Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

Oregon

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

John A. Kitzhaber, MD
Governor

Michael Jordan
State Chief Operating Officer
Director, Department of Administrative Services

George Naughton, State Chief Financial Officer

Report Prepared by:

Statewide Accounting and Reporting Services
Chief Financial Office, Department of Administrative Services

Kathryn Ross, CPA, Manager
Jeanne Bock, CPA
Li Deng
Kathy Dixon, CPA
Robert Hamilton, CPA
Barbara Homewood
Jane Moreland
Shrikant Vajratkar
Karen Williams

This page intentionally left blank.

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2012

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

FINANCIAL SECTION

STATISTICAL SECTION

This page intentionally left blank.

Introductory Section

Oregon
John A. Kitzhaber, MD, Governor

Department of Administrative Services
Chief Financial Office
155 Cottage Street NE U10
Salem, OR 97301

December 19, 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, 2012. 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, 2012. 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 the financial statements for fiscal year 2012 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, 2013.

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 should be read in conjunction with the letter of transmittal.

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 support, and judicial services. Oregon's primary government as reported in the accompanying financial statements consists of approximately 90 state agencies. In addition to the primary government, four entities are reported as discretely presented component units to emphasize that they are legally separate from the State. See Note 1 to the basic financial statements for a more detailed discussion of the reporting entity.

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 that 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 approval is required to transfer 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. See the notes to the required supplementary information for additional information about the budget process and budgetary monitoring.

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’ 23.9 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.

Rapid job growth from late 2003 to mid-2006 pulled Oregon’s 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 peak of 11.6 percent in the spring of 2009, the second highest in the nation. As of November 2012, Oregon’s unemployment rate was 8.4 percent compared to 9.1 percent in November 2011.

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 national recession, and the State lost 8.5 percent of its jobs before reaching bottom in February 2010. Since that low point, all of Oregon’s 11 major industries have added back jobs lost during the recession for a net gain of over 45,500 jobs.

Oregon’s major foreign export-related industries include computers and electronic products, agricultural products, chemicals, machinery, and transportation equipment. The largest foreign consumers of Oregon’s products are China, Canada, Malaysia, Japan, and South Korea. 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 2012 should grow about 1.3 percent over 2011’s level and is expected to grow another 1.5 percent in 2013, reflecting the modest recovery in jobs following the recession. Employment growth is expected to rise to 2.4 percent in 2014 and remain above 2 percent each year through 2016. The State’s current job growth mirrors the national trends, although Oregon’s future 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 the jobs cut during the recession. Professional and business services and health care and social assistance will likely add the most jobs between 2012 and 2016. Overall, employment in Oregon is expected to outpace population growth between 2012 and 2016.

Spending for education reported by the State’s governmental funds during fiscal year 2012 was up $83.8 million, or 2.1 percent, compared to fiscal year 2011, but was 40.1 percent higher than the amount spent on education ten years ago. Human services spending by the State’s governmental funds during fiscal year 2012 was up $552.1 million, or 7.2 percent, compared to fiscal year 2011, but was 90.2 percent higher than the amount spent in fiscal year 2003. Governmental fund expenditures for administration in fiscal year 2012 were down $56.7 million, or 14.2 percent, compared to fiscal year 2011 and were 47.4 percent lower than in fiscal year 2003. The slower growth rate in expenditures for education and administration, when compared to human services, reflects the continued demand for safety net programs during the recession and opportunities to use state debt to spur economic growth. 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 2012 were more than two times higher than the amount spent on debt service in fiscal year 2003.

During this same ten-year period, tax revenues, while increasing in amount overall, decreased 2.9 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 4.5 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 approved budget for the State of Oregon for the 2011-13 biennium, as adjusted during the 2012 legislative session, is $58.8 billion total funds, a decrease of $3.4 billion, or 5.5 percent, from the 2009-11 legislatively approved budget of $62.2 billion. The primary reason for the decrease is the significantly reduced amount of funding from the federal government from the economic stimulus and unemployment benefit extension programs. The State's federally funded expenditures jumped from $10.1 billion in the 2007-09 biennium to over $17.7 billion in 2009-11. In comparison, federally funded expenditures in the 2011-13 budget are $2.8 billion lower than amounts included in the 2009-11 budget, a decrease of nearly 16 percent. The decline in the 2011-13 total funds approved budget is the first biennial decline since the 1981-83 biennium.

Due to concerns about the remaining revenue forecasts for the 2011-13 biennium and budget restoration needs identified by the Joint Committee on Ways and Means, the 2012 legislative session focused on developing a budget rebalance plan for the General Fund. The co-chairs of the Joint Committee on Ways and Means agreed to a total rebalance problem of slightly over $200 million that was addressed through a combination of actions. These actions included selected program and service reductions; the re-appropriation of certain account balances; accessing additional resources provided to the State through three unanticipated legal settlements; and engaging the executive branch in reform actions to reduce administrative middle management positions and make other business operational changes.

Long-term Financial Planning

The 2011-13 legislatively approved budget for capital construction is $1.4 billion. This total includes $346.5 million of capital construction and deferred maintenance projects for the Oregon University System (OUS), funded through a variety of sources, including various categories of bonds, federal grants, donations, and other cash balances. Unlike biennia in the past, no General Fund resources were appropriated to support OUS capital construction or deferred maintenance expenditures. Debt service for the related bonds will come from lottery revenues, student fees, housing and dining revenues, and other campus funds.

The 2012 Legislature increased lottery revenue bond authority by $10.6 million to provide funding for community college capital projects. However, the additional lottery revenue bonds cannot be issued if the State Treasurer determines, after considering a report from the State Debt Policy Advisory Commission, that lottery-backed debt capacity is not sufficient. The next report on lottery-backed debt capacity is due no later than February 1, 2013.

The largest General Fund project included in the 2011-13 budget is $62.7 million for completion of the new facility to replace the original State Hospital constructed in 1893. The new 620-bed Salem campus began operations during fiscal year 2012, with four wards not scheduled to open until the beginning of the 2013-15 biennium. Debt service on the related bonds will be paid with General Fund resources.

In 2012, the Legislature also approved $10.1 million of other funds and $19.4 million of federal funds for construction of a veterans' home in Lebanon, a U.S. Veterans Administration priority project selected in June 2010. Local government funds from Linn County will provide approximately 35 percent of the project funding for this 150-bed facility. The State expects to complete this project in the fall of 2014.

The 2011-13 transportation budget includes $600 million in highway revenue bond proceeds for bridge construction authorized under the Oregon Transportation Investment Act of 2003. It also includes $75 million in bond proceeds for the State Radio 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, air, rail, and marine transportation infrastructure.

The December 2012 economic and revenue forecast projects $14 billion of General Fund gross revenues for the 2011-13 biennium. The projected General Fund ending balance for 2011-13 is $220.9 million. General Fund resources are forecasted to increase by 11.1 percent in the 2013-15 biennium and 11 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. Withdrawals from the Rainy Day Fund require one of three specific economic triggers to occur plus approval of three-fifths of both chambers of the Legislature. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question, while fund balance is capped at 7.5 percent of General Fund revenues in the prior biennium.

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. 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 is 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. This fund receives 18 percent of lottery earnings, deposited on a quarterly basis. The fund does not retain interest earnings. Fund balance is capped at five percent of General Fund revenues collected in the prior biennium.

The Rainy Day Fund ended the 2009-11 biennium with a cash balance of $10.4 million. The General Fund's ending cash balance for 2009-11 of $35.2 million was deposited into the Rainy Day Fund at the beginning of the 2011-13 biennium, Agency revisions from the 2009-11 biennium, plus savings related to the tax anticipation notes, added another $15.6 million to the Rainy Day Fund. The December 2012 economic and revenue forecast projects the Rainy Day Fund will end the 2011-13 biennium with a cash balance of $61.8 million.

The Education Stability Fund ended the 2009-11 biennium with a cash balance of $5.1 million. The December 2012 economic and revenue forecast projects the Education Stability Fund will end the current biennium with a cash balance of $6.9 million, which includes deposits of $184.1 million based on lottery sales and scheduled withdrawals of $182.9 million.

Major Initiatives

Of the major projects and related efforts included in the 2011-2013 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
- Oregon Health Authority's Health Insurance Exchange Project

The 2011 Legislature asked the Judicial Department to remediate 37 key program deficiency areas as a condition of approving additional funding for the eCourt Program. During the 2012 legislative session, the Judicial Department reported significant progress on 11 of the 37 key deliverables. As a result, the Legislature approved $23.4 million in other funds, which includes new bonding authority of $13.7 million, for the program's continued development. The Judicial Department was further instructed to move forward with five pilot and early adopter eCourt implementations scheduled to start during 2011-13. The Legislature also instructed the Judicial Department to develop an implementation and evaluation plan for the Multnomah County Circuit Court, including a comprehensive post-implementation review and lessons learned report that could be utilized to verify readiness for the remaining 30-plus trial court implementations.

The 2011 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 simply to 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 was set aside for expenditure in the 2011-13 biennium and $43 million in the 2013-15 biennium. During the 2012 session, the Department of Transportation reported on the overall status of the project, including its efforts to incorporate existing statewide private systems into its final wireless network solution. The agency also reported on the status of partnership agreements and future plans to deal with both technology and interoperability challenges.

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 2011 Legislature directed the Oregon Health Authority to develop a detailed project plan that identified the key activities, milestones, and performance measures necessary to ensure the project proceeds according to schedule and budget. (A health insurance exchange (HIX) 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.) Oregon resources dedicated to the project are approximately $55 million. During the 2012 legislative session, the Oregon Health Authority reported on progress to date with instructions to report on the remaining project management deliverables and overall HIX program progress during the 2012 interim period.

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, 2011. This was the twentieth consecutive year that the State has achieved this prestigious award. To receive the 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 Chief Financial Office 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 policy section of the Chief Financial Office, the Office of the State Treasurer, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

George Naughton
Chief Financial Officer
State of Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Oregon

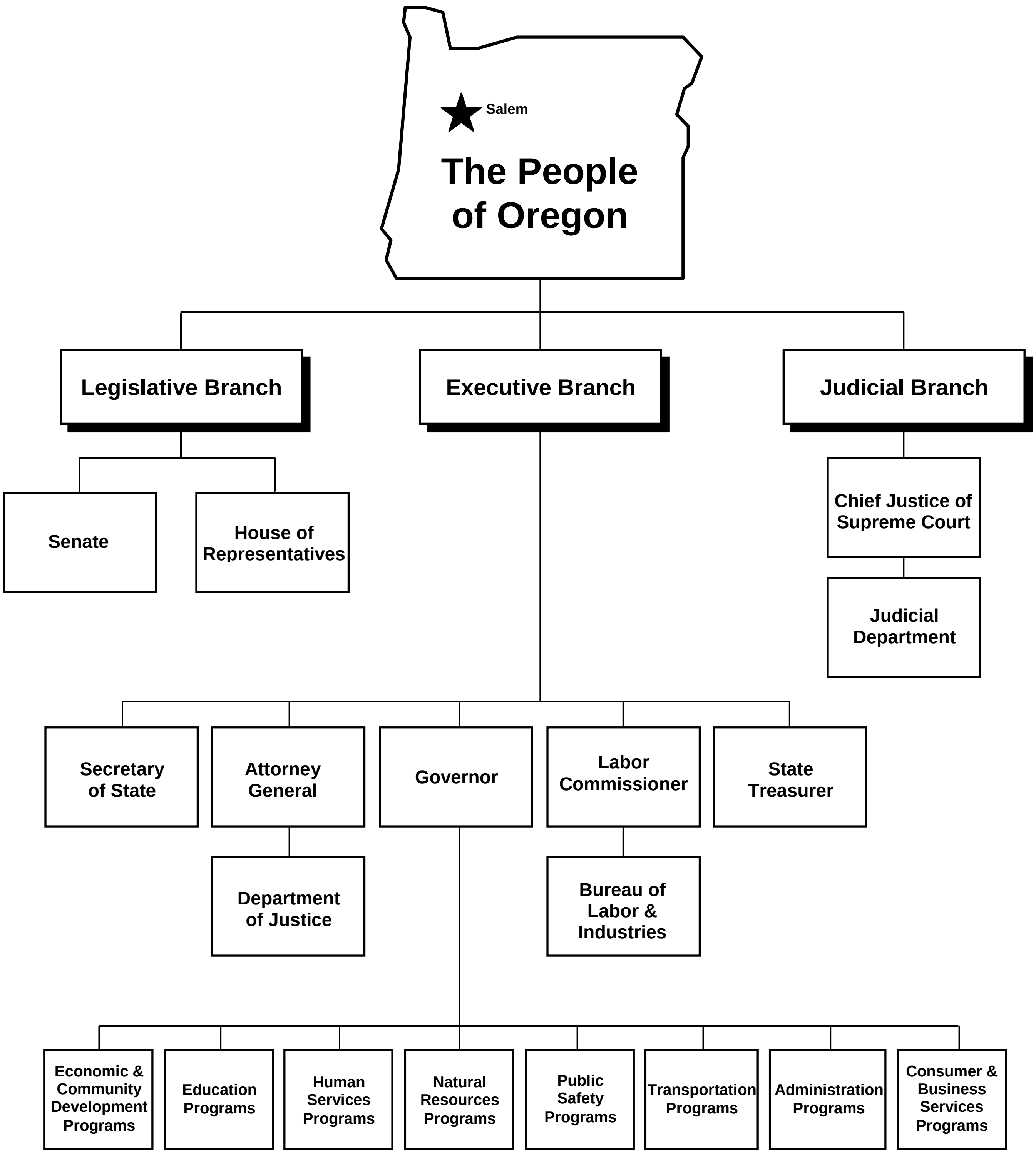
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.

