,182,525	\$ 81,105,231
4,313,526	4,400,092	4,596,555	4,697,324	4,599,259	5,079,665
<u>\$ 56,335,273</u>	<u>\$ 68,105,833</u>	<u>\$ 78,995,366</u>	<u>\$ 82,909,373</u>	<u>\$ 78,583,266</u>	<u>\$ 76,025,566</u>
7.11%	6.07%	5.50%	5.36%	5.53%	6.26%
\$ 4,938,000	\$ 4,938,000	\$ 5,110,000	\$ 5,950,000	\$ 5,950,000	\$ 5,950,000
2,472,294	3,051,456	3,086,639	3,728,117	4,229,615	4,196,478
<u>\$ 2,465,706</u>	<u>\$ 1,886,544</u>	<u>\$ 2,023,361</u>	<u>\$ 2,221,883</u>	<u>\$ 1,720,385</u>	<u>\$ 1,753,522</u>
50.07%	61.80%	60.40%	62.66%	71.09%	70.53%

**Schedule 12
PLEDGED REVENUES
Last Ten Fiscal Years
(Dollars In Thousands)**

Lottery Revenue Bonds

Year	Revenues	Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002	\$ 820,646	\$ 489,470	\$ 331,176	\$ 27,295	\$ 23,441	\$ 50,736	6.53
2003	860,767	511,310	349,457	27,860	21,391	49,251	7.10
2004	883,446	502,100	381,346	36,410	26,718	63,128	6.04
2005	944,466	511,528	432,938	44,715	26,769	71,484	6.06
2006	1,092,446	533,895	558,551	47,670	27,159	74,829	7.46
2007	1,219,556	577,103	642,453	48,970	25,984	74,954	8.57
2008	1,262,601	583,829	678,772	56,795	33,714	90,509	7.50
2009	1,111,945	543,662	568,283	65,985	32,380	98,365	5.78
2010	1,033,880	517,196	516,684	73,051	51,802	124,853	4.14
2011	1,039,710	514,350	525,360	75,850	51,601	127,451	4.12

Source: Oregon State Lottery financial statements and the Oregon Department of Administrative Services, Budget and Management Division.

Lottery Bonds are secured by future unobligated net lottery proceeds. For additional information, see Note 12.

Highway User Tax Revenue Bonds

Year	Pledged Revenue	Debt Service Requirements			Coverage
		Principal	Interest	Total	
2002	\$ 369,976	\$ 1,095	\$ 2,978	\$ 4,073	90.84
2003	385,611	25,895	13,174	39,069	9.87
2004	421,185	6,550	12,541	19,091	22.06
2005	500,399	17,805	23,494	41,299	12.12
2006	487,582	14,040	26,649	40,689	11.98
2007	502,431	14,290	42,723	57,013	8.81
2008	487,125	34,405	60,155	94,560	5.15
2009	447,288	34,365	58,287	92,652	4.83
2010	501,808	41,805	70,020	111,825	4.49
2011	593,995	47,720	103,837	151,557	3.92

Source: Highway User Tax Bond official statements and the Oregon Department of Transportation.

Highway User Tax Revenue Bonds are secured by a pledge of motor fuels, weight-mile, and vehicle registration taxes.

Note: The State also issues revenue bonds that are primarily paid using loan repayments. Schedules for these bonds are not presented because an association of net revenues with debt service requirements is not meaningful.

**Schedule 13
DEMOGRAPHIC AND ECONOMIC INDICATORS
Last Ten Calendar Years**

Year	Population	Personal Income ¹	Per Capita Personal Income	Unemployment Rate
2002	3,513,424	\$ 104,689,803	\$ 29,797	7.6%
2003	3,547,376	108,486,910	30,582	8.1%
2004	3,569,463	112,973,834	31,650	7.3%
2005	3,613,202	117,634,076	32,557	6.2%
2006	3,670,883	127,403,090	34,706	5.3%
2007	3,722,417	133,821,268	35,950	5.2%
2008	3,768,748	140,948,951	37,399	6.5%
2009	3,808,600	135,474,469	35,571	11.1%
2010	3,838,957	139,841,938	36,427	10.8%
2011	3,861,600	148,500,000	38,456	9.8%

Source: Population and personal income figures for 2002 through 2010 were supplied by the US Department of Commerce, Bureau of Economic Analysis. The unemployment rates for all years were provided by the Oregon Employment Department.

2011 population and personal income estimates were made by the Oregon Office of Economic Analysis.

¹ Personal income presented in thousands.