President

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

Ellen F. Rosenblum, Attorney General

Brad Avakian, Commissioner, Labor and Industries

LEGISLATIVE

Peter Courtney, Senate President

Bruce Hanna, Co-speaker of the House of Representatives
Arnie Roblan, Co-speaker of the House of Representatives

JUDICIAL

Thomas A. Balmer, Chief Justice of the Supreme Court

This page intentionally left blank.

Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Brian Shipley
Deputy Secretary of State

Audits Division

Gary Blackmer
Director

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

(503) 986-2255
fax (503) 378-6767

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, 2012, 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, the Oregon University System, the Veterans' Loan Fund, the Common School Fund or the Public Employees Retirement System. Those financial statements represent part or all of the total assets, net assets/fund balance, and revenues/additions of opinion units as indicated below:

Opinion Unit	Percent of Assets	Percent of Net Assets/ Fund Balance	Percent of Revenues/ Additions
Governmental Activities	5%	8%	0.1%
Business-type Activities	48%	38%	36%
Discretely Presented Component Units	100%	100%	100%
Common School – Major Governmental Fund	100%	100%	100%
Veterans' Loan – Major Enterprise Fund	100%	100%	100%
University System – Major Enterprise Fund	100%	100%	100%
Aggregate Remaining Funds:			
Public Employees Retirement System	85%	89%	28%

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 above opinion units 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. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report 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, 2012, 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.

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

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 combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the combining fund financial statements are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State of Oregon's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date in the Oregon Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

December 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Oregon (State) for the fiscal year ended June 30, 2012. The MD&A is intended to serve as an introduction to the State's 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 matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes, and required supplementary information should be reviewed in their entirety.

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, 2012, the assets of the State exceeded its liabilities by $15.9 billion (net assets). Of this amount, $1.9 billion were classified as unrestricted net assets, while $3.7 billion were restricted for specific uses. The remaining $10.3 billion were invested in capital assets, net of related debt.
- The State's total net assets increased $785.9 million compared to the prior year. The net assets for governmental activities increased 3.4 percent, while the net assets for business-type activities increased 10 percent.
- As of June 30, 2012, the State's governmental funds reported combined ending fund balances of $4.7 billion. Of this total, approximately 2.5 percent was considered nonspendable and included amounts related to inventories, prepaid amounts, and permanent fund principal.
- Approximately 87.3 percent of ending governmental 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 $4.1 billion.
- The remaining 10.2 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 balances may be spent at the government's discretion. Total unrestricted fund balances equaled $481.2 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 netted to a negative $101.3 million. The negative amount is due primarily to the net change in total other financing sources and uses. General Fund transfers to other funds exceeded transfers from other funds by $198.8 million.
- Outstanding debt (bonds and certificates of participation) decreased by $450.1 million during fiscal year 2012. As part of an overall plan to reduce borrowing costs, the State was involved in 12 separate debt refunding issuances and refunded $943.2 million of previously existing debt with $905.3 million of new debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the MD&A, 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 four other entities in its report: SAIF Corporation, Oregon Health and Science University, the Oregon University System Foundations, and the Oregon Affordable Housing Assistance Corporation. Although legally separate, these entities are reported as component units either because they are fiscally dependent on the State 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 detail 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 20 individual governmental funds. Information is presented separately in the governmental fund financial statements for the five major governmental funds, including the General Fund. Data from the other 15 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 discretely presented component units, SAIF Corporation, Oregon Health and Science University, the Oregon University System Foundations, and the Oregon Affordable Housing Assistance Corporation, 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 provide 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 57-156 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 160, 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 Public Employees Benefit Board Plan, an agent multiple-employer postemployment healthcare benefit plan, and the Retiree Health Insurance Premium Account, a defined benefit single-employer postemployment healthcare benefit plan.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 172 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, 2012, were approximately $15.9 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 $10.3 billion. Restricted net assets represent resources that are subject to external restrictions on how they may be used. At June 30, 2012, restricted net assets totaled $3.7 billion. The remaining balance of $1.9 billion was classified as unrestricted net assets.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Other assets and deferred outflows	$ 9,114.8	$ 10,180.9	$ 6,435.7	$ 6,844.0	$ 15,550.5	$ 17,024.9
Capital assets	12,147.2	11,690.4	3,090.8	2,841.0	15,238.0	14,531.4
Total assets and deferred outflows	21,262.0	21,871.3	9,526.5	9,685.0	30,788.5	31,556.3
Long-term liabilities	7,989.9	8,173.6	3,972.1	4,156.5	11,962.0	12,330.1
Other liabilities	2,080.6	2,868.9	886.5	1,283.8	2,967.1	4,152.7
Total liabilities	10,070.5	11,042.5	4,858.6	5,440.3	14,929.1	16,482.8
Net assets:						
Invested in capital assets, net of related debt	8,888.1	8,107.7	1,383.1	1,195.6	10,271.2	9,303.3
Restricted	3,143.9	2,582.7	506.0	670.7	3,649.9	3,253.4
Unrestricted	(840.5)	138.4	2,778.8	2,378.4	1,938.3	2,516.8
Total net assets	$ 11,191.5	$ 10,828.8	$ 4,667.9	$ 4,244.7	$ 15,859.4	$ 15,073.5

Changes in net assets. The State's total net assets increased $785.9 million compared to the prior year. The net assets of governmental activities increased 3.4 percent, while the net assets of business-type activities increased 10 percent.

Total ending net assets of governmental activities for fiscal year 2012 were $11.2 billion compared to $10.8 billion reported in fiscal year 2011. Total operating grants and contributions were down $924.1 million, reflecting the significant reduction in funding from federal economic stimulus programs. However, personal income taxes and other taxes enjoyed healthy increases.

Personal income taxes, as shown in Table 2, rose by 5.4 percent in fiscal year 2012. This increase was due to a combination of factors, including an improving labor market as Oregon emerges from the recession, strong growth in the investment income of individual taxpayers, and enhanced collection efforts.

Within other taxes, the most significant change is attributable to healthcare provider taxes, which grew 81.3 percent in fiscal year 2012. These taxes are used to support higher Medicaid reimbursement for services as well as benefits for the Oregon Health Plan. The 2009 Legislature approved new hospital taxes and health insurance premium assessments through September 30, 2013. During the 2011 legislative session, significantly higher hospital taxes were negotiated in order to avoid large budget reductions in the Oregon Health Plan. The tax was increased from the old rate of 2.32 percent, potentially up to a rate of 5.25 percent.

Year over year, capital grants and contributions declined $60.6 million, or 62 percent. In fiscal year 2011, the State issued bonds for community college capital construction projects, which required each institution to provide matching funds; similar bonds were not issued in fiscal year 2012. In addition, a federally funded project to construct a military reserve center was completed early in fiscal year 2012.

Spending on education increased by $82.3 million, or 2 percent, while spending for human services increased $651.4 million, or 8.6 percent. The increase in human services expenses reflects the continued demand for safety net programs during the prolonged recession. However, this increase was partially offset by a $161 million reduction in expenses for consumer and business services. House Bill 2009, which was passed by the 2009 Legislature, authorized the creation of a new healthcare agency, the Oregon Health Authority (OHA), and authorized the transfer to OHA of the duties, functions and powers of the Oregon Medical Insurance Pool, which previously had been accounted for under consumer and business services.

Transportation program costs also declined in fiscal year 2012. The State distributed $197 million in lottery bond proceeds in the previous fiscal year to pay for the extension of the Portland-Milwaukie Light Rail Project. No similar distribution occurred in fiscal year 2012.

As shown in Table 2, total ending net assets of business-type activities for fiscal year 2012 were $4.7 billion compared to $4.2 billion reported in fiscal year 2011. 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 the operating expenses of the Unemployment Compensation Fund, which dropped $577.1 million, or 25 percent. Together, these two changes reflect Oregon's slowly improving unemployment rate.

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

	Governmental Activities		Business-type Activities		Total	
Revenues:	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	$ 1,426.2	$ 1,403.7	$ 4,397.7	$ 4,224.1	$ 5,823.9	$ 5,627.8
Operating grants and contributions	7,400.7	8,324.8	1,621.3	1,986.4	9,022.0	10,311.2
Capital grants and contributions	37.1	97.7	36.8	60.1	73.9	157.8
General revenues:						
Personal income taxes	5,901.4	5,597.8	-	-	5,901.4	5,597.8
Corporate income taxes	440.4	502.9	-	-	440.4	502.9
Other taxes	2,258.6	1,924.0	16.9	16.2	2,275.5	1,940.2
Unrestricted investment earnings	11.2	3.3	-	-	11.2	3.3
Total revenues	17,475.6	17,854.2	6,072.7	6,286.8	23,548.3	24,141.0
Expenses:						
Education	4,061.8	3,979.5	-	-	4,061.8	3,979.5
Human services	8,186.5	7,535.1	-	-	8,186.5	7,535.1
Public safety	1,235.6	1,180.4	-	-	1,235.6	1,180.4
Economic & community development	416.7	480.2	-	-	416.7	480.2
Natural resources	619.5	629.2	-	-	619.5	629.2
Transportation	1,394.8	1,566.2	-	-	1,394.8	1,566.2
Consumer and business services	263.6	424.5	-	-	263.6	424.5
Administration	349.6	376.8	-	-	349.6	376.8
Legislative	34.8	37.8	-	-	34.8	37.8
Judicial	326.8	313.9	-	-	326.8	313.9
Interest on long-term debt	367.8	351.7	-	-	367.8	351.7
Housing and community services	-	-	75.9	78.2	75.9	78.2
Veterans' loan	-	-	18.6	19.4	18.6	19.4
Lottery operations	-	-	534.0	510.4	534.0	510.4
Unemployment compensation	-	-	1,729.4	2,306.5	1,729.4	2,306.5
University system	-	-	2,300.5	2,146.9	2,300.5	2,146.9
State hospitals	-	-	270.8	248.0	270.8	248.0
Liquor control	-	-	344.5	325.4	344.5	325.4
Other business-type activities	-	-	268.7	269.2	268.7	269.2
Total expenses	17,257.5	16,875.3	5,542.4	5,904.0	22,799.9	22,779.3
Increase (decrease) before contributions, special and extraordinary items, and transfers	218.1	978.9	530.3	382.8	748.4	1,361.7
Contributions to permanent funds	0.1	-	-	-	0.1	-
Additions to permanent endowments	-	-	0.2	-	0.2	-
Transfers	125.9	(62.9)	(125.9)	62.9	-	-
Increase (decrease) in net assets	344.1	916.0	404.6	445.7	748.7	1,361.7
Net assets – beginning	10,828.8	9,877.5	4,244.7	3,735.3	15,073.5	13,612.8
Prior period adjustments	18.6	35.3	18.6	63.7	37.2	99.0
Net assets – beginning – as restated	10,847.4	9,912.8	4,263.3	3,799.0	15,110.7	13,711.8
Net assets – ending	$11,191.5	$ 10,828.8	$ 4,667.9	$ 4,244.7	$ 15,859.4	$15,073.5

Figure 1 below illustrates fiscal year 2012 revenues of the State as a whole, by source. Approximately 38.3 percent of total revenue was provided by other entities and governments in the form of operating grants and contributions (e.g., federal revenues). Personal and corporate income taxes provided 26.9 percent of total revenues, while charges for services accounted for 24.7 percent.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2012

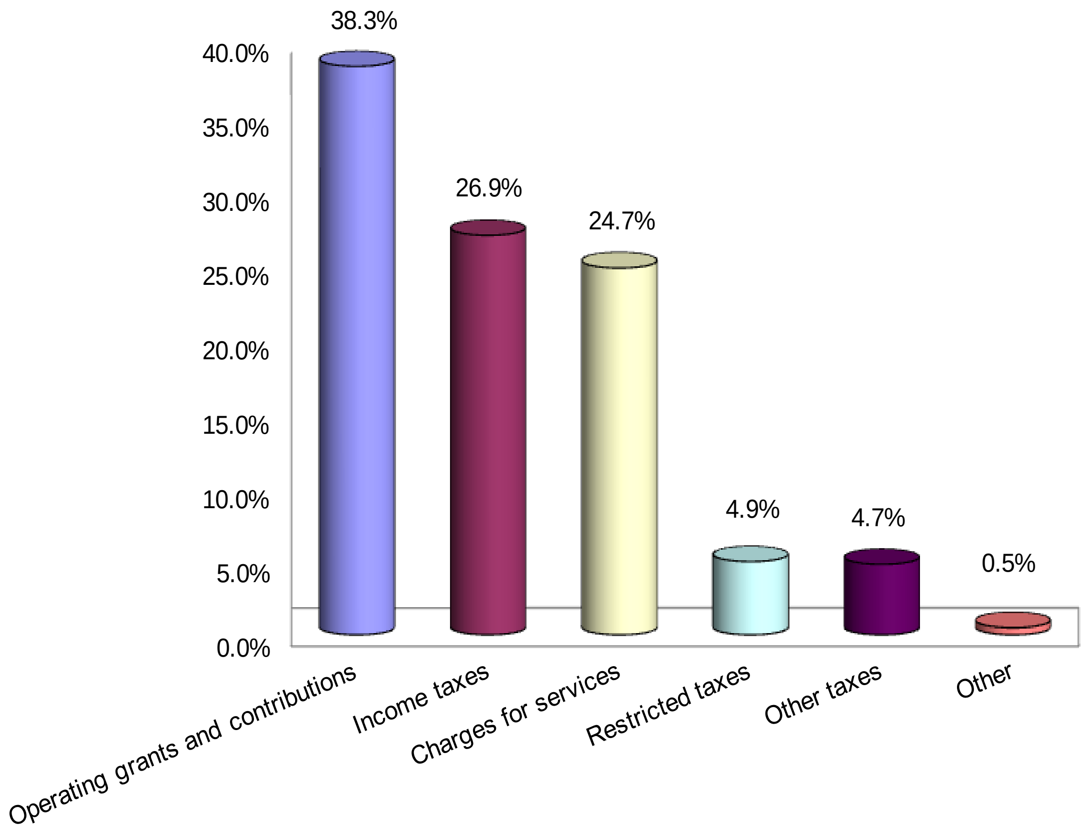
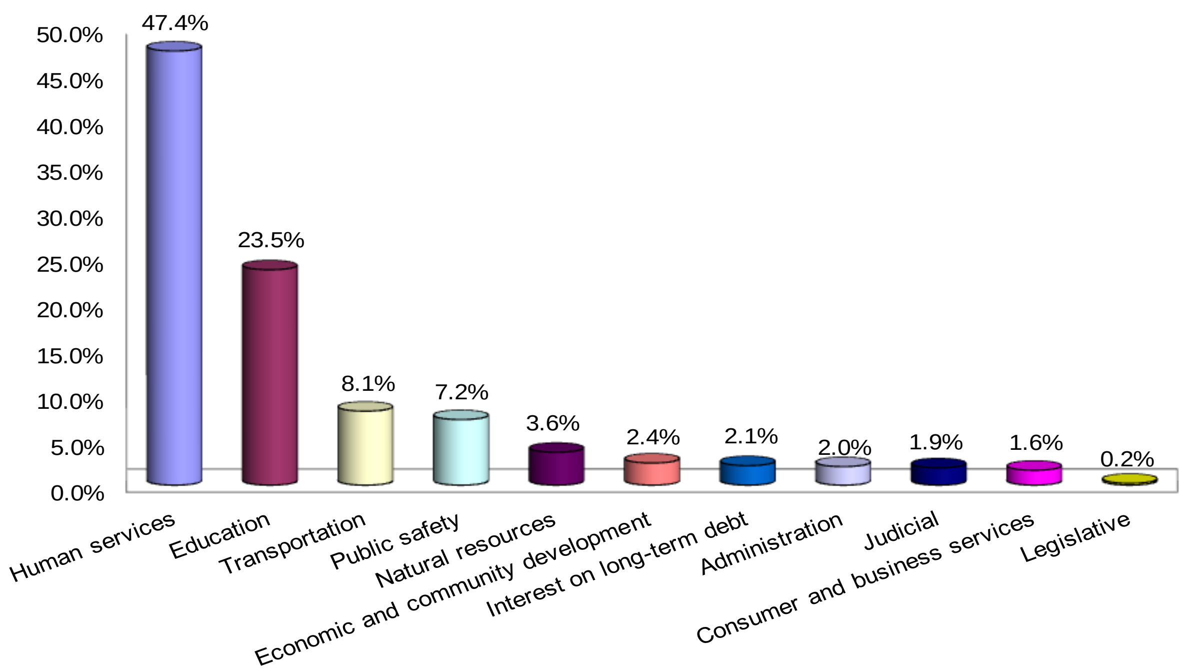


Figure 2 below shows governmental activity expenses for the State as a whole, by function. The cost of providing human services for Oregon citizens in need of assistance comprised 47.4 percent of total expenses. Elementary and secondary education accounted for 23.5 percent of the total.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2012



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 2012, the State's governmental funds reported combined ending fund balances of $4.7 billion, down $251.3 million compared to the prior year.

Nonspendable balances of $116.4 million, or 2.5 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 $4.1 billion, or 87.3 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 $606.6 million comprised 12.9 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 $37.5 million represents amounts constrained by the State's intent to use them for specific purposes. Legislative authority is not required to create or modify an assignment. The unassigned fund balance category of a negative $162.9 million represents the residual amount applicable to the General Fund only.

In the General Fund, which is the operating fund of the State, total ending fund balance for fiscal year 2012 decreased $202.7 million, or 83 percent, from the prior year. Although total revenues grew by 7.5 percent, spending on education and human services, plus transfers to other funds of $1.1 million dollars, exceeded available revenues and other financing sources. As a result, the General Fund ended fiscal year 2012 with a $41.5 million fund balance.

Due to the implementation of GASB Statement No. 54, the State now reports the Oregon Rainy Day Fund as part of the General Fund. Beginning fund balance for the separate Rainy Day Fund was $10.4 million. Ending cash balances from the 2009-11 biennium of $35.2 million were deposited in the Rainy Day Fund at the beginning of the 2011-13 biennium. Agency revisions for the 2009-11 biennium, plus savings related to the tax anticipation notes, added another $15.6 million. As of June 30, 2012, $61.5 million of the General Fund's ending fund balance was attributable to the Rainy Day Fund and was classified as committed fund balance.

The Health and Social Services Fund saw a 23.7 percent reduction in fund balance for fiscal year 2012. Healthcare provider taxes jumped 81.3 percent, due to an increase in the provider tax rates. However, this increase was more than offset by the continued demand for spending on human services programs. In addition, transfers to other funds increased when it was determined that the State's self-insured healthcare plans should be reported as part of the Central Services Fund, an internal service fund.

Due to the significant reduction in federal stimulus programs, federal revenues reported by the Public Transportation Fund declined $169.4 million, or 21.5 percent. In addition, investment income fell $4.8 million, or 33.1 percent. These revenue reductions were accompanied by a substantial decrease in spending. Transportation program costs dipped $382.4 million, or 19.8 percent, enough to generate a 5.2 percent increase in ending fund balance for fiscal year 2012. In fiscal year 2011, the State distributed $197 million in lottery bond proceeds to pay for the extension of the Portland-Milwaukie Light Rail Project. No similar distribution occurred in fiscal year 2012.

Ending fund balance in the Environmental Management Fund increased $57.6 million, or 7.3 percent. Operating revenues and expenditures remained relatively flat year over year; total revenues rose slightly, just 1.9 percent, while total expenditures declined 2.9 percent. The major contributor to the increase in fund balance was the positive net change in transfers to/from other funds. In fiscal year 2011, transfers from other funds exceeded transfers to other funds by $62.2 million; in fiscal year 2012, transfers from other funds exceeded transfers to other funds by $82.7, a 32.9 percent increase. The increase in current year transfers from other funds was primarily the result of budget funding shifts.

The Common School Fund experienced a 4.9 percent decline in fund balance for fiscal year 2012. Due to flagging market performance, financial assets returned a negative $8.3 million in the current year compared to a positive $207.5 million in the prior year, resulting in a 104 percent drop in investment income. Revenue related to unclaimed property declined $35.5 million, a decrease of 69.9 percent compared to the $50.8 million reported in fiscal year 2011. The 2011 unclaimed property revenue included a one-time adjustment to reflect more accurately the value of abandoned property not expected to be repaid to claimants.

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 more 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 2012, the Housing and Community Services Fund reported an operating loss of $3.6 million; operating expenses declined 2.9 percent, while operating revenue declined 7.7 percent. However, investment earnings quadrupled in fiscal year 2012 and more than offset the operating loss. The net result was a $10.2 million increase in fund equity as of June 30, 2012. The Veterans' Loan Fund also experienced an operating loss. Unlike the previous year, the current year operating loss of $5.1 million was only partially offset by investment income. Investment income reported by the fund decreased 42.4 percent from $4 million in fiscal year 2011 to $2.3 million in fiscal year 2012. The net result was a decrease in ending net assets of $2.6 million.

Net assets in the Lottery Operations Fund increased $3 million in fiscal year 2012. For the second year in a row, the Lottery reported an increase in net product sales; current year sales were up $12.4 million, or 1.2 percent. This increase was primarily attributable to an increase in Video Lottery^{SM} revenue. During the year, new game sets were deployed on select Video Lottery^{SM} terminals to offer a wide variety of game choices that appeal to a diverse audience. Although economic conditions continued to impact consumer spending on entertainment such as lottery games, this is the second consecutive year of slight gains in Video Lottery[SM] revenue. Investment income increased $14.2 million due primarily to favorable changes in the fair value of its investments. The Lottery also transferred $531 million to other funds, a decrease of $24.1 million compared to the prior fiscal year. Of the total amount transferred to other funds, the Economic Development Fund received $523.7 million.

For fiscal year 2012, the Unemployment Compensation Fund reported assessments of $1.1 billion, an increase of only 5.5 percent compared to a 30 percent jump in fiscal year 2011. The 2011 increase was the result of an administrative decision by the Employment Department to add a temporary surcharge to agency assessments in the prior year. Federal revenues declined for the second year in a row, as benefit payments to unemployed Oregonians continued to decrease, down $584 million, or 25.5 percent. These two factors reflect Oregon’s declining unemployment rate and, in some cases, the expiration of extended benefits. Because of these changes, net assets in the Unemployment Compensation Fund increased $295.6 million, or 23.5 percent.

The University System Fund saw a 6.9 percent increase in total operating revenues compared to an 11.5 percent jump in fiscal year 2011. At the same time, operating expenses increased 7.1 percent, which was on track with the prior year. The net result was an operating loss $394.4 million for fiscal year 2012, an amount which was 8.3 percent greater than the operating loss reported in the prior year. In spite of the operating loss, the University System Fund saw a small increase in net assets of $10.2 million due primarily to transfers from other funds, including a transfer of $343.5 million from the General Fund

In fiscal year 2012, significant capital contributions were recorded for the second year in a row in the other (nonmajor) proprietary fund. Capital assets of approximately $116.1 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 2012, approximately 59.5 percent of the total net assets reported by the State’s proprietary funds was classified as unrestricted and was available for spending on business-type activities. However, restrictions significantly affected the availability of resources in the Housing and Community Services Fund with 96 percent of the fund’s net assets restricted for debt service. In the University System Fund, 59.3 percent of net assets was invested in capital assets, net of related debt, while 18.6 percent was restricted for education, debt service, capital construction, and 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, decreased by $1.7 billion, or 2.8 percent. The net depreciation in fair value of investments was the primary factor contributing to this decrease. 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 taken during the year. For the 2011-13 biennium, final estimated revenues for the General Fund increased slightly compared to the original estimate. The General Fund’s final budgeted expenditures increased by $161.2 million, or 1.2 percent.

Because of Oregon’s biennial process, budget to actual comparisons are not final until the second year of the biennium. For the first year of the 2011-13 biennium, actual expenditures and other financing uses exceeded actual General Fund revenues and other financing sources by $298.2 million, leaving an ending budget balance of $68.5 million. Actual revenues for the first year of the biennium were 48.6 percent of final budgeted revenues, or $6.7 billion, while actual cash expenditures were 52 percent of those budgeted, or $7.1 billion.

To manage differences in the timing of cash flows, the State issued $639.5 million of tax anticipation notes in July 2012. These notes will be repaid with income tax revenue prior to the end of fiscal year 2013.

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. The 2012 Legislature increased lottery revenue bond authority by $10.6 million to provide funding for community college capital projects. However, the additional lottery revenue bonds cannot be issued if the State Treasurer determines, after considering a report from the State Debt Policy Advisory Commission, that lottery-backed debt capacity is not sufficient. The next report on lottery-backed debt capacity is due no later than February 1, 2013. As of June 30, 2012, 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.

Debt outstanding for the years ended June 30, 2012 and 2011 is summarized in Table 3. Oregon voters approved a constitutional amendment in November 2010 authorizing the use of general obligation bonds under Article XI-Q to finance (or refinance) the costs of acquiring, constructing, and equipping real or personal property that is or will be owned or operated by the State. In fiscal year 2012, the majority of general obligation bonds issued were Article XI-Q bonds to finance or refinance the new state mental hospital, the Judicial Department's eCourt system, prison construction, renovation of the Department of Transportation's headquarters building, and the State Radio Project. Other general obligation bonds were issued to finance acquisition and construction of new higher education facilities.

During fiscal year 2012, revenue bonds were issued for transportation and economic development projects, and residential assistance for low-income families. The majority of new revenue bonds issued for business-type activities in fiscal year 2012 were single-family mortgage bonds.