Schedule 14
EMPLOYMENT BY INDUSTRY
Calendar Year 2010 and Nine Years Prior

	2001		2010	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Farm employment	67,687	3.24%	69,577	3.16%
Forestry, fishing, and related activities	28,829	1.38%	27,941	1.27%
Mining	3,325	0.16%	4,415	0.20%
Utilities	5,546	0.27%	4,828	0.22%
Construction	119,886	5.74%	104,865	4.76%
Manufacturing	226,667	10.85%	178,881	8.13%
Wholesale trade	81,566	3.91%	80,858	3.67%
Retail trade	235,673	11.28%	230,401	10.47%
Transportation and warehousing	63,613	3.05%	61,707	2.80%
Information	45,774	2.19%	39,098	1.78%
Finance and insurance	80,952	3.88%	96,304	4.37%
Real estate, rental, and leasing	80,224	3.84%	99,621	4.53%
Professional and technical services	114,982	5.50%	130,902	5.95%
Management of companies	27,632	1.32%	32,035	1.46%
Administrative and waste services	108,813	5.21%	112,435	5.11%
Educational services	34,850	1.67%	52,412	2.38%
Health care and social assistance	194,087	9.29%	253,186	11.50%
Arts, entertainment, and recreation	42,183	2.02%	52,428	2.38%
Accommodation and food services	140,719	6.74%	154,223	7.01%
Other services	107,570	5.15%	115,565	5.25%
Federal government, civilian	29,106	1.39%	30,576	1.39%
Military	12,681	0.61%	12,350	0.56%
State government	60,829	2.91%	72,024	3.27%
Local government	175,504	8.40%	184,440	8.38%
Total employment	2,088,698	100.00%	2,201,072	100.00%

Source: US Department of Commerce, Bureau of Economic Analysis

Note: Due to confidentiality issues, the names of the ten principal employers are not available. The categories presented are intended to provide alternative information regarding the concentration of employment in various business sectors.

**Schedule 15
GOVERNMENT EMPLOYEES
Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Education	12,402	12,402	12,691	12,691	12,411	12,411	13,117	13,117	13,394	13,394
Human Services	8,983	8,983	9,281	9,281	9,200	9,200	9,753	9,753	11,145	11,145
Public Safety	8,265	8,265	7,810	7,810	8,187	8,187	9,021	9,021	9,069	9,069
Economic and Community Services	1,940	1,940	1,846	1,846	1,753	1,753	1,650	1,650	1,991	1,991
Natural Resources	4,272	4,272	4,163	4,163	4,272	4,272	4,367	4,367	4,332	4,332
Transportation	4,742	4,742	4,602	4,602	4,579	4,579	4,535	4,535	4,554	4,554
Consumer and Business Services	1,589	1,589	1,559	1,559	1,550	1,550	1,593	1,593	1,592	1,592
Administration	2,736	2,736	2,817	2,817	2,879	2,879	2,958	2,958	2,882	2,882
Legislative Branch	418	418	394	394	393	393	404	404	381	381
Judicial Branch	1,865	1,865	1,896	1,896	1,907	1,907	1,975	1,975	1,766	1,766
Total FTE Positions	47,212	47,212	47,059	47,059	47,131	47,131	49,373	49,373	51,106	51,106

Source: Department of Administrative Services, Budget and Management

Note: The number of full time equivalent (FTE) positions is established in the legislatively adopted biennial budget. A distinction between governmental and business-type activities is not available.

Schedule 16
OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION
Last Ten Fiscal Years

	2002	2003	2004
Governmental Activities			
Education			
Number of PreK-12 students	551,679	554,071	551,407
Number of FTE community college students	102,019	100,023	93,221
Special education school campuses	2	2	2
Human Services			
Number of individuals eligible for Oregon Health Plan	376,063	380,646	359,325
Average number of basic TANF individuals	39,366	41,272	40,598
Public Safety			
Number of sworn state police officers	753	699	610
Prison inmate population	11,448	12,000	12,776
Number of correctional facilities	12	12	12
Economic and Community Development			
Community development grants provided (in dollars)	10,914,364	12,340,280	13,319,246
Number of technical assistance grants provided	7	3	6
Natural Resources			
Forest acres burned	99,166	9,346	5,941
State park day use visitors (in millions)	37.9	38.4	42.4
Acreage of state parks	95,462	95,313	99,030
Miles of forest roads	3,055	3,059	3,082
Transportation			
Licensed drivers (in millions)	2.9	2.8	2.9
Vehicle miles traveled on state highway system (in billions)	20.9	20.8	20.8
State highway system miles	7,476	7,448	7,441
Number of state owned bridges	2,658	2,664	2,670
Consumer and Business Services			
Number of employers covered by workers' compensation	84,432	85,310	86,115
Historic premiums written for all insurance lines (in billions)	13.9	13.7	14.4
Average bank and credit union assets (in billions)	32.5	37.4	37.7
Construction employment (in thousands)	78.3	77.0	82.7
Administration			
Number of tax returns filed	1,616,700	1,611,785	1,653,203
Percent of returns filed electronically	30.6%	34.7%	45.3%
Uniform rent square footage	1,690,606	1,690,606	1,796,482
Leased office space square footage	3,522,641	3,522,641	3,522,641
Number of motor pool vehicles	3,923	3,682	3,605
Legislative			
Number of bills introduced	-	2,769	-
Number of bills becoming law	-	817	-
Length of legislative session (in days)	52	227	-
Capital building	1	1	1
Judicial			
Cases filed in circuit courts	645,956	655,574	607,539
Number of circuit court judges	163	168	169

Sources: Various state agencies

Note: Figures for 2010 and 2011 that are not available until a later date are indicated with N/A.