The State was involved in 12 separate debt refunding issuances in fiscal year 2012 and refunded $943.2 million of previously existing debt with $905.3 million of new debt. 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, 2012 and 2011
(dollars in millions)

			2012 Over (Under) 2011	
	2012	2011	Amount	Percent
General Obligation Bonds	$ 5,270.4	$ 5,079.7	$ 190.7	3.8%
Revenue Bonds	4,685.3	4,929.2	(243.9)	-4.9%
Certificates of Participation	1,082.1	1,410.2	(328.1)	-23.3%
General Appropriation Bonds	102.8	171.6	(68.8)	-40.1%
Total	$ 11,140.6	$ 11,590.7	$ (450.1)	-3.9%

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, was $15.2 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 2012 increased $706.6 million, or 4.9 percent.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 1,782.6	$ 1,778.3	$ 135.1	$ 132.2	$ 1,917.7	$ 1,910.5
Buildings, property and equipment	1,848.0	1,800.9	2,514.5	2,256.2	4,362.5	4,057.1
Construction in progress	1,253.1	1,469.8	320.8	332.7	1,573.9	1,802.5
Infrastructure	7,261.5	6,639.5	51.7	47.4	7,313.2	6,686.9
Works of art and other nondepreciable assets	2.0	1.9	68.7	72.5	70.7	74.4
Total	$ 12,147.2	$ 11,690.4	$ 3,090.8	$ 2,841.0	$ 15,238.0	$ 14,531.4

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

- The State's construction commitments related to highway and bridge construction totaled $618.6 million at June 30, 2012.
- The increase in buildings, property and equipment in the business-type activities was primarily the result of the completion of the final phases of the Oregon State Hospital replacement project and construction of 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 2012 was 8.4 percent compared to 9.1 percent in November 2011. The U.S. unemployment rate for November 2012 was 7.7 percent. Since reaching a high point of 11.6 percent in May and June 2009, the rate has slowly declined over the past three and a half years.

After a strong start to the year, with employment increasing nearly 3 percent on an annual basis in the first calendar quarter, employment gains have slowed the past two quarters in Oregon. As of November 2012, job growth was up 1.2 percent on the year with the expectation that slow growth will continue to be the norm. Oregon is not expected to recover all of the jobs lost until the end of 2014, seven years after the recession began.

Over the past year, job growth has been widespread across Oregon's industries, with only information and financial service firms seeing small declines in the private sector. Public sector employment continued to fall. However, the losses have lessened in recent months. The largest gains have been in professional and business services, leisure and hospitality, and retail trade. Health services and construction have also added jobs over the past year. These five main industry groups account for approximately 60 percent of all private sector gains, with manufacturing accounting for another 16 percent. Within manufacturing, gains were led by durable goods, particularly metals and machinery.

The outlook for the 2013-15 biennium calls for some modest improvement in revenue growth. However, state revenue collections will still likely fail to keep pace with the growing cost of providing public services. The primary risk facing the near-term revenue forecast is the uncertain future of the nationwide economic expansion. Should federal government austerity or the slowdown in Europe and Asia derail the U.S. economy, Oregon tax collections will come in far below the forecast.

Revenue growth in Oregon will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes will become less effective, and revenue growth will fail to match the pace seen in the past.

The December 2012 forecast for General Fund revenues for the 2011-13 biennium is $13.9 billion. This figure is $71 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 $220.9 million. The latest revenue forecast projects increases in General Fund revenues for the next two biennia, up 11.1 percent to $15.5 billion in 2013-15 and 11 percent to $17.2 billion in 2015-17.

Basic Financial Statements

Statement of Net Assets
June 30, 2012
(In Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS AND DEFERRED OUTFLOWS				
Current Assets:				
Cash and Cash Equivalents	$ 1,285,611	$ 2,134,971	$ 3,420,582	$ 295,945
Cash and Cash Equivalents - Restricted	-	21,704	21,704	-
Investments	1,056,888	27,224	1,084,112	4,212,229
Investments - Restricted	-	52,104	52,104	-
Securities Lending Collateral	346,195	222,672	568,867	199,304
Accounts and Interest Receivable (net)	684,238	562,310	1,246,548	648,925
Taxes Receivable (net)	619,899	-	619,899	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	203,503
Internal Balances	199,292	(199,292)	-	-
Due from Component Units	6	20,561	20,567	-
Due from Other Governments	-	10,567	10,567	1,788
Due from Primary Government	-	-	-	13,552
Inventories	84,695	37,298	121,993	18,137
Prepaid Items	7,997	27,163	35,160	60,992
Foreclosed and Deeded Property	-	13,350	13,350	-
Total Current Assets	4,284,821	2,930,632	7,215,453	5,654,375
Noncurrent Assets:				
Cash and Cash Equivalents - Restricted	1,440,827	526,511	1,967,338	-
Investments	136,188	123,774	259,962	511,573
Investments - Restricted	260,321	572,018	832,339	1,830,308
Custodial Assets	10,439	-	10,439	-
Taxes Receivable (net)	456,148	-	456,148	-
Deferred Charges	35,730	14,299	50,029	11,689
Interfund Loans	(278)	278	-	-
Advances to Component Units	-	42,457	42,457	-
Net Contracts, Notes, and Other Receivables	261,638	124,137	385,775	3,566
Loans Receivable (net)	611,982	2,061,243	2,673,225	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	56,119
Net Pension Asset	1,617,000	-	1,617,000	-
Capital Assets:				
Land	1,782,577	135,147	1,917,724	82,746
Buildings, Property, and Equipment	3,268,266	4,278,627	7,546,893	2,292,608
Construction in Progress	1,253,065	320,751	1,573,816	83,860
Infrastructure	16,545,150	103,974	16,649,124	-
Works of Art and Other Nondepreciable Assets	2,032	68,678	70,710	-
Less Accumulated Depreciation and Amortization	(10,703,855)	(1,816,419)	(12,520,274)	(1,107,736)
Total Noncurrent Assets	16,977,230	6,555,475	23,532,705	3,764,733
Deferred Outflows	-	40,393	40,393	15,957
Total Assets and Deferred Outflows	21,262,051	9,526,500	30,788,551	9,435,065

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

Statement of Net Assets
June 30, 2012
(In Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES AND DEFERRED INFLOWS				
Current Liabilities:				
Accounts and Interest Payable	629,594	265,411	895,005	281,400
Obligations Under Securities Lending	346,195	222,672	568,867	199,315
Due to Component Units	13,467	1,234	14,701	-
Due to Other Governments	157,250	6,253	163,503	20,588
Due to Primary Government	-	-	-	27,452
Unearned Revenue	68,728	126,161	194,889	234,158
Matured Bonds/COPs and Coupons Payable	-	1,762	1,762	-
Compensated Absences Payable	115,495	58,600	174,095	56,668
Reserve for Loss and Loss Adjustment Expense	-	-	-	225,388
Claims and Judgments Payable	131,180	13,959	145,139	18,678
Lottery Prize Awards Payable	-	29,320	29,320	-
Arbitrage Rebate Payable	896	123	1,019	-
Custodial Liabilities	226,066	32,098	258,164	8,698
Contracts, Mortgages and Notes Payable	11,900	13,249	25,149	1,948
Bonds/COPs Payable	370,880	115,537	486,417	11,794
Obligations Under Capital Lease	5,687	65	5,752	4,034
Pollution Remediation Obligation	3,296	56	3,352	-
Total Current Liabilities	2,080,634	886,500	2,967,134	1,090,121
Noncurrent Liabilities:				
Obligations Under Life Income Agreements	-	-	-	89,130
Compensated Absences Payable	59,496	8,591	68,087	-
Reserve for Loss and Loss Adjustment Expense	-	-	-	2,794,005
Claims and Judgments Payable	904,725	-	904,725	42,550
Lottery Prize Awards Payable	-	125,041	125,041	-
Arbitrage Rebate Payable	384	16,342	16,726	-
Custodial Liabilities	3,297	11,445	14,742	-
Contracts, Mortgages, and Notes Payable	42,807	23,708	66,515	65,873
Bonds/COPs Payable	6,925,897	3,725,246	10,651,143	750,847
Obligations Under Capital Lease	2,802	491	3,293	629
Advances from Primary Government	-	-	-	42,457
Pollution Remediation Obligation	7,366	-	7,366	-
Net OPEB Obligation	43,119	21,026	64,145	8,071
Derivative Instrument Liabilities	-	40,244	40,244	15,957
Total Noncurrent Liabilities	7,989,893	3,972,134	11,962,027	3,809,519
Total Liabilities and Deferred Inflows	10,070,527	4,858,634	14,929,161	4,899,640
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	8,888,097	1,383,060	10,271,157	645,610
Expendable Net Assets Restricted for:				
Health and Social Services Programs	182,687	-	182,687	-
Transportation Programs	638,069	-	638,069	-
Natural Resource Programs	702,393	-	702,393	-
Education	1,161,931	159,469	1,321,400	959,809
Community Protection	40,565	-	40,565	-
Consumer Protection	69,113	-	69,113	-
Employment Services	119,641	-	119,641	-
Workers' Compensation	-	-	-	1,174,124
Residential Assistance	88,383	2,582	90,965	-
Debt Service	186	265,395	265,581	-
Capital Projects	2,125	61,999	64,124	-
Other Purposes	111,902	-	111,902	-
Nonexpendable Net Assets Restricted for:				
Donor Purposes	-	16,546	16,546	742,226
Education	1,786	-	1,786	175,023
Residential Assistance	23,424	-	23,424	-
Natural Resource Programs	1,500	-	1,500	-
Workers' Compensation	250	-	250	-
Unrestricted	(840,528)	2,778,815	1,938,287	838,633
Total Net Assets	$ 11,191,524	$ 4,667,866	$ 15,859,390	$ 4,535,425

Statement of Activities
For the Year Ended June 30, 2012
(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
Education	$ 4,061,791	$ 12,774	$ 632,458	$ -	$ (3,416,559)
Human Services	8,186,498	531,658	5,225,178	2,187	(2,427,475)
Public Safety	1,235,617	141,432	178,975	17,849	(897,361)
Economic and Community Development	416,683	27,340	344,487	-	(44,856)
Natural Resources	619,535	306,336	196,523	745	(115,931)
Transportation	1,394,815	140,219	587,526	16,353	(650,717)
Consumer and Business Services	263,541	69,000	17,553	-	(176,988)
Administration	349,555	96,006	215,786	-	(37,763)
Legislative	34,839	2,388	30	-	(32,421)
Judicial	326,803	99,052	2,187	-	(225,564)
Interest on Long-term Debt	367,826	-	-	-	(367,826)
Total Governmental Activities	17,257,503	1,426,205	7,400,703	37,134	(8,393,461)
Business-type Activities:					
Housing and Community Services	75,879	72,298	13,938	-	10,357
Veterans' Loan	18,628	13,426	2,327	-	(2,875)
Lottery Operations	534,018	1,050,315	17,744	-	534,041
Unemployment Compensation	1,729,355	1,083,438	973,106	-	327,189
University System	2,300,493	1,356,609	607,569	33,875	(302,440)
State Hospitals	270,793	75,012	-	-	(195,781)
Liquor Control	344,540	470,421	-	-	125,881
Other Business-type Activities	268,659	276,209	6,570	2,895	17,015
Total Business-type Activities	5,542,365	4,397,728	1,621,254	36,770	513,387
Total Primary Government	$ 22,799,868	$ 5,823,933	$ 9,021,957	$ 73,904	$ (7,880,074)
Component Units:					
SAIF Corporation	$ 573,267	$ 381,048	$ 215,706	$ -	$ 23,487
Oregon Health and Science University	2,015,806	1,645,339	445,017	4,059	78,609
Oregon University System Foundations	204,072	24,412	196,939	-	17,279
Oregon Affordable Housing Asst. Comm.	45,206	-	45,206	-	-
Total Component Units	$ 2,838,351	$ 2,050,799	$ 902,868	$ 4,059	$ 119,375

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

Statement of Activities
For the Year Ended June 30, 2012
(In Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (Expense) Revenue	$ (8,393,461)	$ 513,387	$ (7,880,074)	$ 119,375
General Revenues:				
Taxes:				
Personal Income Taxes	5,901,448	-	5,901,448	-
Corporate Income Taxes	440,444	-	440,444	-
Tobacco Taxes	249,388	-	249,388	-
Healthcare Provider Taxes	423,951	-	423,951	-
Inheritance Taxes	102,351	-	102,351	-
Public Utilities Taxes	72,310	-	72,310	-
Insurance Premium Taxes	94,583	-	94,583	-
Other Taxes	156,256	16,893	173,149	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	492,188	-	492,188	-
Weight Mile Taxes	260,091	-	260,091	-
Vehicle Registration Taxes	281,799	-	281,799	-
Restricted for Workers' Compensation and Workplace Safety Programs:				
Workers' Compensation Insurance Taxes	53,669	-	53,669	-
Employer-Employee Taxes	71,977	-	71,977	-
Total Taxes	8,600,455	16,893	8,617,348	-
Unrestricted Investment Earnings	11,157	-	11,157	-
Contributions to Permanent Funds	76	-	76	-
Additions to Permanent Endowments	-	159	159	-
Transfers - Internal Activities	125,915	(125,915)	-	-
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	8,737,603	(108,863)	8,628,740	-
Change in Net Assets	344,142	404,524	748,666	119,375
Net Assets - Beginning	10,828,780	4,244,753	15,073,533	4,415,927
Prior Period Adjustments	18,602	18,589	37,191	123
Net Assets - Beginning - As Restated	10,847,382	4,263,342	15,110,724	4,416,050
Net Assets - Ending	$ 11,191,524	$ 4,667,866	$ 15,859,390	$ 4,535,425

Balance Sheet
Governmental Funds
June 30, 2012
(In Thousands)

	General	Health and Social Services	Public Transportation
ASSETS			
Cash and Cash Equivalents	$ 61,504	$ 306,537	$ 576,550
Investments	4,987	-	121,775
Custodial Assets	75	-	-
Securities Lending Collateral	7,916	62,882	100,191
Accounts and Interest Receivable (net)	19,141	242,317	54,489
Taxes Receivable (net)	930,564	58,566	77,314
Due from Other Funds	240,822	62,109	94,349
Due from Component Units	-	-	-
Inventories	27,916	644	25,471
Prepaid Items	5,426	-	514
Advances to Other Funds	-	-	-
Net Contracts, Notes, and Other Receivables	21,278	6,210	3,772
Loans Receivable (net)	-	725	33,899
Total Assets	$ 1,319,629	$ 739,990	$ 1,088,324
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	$ 122,436	$ 165,409	$ 69,638
Obligations Under Securities Lending	7,916	62,882	100,191
Due to Other Funds	448,944	17,550	17,168
Due to Component Units	-	13,467	-
Due to Other Governments	34,783	-	73,350
Deferred Revenue	654,478	8,070	21,383
Custodial Liabilities	8,864	22,656	28
Contracts, Mortgages, and Notes Payable	74	-	-
Advances from Other Funds	648	-	-
Total Liabilities	1,278,143	290,034	281,758
Fund Balances:			
Nonspendable	33,361	696	25,951
Restricted by:			
Federal Laws and Regulations	1,280	30,381	28,830
Oregon Constitution	41,874	717	247,991
Enabling Legislation	59,489	214,510	70,282
Debt Covenants	6,815	58,095	433,512
Donors and Other External Parties	-	4,733	-
Committed	61,534	125,532	-
Assigned	-	15,292	-
Unassigned	(162,867)	-	-
Total Fund Balances	41,486	449,956	806,566
Total Liabilities and Fund Balances	$ 1,319,629	$ 739,990	$ 1,088,324

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

Environmental Management	Common School	Other	Total
$ 331,365	$ 52,417	$ 996,248	$ 2,324,621
-	1,018,352	232,372	1,377,486
1,022	7,248	2,095	10,440
49,138	8,724	86,111	314,962
53,383	7,180	245,521	622,031
-	-	9,603	1,076,047
82,631	136	266,298	746,345
-	-	6	6
25,851	3	3,287	83,172
50	-	835	6,825
-	19,300	-	19,300
12,551	703	217,033	261,547
407,091	-	170,241	611,956
$ 963,082	$ 1,114,063	$ 2,229,650	$ 7,454,738
$ 13,783	$ 23,856	$ 155,536	$ 550,658
49,138	8,724	86,111	314,962
7,060	786	51,609	543,117
-	-	-	13,467
15,403	-	33,712	157,248
27,662	752	224,758	937,103
4,502	180,545	6,219	222,814
-	-	-	74
300	-	19,088	20,036
117,848	214,663	577,033	2,759,479
26,004	3	30,337	116,352
529,892	-	83,418	673,801
80,748	645,697	448,281	1,465,308
96,621	252,540	310,147	1,003,589
45,733	-	398,013	942,168
1,374	1,160	5,591	12,858
59,551	-	359,957	606,574
5,311	-	16,873	37,476
-	-	-	(162,867)
845,234	899,400	1,652,617	4,695,259
$ 963,082	$ 1,114,063	$ 2,229,650	$ 7,454,738

This page intentionally left blank.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012
(In Thousands)

Total fund balances of governmental funds		$	4,695,259
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	1,773,234		
Buildings, property, and equipment	2,686,676		
Construction in progress	1,244,823		
Infrastructure	16,544,513		
Works of art and other nondepreciable assets	1,865		
Accumulated depreciation and amortization	(10,382,258)		
Total capital assets			11,868,853
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)			1,617,000
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.			888,030
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.			435,787
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.			34,851
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	(7,178,587)		
Accrued interest on bonds and COPs	(51,608)		
Claims and judgments	(846,351)		
Compensated absences	(164,051)		
Obligations under capital lease	(1)		
Net OPEB obligation	(41,241)		
Arbitrage rebate	(1,280)		
Pollution remediation obligation	(10,662)		
Contracts, mortgages, and notes payable	(54,475)		
Total long-term liabilities			(8,348,256)
Net assets of governmental activities		$	11,191,524

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012
(In Thousands)

	General	Health and Social Services	Public Transportation
Revenues:			
Personal Income Taxes	$ 5,876,050	$ -	$ -
Corporate Income Taxes	441,802	-	-
Tobacco Taxes	67,908	190,688	-
Healthcare Provider Taxes	-	423,951	-
Inheritance Taxes	101,364	-	-
Public Utilities Taxes	-	-	-
Insurance Premium Taxes	46,455	48,120	-
Motor Fuels Taxes	-	-	490,992
Weight Mile Taxes	-	-	259,984
Vehicle Registration Taxes	-	-	281,358
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	81,235	-	1,801
Licenses and Fees	120,506	14,053	80,842
Federal	105	3,969,872	617,754
Charges for Services	22,014	201,030	45,257
Fines and Forfeitures	65,768	171	4,367
Rents and Royalties	490	14	5,772
Investment Income (Loss)	11,157	2,043	9,630
Sales	1,343	2,078	4,679
Donations and Grants	1,069	5,376	25
Contributions to Permanent Funds	-	-	-
Tobacco Settlement Proceeds	-	78,940	-
Foreclosure Settlement Proceeds	25,253	-	-
Pension Bond Debt Service Assessments	-	-	-
Unclaimed Property Revenue	-	-	-
Other	18,896	317,958	8,118
Total Revenues	6,881,415	5,254,294	1,810,579
Expenditures:			
Current:			
Education	3,349,773	-	-
Human Services	1,862,595	5,133,945	-
Public Safety	896,257	-	-
Economic and Community Development	21,458	-	-
Natural Resources	62,379	-	-
Transportation	8,957	-	1,550,480
Consumer and Business Services	5,596	75	-
Administration	222,265	1	60,248
Legislative	31,603	-	-
Judicial	308,072	1,413	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	85,774	-	-
Interest	53,632	1	600
Other Debt Service	1,700	578	398
Total Expenditures	6,910,061	5,136,013	1,611,726
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,646)	118,281	198,853
Other Financing Sources (Uses):			
Transfers from Other Funds	940,311	96,331	89,478
Transfers to Other Funds	(1,139,103)	(307,604)	(265,747)
Insurance Recoveries	225	-	-
Long-term Debt Issued	16,322	57,710	-
Debt Issuance Premium	3,037	4,788	-
Refunding Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	(179,208)	(148,775)	(176,269)
Net Change in Fund Balances	(207,854)	(30,494)	22,584
Fund Balances - Beginning	244,154	589,792	767,013
Prior Period Adjustments	3,730	(108,895)	18,112
Fund Balances - Beginning - As Restated	247,884	480,897	785,125
Change in Inventories	1,456	(447)	(1,143)
Fund Balances - Ending	$ 41,486	$ 449,956	$ 806,566

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

	Environmental Management	Common School	Other	Total
	$ -	$ -	$ -	$ 5,876,050
	-	-	-	441,802
	-	-	-	258,596
	-	-	-	423,951
	-	-	-	101,364
	-	-	72,310	72,310
	-	-	8	94,583
	-	-	-	490,992
	-	-	-	259,984
	-	-	-	281,358
	-	-	71,977	71,977
	-	-	53,669	53,669
	23,218	-	37,990	144,244
	125,966	993	128,120	470,480
	170,970	-	2,493,228	7,251,929
	42,172	155	61,733	372,361
	453	126	66,469	137,354
	2,381	4,094	2,894	15,645
	12,620	(8,292)	24,673	51,831
	78,646	327	4,833	91,906
	565	-	17,100	24,135
	-	-	76	76
	-	-	-	78,940
	-	-	-	25,253
	-	-	5,681	5,681
	-	15,308	-	15,308
	16,278	107	79,322	440,679
	473,269	12,818	3,120,083	17,552,458
	-	-	712,471	4,062,244
	-	-	1,272,203	8,268,743
	-	-	323,595	1,219,852
	-	-	394,937	416,395
	503,032	14,367	43,683	623,461
	-	-	9,602	1,569,039
	-	-	275,885	281,556
	-	-	60,742	343,256
	-	-	1,686	33,289
	-	-	26,614	336,099
	-	-	129,337	129,337
	9	-	245,798	331,581
	1	-	296,640	350,874
	37	-	4,104	6,817
	503,079	14,367	3,797,297	17,972,543
	(29,810)	(1,549)	(677,214)	(420,085)
	146,461	11,201	1,078,053	2,361,835
	(63,756)	(54,969)	(401,640)	(2,232,819)
	18	333	100	676
	1,241	-	94,886	170,159
	-	-	87,213	95,038
	-	-	502,389	502,389
	-	-	(574,833)	(574,833)
	83,964	(43,435)	786,168	322,445
	54,154	(44,984)	108,954	(97,640)
	787,600	945,289	1,612,669	4,946,517
	5,246	(905)	(69,029)	(151,741)
	792,846	944,384	1,543,640	4,794,776
	(1,766)	-	23	(1,877)
	$ 845,234	$ 899,400	$ 1,652,617	$ 4,695,259

This page intentionally left blank.

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, 2012
(In Thousands)

Net change in fund balances of total governmental funds		$ (97,640)
Amounts reported for governmental activities in the Statement of Activities are different because:		
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:		
Capital outlay	694,350	
Depreciation expense	(295,604)	
Excess of capital outlays over depreciation		398,746
The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net assets.		(124,628)
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Assets.		(767,586)
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.		906,414
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.		18,372
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.		
Accrued interest on long-term debt	(27,670)	
Claims and judgments payable	17,020	
Compensated absences	(9,078)	
Net pension asset	(61,700)	
Net OPEB obligation	(5,670)	
Pollution remediation obligation	(19,825)	
Contracts, mortgages, and notes payable	224	
Total		(106,699)
Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the governmental funds.		201
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.		(75,458)
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.		(1,877)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income of the internal service funds is reported within governmental activities.		194,297
Change in net assets of governmental activities		$ 344,142

Balance Sheet
Proprietary Funds
June 30, 2012
(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	$ 5,747	$ 70,538	$ 233,605
Cash and Cash Equivalents - Restricted	7,748	1,970	-
Investments	-	14,526	12,698
Investments - Restricted	52,104	-	-
Securities Lending Collateral	5,601	22,652	107,815
Accounts and Interest Receivable (net)	7,487	1,581	20,669
Due from Other Funds	33	68	-
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	2,266
Prepaid Items	43	9	476
Foreclosed and Deeded Property	10,640	1,908	-
Total Current Assets	89,403	113,252	377,529
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	70,852	140,316	-
Investments	-	7,006	116,768
Investments - Restricted	214,124	-	-
Deferred Charges	9,522	1,305	-
Advances to Other Funds	-	-	-
Advances to Component Units	-	-	-
Net Contracts, Notes, and Other Receivables	-	1,082	3,097
Loans Receivable (net)	1,223,595	217,023	-
Capital Assets:			
Land	-	-	-
Buildings, Property, and Equipment	174	8,925	183,985
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Other Nondepreciable Assets	-	627	-
Less Accumulated Depreciation and Amortization	(163)	(5,089)	(140,824)
Total Noncurrent Assets	1,518,104	371,195	163,026
Deferred Outflows	37,197	3,047	-
Total Assets and Deferred Outflows	$ 1,644,704	$ 487,494	$ 540,555

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 1,227,438	$ 268,040	$ 329,603	$ 2,134,971	$ 378,670
64	1,477	10,445	21,704	-
-	-	-	27,224	-
-	-	-	52,104	-
1,172	58,388	27,044	222,672	31,232
289,227	217,551	25,760	562,275	62,195
-	7,626	1,176	8,903	3,980
-	20,561	-	20,561	-
10,567	-	-	10,567	-
-	7,606	27,426	37,298	1,522
-	25,675	960	27,163	1,171
-	-	802	13,350	-
1,528,468	606,924	423,216	3,138,792	478,770
1,738	264,292	49,313	526,511	23,148
-	-	-	123,774	-
-	357,894	-	572,018	75,912
-	-	3,472	14,299	879
-	-	96,977	96,977	648
-	42,457	-	42,457	-
68,774	51,170	14	124,137	91
-	-	620,625	2,061,243	26
-	128,165	6,982	135,147	9,343
-	3,616,434	469,109	4,278,627	581,590
-	320,068	683	320,751	8,242
-	101,926	2,048	103,974	637
-	68,011	40	68,678	167
-	(1,604,266)	(66,077)	(1,816,419)	(321,597)
70,512	3,346,151	1,183,186	6,652,174	379,086
-	149	-	40,393	-
$ 1,598,980	$ 3,953,224	$ 1,606,402	$ 9,831,359	$ 857,856