Schedule 16 (continued)
OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION
Last Ten Fiscal Years

2005	2006	2007	2008	2009	2010	2011
552,320	559,215	562,828	566,067	564,064	561,698	561,331
92,054	91,401	91,456	94,587	105,149	121,815	124,988
2	2	2	2	2	1	1
374,751	381,343	365,940	386,662	426,578	495,872	590,406
42,119	40,527	39,096	41,243	48,321	54,994	61,768
582	607	557	646	604	660	773
12,875	13,229	13,497	13,553	13,925	14,021	14,026
13	13	13	14	14	14	14
11,454,006	17,040,564	9,607,717	10,704,034	2,791,056	15,065,341	8,093,200
6	8	3	6	5	4	4
11,588	11,458	54,104	7,860	7,000	6,065	2,044
40.6	40.1	41.4	40.3	40.1	41.2	40.0
101,010	97,340	97,447	97,446	100,379	103,474	105,684
3,123	3,155	3,202	3,225	3,255	3,305	3,377
3.0	3.0	3.1	3.1	3.1	3.0	N/A
20.7	20.7	20.6	19.5	19.8	19.7	N/A
7,426	7,420	7,416	7,415	7,422	7,415	N/A
2,664	2,676	2,666	2,671	2,681	2,693	2,703
87,150	89,685	91,551	92,058	90,400	93,800	N/A
15.0	16.2	17.4	17.9	17.7	17.2	N/A
35.4	46.0	58.7	40.7	42.0	40.5	N/A
90.8	100.9	104.2	94.7	73.9	67.7	N/A
1,697,166	1,755,568	1,835,095	1,805,843	1,768,397	N/A	N/A
50.7%	56.0%	60.0%	63.0%	67.0%	N/A	N/A
1,796,482	1,810,942	1,896,185	1,904,531	1,953,760	1,953,760	1,954,332
3,522,641	3,784,762	4,372,625	4,425,500	4,532,405	4,676,051	5,104,986
3,689	3,814	3,922	3,922	4,247	4,247	4,183
2,957	-	2,744	87	2,613	195	3,021
844	-	909	54	914	105	732
208	1	171	19	169	25	150
1	1	1	1	1	1	1
611,946	602,896	605,753	610,334	599,605	565,397	N/A
169	173	173	173	173	173	173

Schedule 16 (continued)
OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION
Last Ten Fiscal Years

	2002	2003	2004
Business-Type Activities			
Housing and Community Services			
Number of low income single family home loans closed	1,322	1,014	1,051
Number of affordable rental units produced	206	978	1,062
Veterans' Loan			
Number of outstanding loans	18,014	13,788	10,176
Percent of delinquent loans	0.43%	0.54%	0.39%
Lottery Operations			
Number of retailers	3,300	3,368	3,421
Number of video terminals	9,259	9,434	10,194
Unemployment Compensation			
Number of claims paid	4,648,216	5,025,707	2,903,857
Amount of claims paid (in millions)	1,153.0	1,277.8	718.1
University System			
Total headcount enrollment	78,111	79,558	80,066
Degrees awarded	13,729	15,274	16,349
Number of university campuses	7	7	7
State Hospitals			
Number of mental health clients served	291,527	282,675	295,183
Number of state owned hospital beds	880	833	810
Liquor Control			
Number of state retail outlets	238	237	239
Number of cases sold	1,812,009	1,889,240	2,014,098
Other Business-type Activities			
Number of residents in Oregon Veterans' Home	96	104	120
Number of state owned parking spaces	4,700	4,700	4,507

Schedule 16 (continued)
OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION
Last Ten Fiscal Years

2005	2006	2007	2008	2009	2010	2011
1,447	1,149	1,195	1,850	836	171	383
719	608	522	1,003	421	-	144
8,013	6,612	5,672	4,883	4,069	3,404	2,850
0.21%	0.32%	0.25%	0.10%	0.47%	0.73%	1.54%
3,484	3,579	3,691	3,785	3,855	3,916	3,901
10,438	11,125	11,831	12,205	12,365	12,344	12,202
2,209,165	1,923,182	2,050,678	3,275,097	8,422,488	8,762,507	N/A
558.0	503.4	569.4	954.9	2,688.4	2,704.1	N/A
80,888	81,002	82,249	86,546	91,580	96,960	100,316
16,694	16,979	17,116	16,897	16,944	17,920	18,606
7	7	7	7	7	7	7
304,731	284,265	282,993	284,640	268,052	247,104	232,892
834	781	790	788	756	709	719
241	243	241	242	240	243	247
2,108,035	2,295,797	2,431,531	2,551,732	2,572,865	2,573,935	2,676,106
132	135	140	140	138	144	140
4,507	4,507	4,656	4,665	4,568	4,545	4,544

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