(continued on next page)

Balance Sheet
Proprietary Funds
June 30, 2012
(In Thousands)
(continued from previous page)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
LIABILITIES, DEFERRED INFLOWS, AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	$ 28,757	$ 678	$ 8,847
Obligations Under Securities Lending	5,601	22,652	107,815
Due to Other Funds	7	-	126,123
Due to Other Governments	-	-	-
Due to Component Units	-	-	-
Unearned Revenue	1,252	-	318
Matured Bonds/COPs and Coupons Payable	-	95	-
Compensated Absences Payable	137	301	1,844
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	29,320
Arbitrage Rebate Payable	-	-	-
Custodial Liabilities	-	1,836	87
Contracts, Mortgages, and Notes Payable	-	-	12
Bonds/COPs Payable	32,020	3,395	-
Obligations under Capital Lease	-	-	-
Pollution Remediation Obligation	-	-	-
Total Current Liabilities	67,774	28,957	274,366
Noncurrent Liabilities:			
Compensated Absences Payable	71	155	950
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	125,041
Arbitrage Rebate Payable	482	15,860	-
Custodial Liabilities	-	-	-
Contracts, Mortgages, and Notes Payable	1,500	-	-
Bonds/COPs Payable	1,317,477	308,639	-
Obligations Under Capital Lease	-	-	-
Advances from Other Funds	-	-	-
Net OPEB Obligation	75	101	604
Derivative Instrument Liabilities	37,197	3,047	-
Total Noncurrent Liabilities	1,356,802	327,802	126,595
Total Liabilities and Deferred Inflows	1,424,576	356,759	400,961
Net Assets:			
Invested in Capital Assets, Net of Related Debt	11	4,464	43,161
Expendable Net Assets Restricted for:			
Residential Assistance	2,582	-	-
Education	-	-	-
Debt Service	211,382	-	-
Capital Projects	-	-	-
Nonexpendable Net Assets Restricted for:			
Donor Purposes	-	-	-
Unrestricted	6,153	126,271	96,433
Total Net Assets	220,128	130,735	139,594
Total Liabilities, Deferred Inflows and Net Assets	$ 1,644,704	$ 487,494	$ 540,555

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 26,362	$ 167,866	$ 32,397	$ 264,907	$ 27,330
1,172	58,388	27,044	222,672	31,232
9,139	-	81,164	216,433	137
6,253	-	-	6,253	-
-	1,234	-	1,234	-
-	123,186	1,405	126,161	19,655
-	1,477	190	1,762	-
-	48,159	8,159	58,600	7,220
-	-	13,959	13,959	36,964
-	-	-	29,320	-
-	123	-	123	-
64	17,676	12,435	32,098	3,277
-	13,237	-	13,249	158
-	56,670	23,452	115,537	13,969
-	65	-	65	5,686
-	56	-	56	-
42,990	488,137	200,205	1,102,429	145,628
-	3,319	4,096	8,591	3,720
-	-	-	-	152,590
-	-	-	125,041	-
-	-	-	16,342	-
1,738	9,707	-	11,445	3,271
-	22,208	-	23,708	-
-	1,751,477	347,653	3,725,246	104,221
-	491	-	491	2,802
-	96,599	100	96,699	190
-	16,652	3,594	21,026	1,878
-	-	-	40,244	-
1,738	1,900,453	355,443	4,068,833	268,672
44,728	2,388,590	555,648	5,171,262	414,300
-	927,735	407,689	1,383,060	151,702
-	-	-	2,582	-
-	159,469	-	159,469	-
-	53,119	894	265,395	-
-	61,999	-	61,999	-
-	16,546	-	16,546	-
1,554,252	345,766	642,171	2,771,046	291,854
1,554,252	1,564,634	1,050,754	4,660,097	443,556
$ 1,598,980	$ 3,953,224	$ 1,606,402	$ 9,831,359	$ 857,856

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.	7,769
Net assets of business-type activities	$ 4,667,866

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
Operating Revenues:			
Assessments	$ -	$ -	$ -
Licenses and Fees	2,585	134	-
Federal	-	-	-
Charges for Services	983	1,679	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	698	-
Sales	-	-	1,050,214
Loan Interest Income	68,918	10,603	-
Gifts, Grants, and Contracts	-	-	-
Other	111	294	209
Gain (Loss) on Foreclosed Property	(277)	76	-
Total Operating Revenues	72,320	13,484	1,050,423
Operating Expenses:			
Salaries and Wages	4,092	5,654	36,317
Services and Supplies	9,578	4,260	238,413
Cost of Goods Sold	-	-	-
Distributions to Other Governments	329	-	-
Loan Interest Expense	49	-	-
Special Payments	925	-	232,369
Bond and COP Interest	58,696	7,499	-
Other Debt Service	22	765	-
Depreciation and Amortization	1	109	26,794
Bad Debt Expense	2,212	336	-
Total Operating Expenses	75,904	18,623	533,893
Operating Income (Loss)	(3,584)	(5,139)	516,530
Nonoperating Revenues (Expenses):			
Bond and COP Interest	-	-	-
Investment Income (Loss)	13,938	2,327	17,744
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	(148)
Insurance Recoveries	-	-	31
Loan Interest Income	-	-	-
Loan Interest Expense	-	-	-
Other Nonoperating Items	(21)	(58)	(139)
Total Nonoperating Revenues (Expenses)	13,917	2,269	17,488
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	10,333	(2,870)	534,018
Capital Contributions	-	-	-
Additions to Permanent Endowments	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(166)	(229)	(531,022)
Change in Net Assets	10,167	(3,099)	2,996
Net Assets - Beginning	209,961	133,291	136,598
Prior Period Adjustments	-	543	-
Net Assets - Beginning - As Restated	209,961	133,834	136,598
Net Assets - Ending	$ 220,128	$ 130,735	$ 139,594

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	**University System**	**Other**	**Total**	**Governmental Activities Internal Service Funds**
$ 1,061,035	$ -	$ -	$ 1,061,035	$ -
-	-	7,584	10,303	-
930,580	343,709	6,200	1,280,489	-
-	794,444	302,086	1,099,192	956,706
3,604	-	486	4,090	-
-	-	53	751	42,194
-	420,621	478,199	1,949,034	7,603
-	-	31,180	110,701	-
-	232,475	-	232,475	-
18,799	32,804	2,888	55,105	10,621
-	-	-	(201)	-
2,014,018	1,824,053	828,676	5,802,974	1,017,124
-	1,434,177	250,697	1,730,937	132,462
-	515,310	146,805	914,366	761,876
-	-	241,762	241,762	9,456
-	-	53,960	54,289	185
-	-	-	49	-
1,707,441	143,998	158,623	2,243,356	659
-	-	16,524	82,719	5,003
-	-	637	1,424	91
-	124,963	9,847	161,714	29,301
21,744	-	5,151	29,443	-
1,729,185	2,218,448	884,006	5,460,059	939,033
284,833	(394,395)	(55,330)	342,915	78,091
-	(82,959)	-	(82,959)	-
42,526	31,385	1,435	109,355	4,436
-	-	16,893	16,893	-
-	(1,338)	13	(1,473)	785
-	956	-	987	1,250
-	-	-	-	41
-	-	-	-	(15)
-	107,784	(69)	107,497	(208)
42,526	55,828	18,272	150,300	6,289
327,359	(338,567)	(37,058)	493,215	84,380
-	33,875	117,180	151,055	69
-	159	-	159	-
487	354,397	198,276	553,160	145,910
(50,891)	(39,643)	(173,235)	(795,186)	(33,941)
276,955	10,221	105,163	402,403	196,418
1,258,692	1,554,413	946,150	4,239,105	271,844
18,605	-	(559)	18,589	(24,706)
1,277,297	1,554,413	945,591	4,257,694	247,138
$ 1,554,252	$ 1,564,634	$ 1,050,754	$ 4,660,097	$ 443,556

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.	2,121
Change in net assets of business-type activities	$ 404,524

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
Cash Flows from Operating Activities:			
Receipts from Customers	$ 3,817	$ 1,251	$ 1,044,348
Receipts from Other Funds for Services	-	1,492	-
Loan Principal Repayments	136,041	44,950	-
Loan Interest Received	68,929	13,251	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(4,128)	(5,636)	(33,216)
Payments to Suppliers	(6,491)	(2,551)	(237,816)
Payments to Other Funds for Services	-	(731)	-
Payments to Prize Winners	-	-	(219,269)
Claims Paid	-	-	-
Loans Made	(80,485)	(19,396)	-
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	3,336	3,220	910
Net Cash Provided (Used) in Operating Activities	121,019	35,850	554,957
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	28,790	-	-
Principal Payments on Bonds/COPS	(134,265)	(63,443)	-
Interest Payments on Bonds/COPS	(60,092)	(7,988)	-
Interest Payments on Loans	(49)	-	-
Bond/COP Issuance Costs	(489)	(1,117)	-
Taxes and Assessments Received	-	-	-
Other Gifts and Private Contracts	-	-	-
Insurance Recoveries for Other than Capital Assets	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(166)	(229)	(550,389)
Net Cash Provided (Used) in Noncapital Financing Activities	(166,271)	(72,777)	(550,389)
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	-	-	(27)
Interest Payments on Loans	-	-	-
Other Interest Payments	-	-	-
Acquisition of Capital Assets	(12)	-	(7,837)
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	564
Insurance Recoveries for Capital Assets	-	-	31
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(12)	-	(7,269)
Cash Flows from Investing Activities:			
Purchases of Investments	(725,126)	-	(10,508)
Proceeds from Sales and Maturities of Investments	788,529	12,153	14,056
Interest on Investments and Cash Balances	6,173	2,298	1,030
Interest Income from Securities Lending	38	107	324
Interest Expense from Securities Lending	(21)	(58)	(139)
Net Cash Provided (Used) in Investing Activities	69,593	14,500	4,763
Net Increase (Decrease) in Cash and Cash Equivalents	24,329	(22,427)	2,062
Cash and Cash Equivalents - Beginning	60,018	235,251	231,543
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	$ 84,347	$ 212,824	$ 233,605

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ -	$ 1,798,372	$ 791,923	$ 3,639,711	$ 609,079
-	-	9,957	11,449	380,696
-	12,841	58,453	252,285	-
-	-	30,151	112,331	-
1,067,995	-	-	1,067,995	-
-	(1,391,136)	(257,733)	(1,691,849)	(140,767)
-	(560,605)	(351,457)	(1,158,920)	(724,783)
-	-	(21,296)	(22,027)	(35,210)
-	-	-	(219,269)	-
(1,750,353)	-	(160,152)	(1,910,505)	(20,473)
-	(132,489)	(75,733)	(308,103)	-
-	-	(52,768)	(52,768)	(244)
954,365	(4,088)	45,128	1,002,871	53,306
272,007	(277,105)	16,473	723,201	121,604
-	-	24,264	53,054	-
-	-	(66,833)	(264,541)	-
-	-	(17,824)	(85,904)	-
-	-	-	(49)	-
-	-	(191)	(1,797)	-
-	-	16,887	16,887	-
-	108,464	-	108,464	-
-	81	-	81	32
11,938	307,832	199,595	519,365	145,800
(55,620)	(42,038)	(161,109)	(809,551)	(48,637)
(43,682)	374,339	(5,211)	(463,991)	97,195
-	4,000	61	4,061	31,397
-	(58,376)	(4,235)	(62,611)	(45,050)
-	(87,248)	(220)	(87,468)	(5,481)
-	-	-	-	(306)
-	-	-	-	34
-	-	-	-	41
-	-	-	(27)	(83)
-	-	-	-	(15)
-	-	(4)	(4)	-
-	(291,519)	(7,386)	(306,754)	(22,117)
-	-	-	-	(8)
-	4,750	13	5,327	1,094
-	875	-	906	1,247
-	45,995	1,066	47,061	-
-	42,773	-	42,773	-
-	(338,750)	(10,705)	(356,736)	(39,247)
-	(109,234)	-	(844,868)	(33,524)
-	4,631	-	819,369	20,242
38,590	25,972	1,492	75,555	1,930
-	341	107	917	387
-	(178)	(57)	(453)	(208)
38,590	(78,468)	1,542	50,520	(11,173)
266,915	(319,984)	2,099	(47,006)	168,379
962,325	853,793	387,262	2,730,192	233,339
-	-	-	-	100
$ 1,229,240	$ 533,809	$ 389,361	$ 2,683,186	$ 401,818

(continued on next page)

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(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)	$ (3,584)	$ (5,139)	$ 516,530
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	1	109	26,794
Amortization of Bond/COP Issuance Costs	735	-	-
Amortization of Bond/COP Premium and Discount	(505)	25	-
Amortization of Deferred Charges	(504)	765	-
Bad Debt Expense	-	-	-
Interest Payments Reported as Operating Expense	59,041	7,988	-
Bond/COP Issuance Costs Reported as Operating Expense	-	1,117	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	240	(7)	(4,879)
Due from Other Funds	-	(2)	-
Due from Other Governments	-	-	-
Inventories	-	-	79
Prepaid Items	(43)	(2)	80
Foreclosed and Deeded Property	144	(338)	-
Deferred Charges	-	-	-
Advances to Other Funds	-	-	-
Net Contracts, Notes, and Other Receivables	-	-	-
Loans Receivable	65,285	29,437	-
Accounts and Interest Payable	33	(655)	3,252
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Unearned Revenue	205	-	(267)
Compensated Absences Payable	(38)	8	80
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	13,252
Arbitrage Payable	-	2,690	-
Custodial Liabilities	-	(159)	(48)
Contracts, Mortgages, and Notes Payable	-	-	-
Net OPEB Obligation	9	13	84
Total Adjustments	124,603	40,989	38,427
Net Cash Provided (Used) by Operating Activities	$ 121,019	$ 35,850	$ 554,957
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	$ 9,575	$ 87	$ 16,391
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Acquired Through Long-Term Contracts	-	-	24
Capital Assets Contributed	-	-	-
Foreclosed Property	24,099	1,908	-
Loan Modifications	205	-	-
Advanced Debt Refunding Deposited with Escrow Agent	-	-	-

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 284,833	$ (394,395)	$ (55,330)	$ 342,915	$ 78,091
-	124,963	9,847	161,714	29,301
-	-	557	1,292	38
-	-	(571)	(1,051)	(953)
-	-	354	615	677
-	-	5,151	5,151	-
-	-	18,043	85,072	5,481
-	-	193	1,310	306
10,787	2,385	6,643	15,169	6,527
6	-	(30)	(26)	(1,565)
4,360	-	-	4,360	-
-	(574)	1,096	601	27
-	(4,056)	(101)	(4,122)	(776)
-	-	(802)	(996)	-
-	-	(277)	(277)	(246)
-	-	(5,406)	(5,406)	-
(24,938)	11,502	-	(13,436)	(27)
-	-	(7,096)	87,626	5
(3,669)	16,852	(11,572)	4,241	(10,089)
(405)	-	54,444	54,039	(126)
881	-	(36)	845	-
-	(28,432)	979	(27,515)	19,248
-	-	869	919	429
-	-	(9,533)	(9,533)	(4,026)
-	-	-	13,252	-
-	-	-	2,690	-
152	295	8,476	8,716	(1,137)
-	(5,645)	-	(5,645)	158
-	-	575	681	261
(12,826)	117,290	71,803	380,286	43,513
$ 272,007	$ (277,105)	$ 16,473	$ 723,201	$ 121,604
$ -	$ 7,315	$ -	$ 33,368	$ 2,232
-	-	116,114	116,114	69
-	15	-	15	4,633
-	-	-	24	-
-	7,064	-	7,064	-
-	-	-	26,007	-
-	-	-	205	-
-	122,432	2,563	124,995	-

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
ASSETS				
Cash and Cash Equivalents	$ 1,903,898	$ 22,698	$ 4,233,737	$ -
Investments:				
Fixed Income	14,641,988	184	-	-
Public Equity	20,918,982	380	-	-
Real Estate	6,760,575	-	-	-
Annuity Contracts	-	298	-	-
Private Equity	14,544,003	-	-	-
Alternative Equity	410,251	-	-	-
Opportunity Portfolio	933,878	-	-	-
Total Investments	58,209,677	862	-	-
Custodial Assets	-	6,136	-	1,610,719
Securities Lending Collateral	2,445,136	2,922	426,575	-
Receivables:				
Employer Contributions	29,188	-	-	-
Plan Member Contributions	12,106	-	-	-
Interest and Dividends	336,418	-	10,620	-
Member Loans	9,732	-	-	-
Investment Sales	1,194,676	-	173,150	-
Benefit Recoveries	110,516	-	-	-
Accounts	-	66	-	5,150
From Other Funds	8,213	-	-	-
Total Receivables	1,700,849	66	183,770	5,150
Prepaid Items	7,502	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	93,083
Receivership Assets	-	-	-	61,571
Loans Receivable (net)	-	-	7	-
Capital Assets (net of accumulated depreciation):				
Land	944	14	-	-
Buildings, Property and Equipment	39,016	-	-	-
Total Assets	64,307,022	32,698	4,844,089	1,770,523
LIABILITIES				
Accounts and Interest Payable	2,268,689	155	93,670	4
Obligations Under Securities Lending	2,460,234	2,922	426,575	-
Due to Other Funds	7,754	-	-	-
Due to Other Governments	-	-	-	7,308
Deferred Revenue	299	-	-	-
Custodial Liabilities	110,277	1,661	-	1,763,211
Contracts, Mortgages and Notes Payable	-	2,041	-	-
Bonds/COPs Payable	3,072	-	-	-
Net OPEB Obligation	447	-	-	-
Total Liabilities	4,850,772	6,779	520,245	1,770,523
NET ASSETS				
Held in Trust for:				
Pension Benefits	58,051,543	-	-	-
Other Postemployment Benefits	271,139	-	-	-
Other Employee Benefits	1,133,568	-	-	-
External Investment Pool Participants	-	-	4,323,844	-
Individuals, Organizations and Other Governments	-	25,919	-	-
Total Net Assets	$ 59,456,250	$ 25,919	$ 4,323,844	$ -

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, 2012
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust
ADDITIONS			
Contributions:			
Employer	$ 879,966	$ -	$ -
Plan Members	613,343	-	-
Total Contributions	1,493,309	-	-
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(822,999)	-	-
Interest, Dividends and Other Investment Income	1,626,215	165	34,484
Total Investment Income	803,216	165	34,484
Less Investment Expense	341,208	7	3,225
Net Investment Income	462,008	158	31,259
Gifts, Grants and Contracts	-	4,680	-
Veterans' Income	-	7,273	-
Other Income	3,160	536	-
Share Transactions:			
Participant Contributions	-	-	14,347,393
Participant Withdrawals	-	-	14,223,146
Net Share Transactions	-	-	124,247
Transfers from Other Funds	-	151	-
Total Additions	1,958,477	12,798	155,506
DEDUCTIONS			
Pension Benefits	3,516,522	-	-
Death Benefits	3,918	-	-
Contributions Refunded	34,020	-	-
Healthcare Premium Subsidies	33,822	-	-
Distributions to Other Governments	-	227	-
Distributions to Participants	-	-	27,772
Deferred Compensation Benefits	61,465	-	-
Administrative Expenses	42,255	9,905	-
Payments in Accordance with Trust Agreements	-	5,421	-
Total Deductions	3,692,002	15,553	27,772
Change in Net Assets Held in Trust For:			
Pension Benefits	(1,780,143)	-	-
Other Postemployment Benefits	18,026	-	-
Other Employee Benefits	28,592	-	-
External Investment Pool Participants	-	-	127,734
Individuals, Organizations and Other Governments	-	(2,755)	-
Net Assets - Beginning	61,189,775	28,674	4,196,110
Net Assets - Ending	$ 59,456,250	$ 25,919	$ 4,323,844

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

This page intentionally left blank.

Combining Balance Sheet
Discretely Presented Component Units
June 30, 2012
(In Thousands)

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations	Oregon Affordable Housing Assistance Corporation	Total
ASSETS AND DEFERRED OUTFLOWS					
Current Assets:					
Cash and Cash Equivalents	$ 44,535	$ 209,004	$ 31,493	$ 10,913	$ 295,945
Investments	4,083,247	128,982	-	-	4,212,229
Securities Lending Collateral	199,304	-	-	-	199,304
Accounts and Interest Receivable (net)	351,324	297,331	-	270	648,925
Pledges, Contributions, and Grants Receivable (net)	-	21,262	182,241	-	203,503
Due from Other Governments	-	1,788	-	-	1,788
Due from Primary Government	85	13,467	-	-	13,552
Inventories	77	18,060	-	-	18,137
Prepaid Items	7,673	15,260	37,609	450	60,992
Total Current Assets	4,686,245	705,154	251,343	11,633	5,654,375
Noncurrent Assets:					
Investments	-	511,573	-	-	511,573
Investments - Restricted	-	551,625	1,278,683	-	1,830,308
Deferred Charges	-	11,689	-	-	11,689
Net Contracts, Notes and Other Receivables	-	3,566	-	-	3,566
Pledges, Contributions, and Grants Receivable (net)	-	56,119	-	-	56,119
Capital Assets:					
Land	3,029	72,443	7,274	-	82,746
Buildings, Property, and Equipment	41,577	2,192,985	58,046	-	2,292,608
Construction in Progress	-	83,860	-	-	83,860
Less Accumulated Depreciation and Amortization	(28,091)	(1,066,641)	(13,004)	-	(1,107,736)
Total Noncurrent Assets	16,515	2,417,219	1,330,999	-	3,764,733
Deferred Outflows	-	15,957	-	-	15,957
Total Assets and Deferred Outflows	$ 4,702,760	$ 3,138,330	$ 1,582,342	$ 11,633	$ 9,435,065
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts and Interest Payable	$ 72,514	$ 188,289	$ 20,120	$ 477	$ 281,400
Obligations Under Securities Lending	199,315	-	-	-	199,315
Due to Other Governments	2,260	18,328	-	-	20,588
Due to Primary Government	20,448	2,374	4,624	6	27,452
Unearned Revenue	184,118	27,124	11,766	11,150	234,158
Compensated Absences Payable	3,735	52,933	-	-	56,668
Reserve for Loss and Loss Adjustment Expense	225,388	-	-	-	225,388
Claims and Judgments Payable	-	18,678	-	-	18,678
Custodial Liabilities	8,698	-	-	-	8,698
Contracts, Mortgages, and Notes Payable	-	1,948	-	-	1,948
Bonds/COPS Payable	-	11,794	-	-	11,794
Obligations Under Capital Lease	-	4,034	-	-	4,034
Total Current Liabilities	716,476	325,502	36,510	11,633	1,090,121
Noncurrent Liabilities:					
Obligations Under Life Income Agreements	-	16,235	72,895	-	89,130
Reserve for Loss and Loss Adjustment Expense	2,794,005	-	-	-	2,794,005
Claims and Judgments Payable	-	42,550	-	-	42,550
Contracts, Mortgages, and Notes Payable	-	34,472	31,401	-	65,873
Bonds/COPS Payable	-	705,400	45,447	-	750,847
Obligations Under Capital Lease	-	629	-	-	629
Advances from Primary Government	-	42,457	-	-	42,457
Net OPEB Obligation	1,640	6,431	-	-	8,071
Derivative Instrument Liabilities	-	15,957	-	-	15,957
Total Noncurrent Liabilities	2,795,645	864,131	149,743	-	3,809,519
Total Liabilities and Deferred Inflows	3,512,121	1,189,633	186,253	11,633	4,899,640
Net Assets:					
Invested in Capital Assets, Net of Related Debt	16,515	629,095	-	-	645,610
Expendable Net Assets Restricted for:					
Education	-	309,035	650,774	-	959,809
Workers' Compensation	1,174,124	-	-	-	1,174,124
Nonexpendable Net Assets Restricted for:					
Donor Purposes	-	-	742,226	-	742,226
Education	-	175,023	-	-	175,023
Unrestricted	-	835,544	3,089	-	838,633
Total Net Assets	1,190,639	1,948,697	1,396,089	-	4,535,425
Total Liabilities, Deferred Inflows and Net Assets	$ 4,702,760	$ 3,138,330	$ 1,582,342	$ 11,633	$ 9,435,065

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

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Discretely Presented Component Units
For the Year Ended June 30, 2012
(In Thousands)

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations
Operating Revenues:			
Federal Revenue	$ -	$ -	$ -
Charges for Services	-	1,549,060	-
Premiums Earned (net)	357,473	-	-
Investment Income (net)	-	-	7,089
Gifts, Grants, and Contracts	-	393,119	189,850
Other Revenues	23,575	92,900	24,412
Total Operating Revenues	381,048	2,035,079	221,351
Operating Expenses:			
Salaries and Wages	-	1,194,176	-
Services and Supplies	-	627,831	196,806
Loss and Loss Adjustment Expense	328,448	-	-
Policyholders' Dividends	150,043	-	-
Underwriting Expenses	93,530	-	-
Mortgage Assistance Payments	-	-	-
Bond and COP Interest	-	34,742	-
Depreciation and Amortization	1,246	111,174	-
Bad Debt Expense	-	47,883	-
Other Expenses	-	-	7,266
Total Operating Expenses	573,267	2,015,806	204,072
Operating Income (Loss)	(192,219)	19,273	17,279
Nonoperating Revenues (Expenses):			
Investment Income	215,706	16,509	-
Other	-	3,379	-
State Appropriations	-	35,389	-
Total Nonoperating Revenues (Expenses)	215,706	55,277	-
Income (Loss) Before Capital Contributions	23,487	74,550	17,279
Capital Contributions	-	4,059	-
Change in Net Assets	23,487	78,609	17,279
Net Assets - Beginning	1,167,152	1,870,088	1,378,687
Prior Period Adjustments	-	-	123
Net Assets - Beginning - As Restated	1,167,152	1,870,088	1,378,810
Net Assets - Ending	$ 1,190,639	$ 1,948,697	$ 1,396,089

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

Oregon Affordable Housing Assistance Corporation	Total	Adjustments to Recast	Statement of Activities
$ 45,204	$ 45,204	$ (45,204)	$ -
-	1,549,060	501,739	2,050,799
-	357,473	(357,473)	-
2	7,091	(7,091)	-
-	582,969	319,899	902,868
-	140,887	(140,887)	-
45,206	2,682,684	270,983	2,953,667
-	1,194,176	-	1,194,176
9,056	833,693	-	833,693
-	328,448	-	328,448
-	150,043	-	150,043
-	93,530	-	93,530
36,150	36,150	-	36,150
-	34,742	-	34,742
-	112,420	-	112,420
-	47,883	-	47,883
-	7,266	-	7,266
45,206	2,838,351	-	2,838,351
-	(155,667)	270,983	115,316
-	232,215	(232,215)	-
-	3,379	(3,379)	-
-	35,389	(35,389)	-
-	270,983	(270,983)	-
-	115,316	-	115,316
-	4,059	-	4,059
-	119,375	-	119,375
-	4,415,927	-	4,415,927
-	123	-	123
-	4,416,050	-	4,416,050
$ -	$ 4,535,425	$ -	4,535,425

This page intentionally left blank.

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, including all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government), and the State's 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.

Discretely Presented Component Units

The State reports discretely presented component units in a separate column in the government-wide financial statements to emphasize they are legally separate from the State. The component unit column in the government-wide financial statements includes the data of the State's four 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 Oregon 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, 2011, 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. As an academic health center, OHSU provides education and training to healthcare 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 Oregon's seven public universities. The OUS foundations report under Financial Accounting Standards Board (FASB) Accounting Standards Codification 958, *Not-for-Profit Entities* (ASC 958). 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.

The Oregon Affordable Housing Assistance Corporation (OAHAC) is an Oregon not-for-profit public benefit corporation. The director of the Oregon Housing and Community Services Department (OHCSD) appoints two of the five OAHAC board members and approves the candidacy of the remaining at-large members. The at-large directors may be removed at any time by a vote of two-thirds or more of the directors then in office, and the government directors may be removed at any time by the director of OHCSD.

The primary purpose of OAHAC is to administer programs targeted to help prevent or mitigate the impact of foreclosures on low and moderate income persons; to help stabilize housing markets in Oregon; to provide resources of affordable or subsidized housing; to develop and administer programs related to housing permitted under the Emergency Economic Stabilization Act of 2008 (EESA), as amended; and act as an institution eligible to receive Troubled Asset Relief Program (TARP) funds under EESA. Currently, OAHAC administers Oregon's share of the Hardest Hit Fund programs, which are part of TARP. In fiscal year 2011, OAHAC was reported as a blended component unit and included within the financial activity of OHCSD. It has since been determined that OAHAC should be reported as a discretely presented component unit. OAHAC reports on a fiscal year ended December 31 and has adopted ASC 958. The December 31, 2011, financial information of OAHAC is included in this report.

Readers may obtain complete financial statements for SAIF, OHSU, the OUS Foundations, and OAHAC from their respective administrative offices or from the Oregon Department of Administrative Services, Chief Financial Office, 155 Cottage Street NE, Salem, Oregon 97301-3969.

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 not-for-profit 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.

The Oregon Health Insurance Exchange Corporation is an independent public corporation established under the federal Affordable Care Act of 2010 that will offer health insurance and coverage options to individuals, families, and small employers. It is governed by a nine-member board of directors, appointed by the Governor. The Exchange operates at no cost to the state. It is funded by federal grant dollars through 2014 and after that, it will be self-sustaining through an administrative fee charged to insurance carriers.

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 State uses the economic resources measurement focus and the accrual basis of accounting in preparing the government-wide financial statements, as well the financial statements of the proprietary funds, internal service funds, and fiduciary funds (except for 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.

The State uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the governmental fund financial statements. Revenues are recognized when they are both measurable and available. Revenues are considered 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 as 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 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:

General Fund

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 necessitated 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.

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and healthcare 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 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.

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.

Additionally, the State reports the following fund types:

<u>Governmental Fund Types (reported as nonmajor funds)</u>

Like major special revenue funds, nonmajor *special revenue funds* also account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term obligations.

The *Capital Projects Fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities

The *Permanent Fund* accounts for and reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State and its citizenry.

Proprietary Fund Types (reported as nonmajor funds)

Nonmajor *enterprise funds* account for and report business-type activities for which fees are charged to external users for goods and services.

Internal service funds account for goods and services provided by state agencies to other state agencies and to other governmental units on a cost-reimbursement basis. These goods and services 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 and reported in the internal service funds.

Fiduciary Fund Types

The *Pension and Other Employee Benefit Trust Fund* accounts for activities of the Public Employees Retirement System (PERS), 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 Fund* accounts 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 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.

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, 2012, 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 information including, but not limited 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, 2012, 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 methods considered most appropriate. A variety of factors are considered, 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 and Alternative Equity portfolios are recorded at fair value as of June 30, 2012, 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, while investments in the Alternative Equity portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and absolute return or hedge fund strategies.) Investments in these portfolios representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited 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, Alternative Equity, 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 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 proprietary funds balance sheet and the statement of fiduciary 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 proprietary funds balance sheet and the statement of fiduciary net assets; such changes are not reported on the statement of revenues, expenses, and changes in proprietary fund net assets and the statement of changes in fiduciary net assets.

Ineffective hedging derivative instruments and derivatives purchased as investments are reported at fair value on the proprietary funds balance sheet and the statement of fiduciary net assets. The related changes in fair value are reported on the statement of revenues, expenses, and changes in proprietary fund net assets and the statement of changes in fiduciary 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 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 in *spendable* form or they are legally or contractually required to be maintained intact.

*Restricted fund balance*s are the result of constraints imposed 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.

For fund balance classification purposes, state agencies determine 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.

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.

P. Changes in Accounting Principle

Effective July 1, 2011, the State implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53). Some governments enter into interest rate swap agreements and commodity swap agreements to manage specific risks or to make investments. Sometimes a swap counterparty, or the swap counterparty's credit support provider, commits or experiences an act of default or a termination event. To address the problem, many governments replace the swap counterparty or swap counterparty's credit support provider by amending existing swap agreements or by entering into new swap agreements.

When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 53 requires a government to cease hedge accounting upon termination of the hedging arrangement, resulting in immediate recognition of deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of Statement No. 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets forth criteria that establish when an effective hedging relationship continues and hedge accounting should continue to apply. During fiscal year ending June 30, 2012, no counterparties to the State's swap agreements or their credit support providers committed or experienced an act of default or a termination event.

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.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx

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.

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 no less than 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.

Where interest-bearing balances within the OSTF exceed the Federal Deposit Insurance amount of $250 thousand, the balances are covered by collateral held in the PFCP. Non-interest-bearing accounts are fully covered by FDIC insurance under the Dodd-Frank Wall Street Reform and Consumer Protection Act until December 31, 2012. As of June 30, 2012, all OSTF demand deposits were covered by FDIC insurance, and no OSTF demand deposits were collateralized under the PFCP.

As of June 30, 2012, $1.7 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, 2012
Uninsured and uncollateralized	$ 1,566,062	$ 10,667	$ 1,576,729
Uninsured and collateralized by the pledging bank	55,221	-	55,221
Uninsured and collateralized by the pledging bank's trust department, but not in the State's name	38,360	-	38,360
Total	$ 1,659,643	$ 10,667	$ 1,670,310

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, 2012, 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.

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.

The credit rating for the investments at Treasury held within the governmental funds, excluding the Common School Fund, and using the segmented time distribution method at June 30, 2012 (dollars in thousands):

Reporting Fund[1]	Investment Type	Credit Rating	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
Public Transportation	U.S. Federal agency debt	A	$ 11,044	$ -	$ -	$ -	$ 11,044
			11,044	-	-	-	11,044
	Corporate bonds	AA	15,857	1,745	-	-	17,602
		A	37,195	18,610	-	-	55,805
		BBB	5,250	13,010	-	-	18,260
			58,302	33,365	-	-	91,667
	International debt securities	AA	5,739	2,247	-	-	7,986
		A	-	11,078	-	-	11,078
			5,739	13,325	-	-	19,064
			75,085	46,690	-	-	121,775
Employment Services	U.S. Federal agency debt	AA	17,917	-	-	-	17,917
		A	10,542	-	-	-	10,542
			28,459	-	-	-	28,459
	Corporate bonds	AA	9,600	11,411	3,281	-	24,292
		A	13,167	6,454	2,613	-	22,234
		BBB	9,020	11,988	5,912	-	26,920
			31,787	29,853	11,806	-	73,446
	International debt securities	AAA	-	-	3,172	-	3,172
		AA	2,781	3,569	-	-	6,350
		A	-	1,689	-	-	1,689
			2,781	5,258	3,172	-	11,211
			63,027	35,111	14,978	-	113,116
Residential Assistance	U.S. Federal agency debt	AA	5,557	10,737	-	-	16,294
			5,557	10,737	-	-	16,294
			$ 143,669	$ 92,538	$ 14,978	$ -	251,185
General	Alternative Equities	N/A					4,987
Educational Support	Alternative Equities	N/A					40,328
							45,315
Total							$ 296,500

[1] See separate Common School Fund schedule.

The credit rating for the Common School Fund's investments held at Treasury and using the segmented time distribution method at June 30, 2012 (dollars in thousands):

Investment Type	Credit Rating[1]	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
U.S. Treasury obligations	AA	$ 10	$ 1,306	$ 1,764	$ 6,104	$ 9,184
U.S. Treasury strips	AA	-	-	206	-	206
U.S. Treasury TIPS	AA	-	-	-	1,244	1,244
U.S. Federal agency debt	AA	2,263	-	-	169	2,432
U.S. Federal agency mortgages	AA	1,893	-	-	35,855	37,748
	Not rated	-	-	-	1,242	1,242
		4,166	1,306	1,970	44,614	52,056
Municipal bonds	AAA	186	-	-	-	186
		186	-	-	-	186
Corporate bonds	AA	82	117	-	-	199
	A	3,048	3,970	5,451	2,697	15,166
	BBB	1,225	5,324	6,576	5,056	18,181
	BB	-	72	1,055	668	1,795
	B	58	280	555	189	1,082
		4,413	9,763	13,637	8,610	36,423
International debt securities	AA	-	659	-	-	659
	A	-	528	2,737	-	3,265
	BBB	416	1,461	3,049	1,128	6,054
	BB	83	532	-	-	615
	B	67	-	60	-	127
		566	3,180	5,846	1,128	10,720
Asset backed securities	AAA	656	-	-	-	656
	AA	1,557	-	-	-	1,557
	A	476	-	-	86	562
	BBB	104	-	28	-	132
	B	299	-	-	-	299
	CCC	876	-	-	-	876
	C	715	-	-	-	715
	D	81	-	-	-	81
		4,764	-	28	86	4,878
Collateralized mortgage obligations	AAA	1,303	-	-	292	1,595
	AA	32	-	-	-	32
	A	210	-	-	29	239
	BBB	478	-	-	489	967
	BB	1,016	-	-	-	1,016
	B	2,255	-	-	-	2,255
	CCC	2,564	-	-	-	2,564
	C	566	-	-	-	566
	D	447	-	-	-	447
	Not rated	1,276	-	370	3,168	4,814
		10,147	-	370	3,978	14,495
Domestic mutual funds - debt	Not rated	-	176,496	-	-	176,496
		-	176,496	-	-	176,496
International mutual funds - debt	Not rated	-	-	7,009	-	7,009
		-	-	7,009	-	7,009
		$ 24,242	$ 190,745	$ 28,860	$ 58,416	302,263
Domestic equity securities	N/A					265,357
International equity securities	N/A					190,195
Domestic mutual funds - equity	N/A					105,505
International mutual funds - equity	N/A					59,184
Domestic real estate	N/A					961
International real estate	N/A					2,887
International rights and warrants	N/A					14
Lehman Brothers	N/A					12
Private equity holdings	N/A					90,873
						714,988
Total[2]						$ 1,017,251

[1] Within investments rated AA are $9,184 in U.S. Treasury obligations, $206 in U.S. Treasury Strips, $1,244 in U.S. Treasury Inflation-Protected Securities (TIPS), and $10,030 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.

The credit rating for the investments at Treasury held within the proprietary funds, excluding the University System Fund, and using the segmented time distribution method at June 30, 2012 (dollars in thousands):

Reporting Fund	Investment Type	Credit Rating[2]	Investment Maturities (in years): Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
Housing and Community Services[1]	U.S. Treasury obligations	AA	$ -	$ -	$ 434	$ 4,739	$ 5,173
	U.S. Federal agency debt	AA	-	-	-	11,415	11,415
			-	-	434	16,154	16,588
Veterans' Loan	U.S. Federal agency debt	A	5,020	-	-	-	5,020
	Corporate bonds	AA	7,006	-	-	-	7,006
		A	9,506	-	-	-	9,506
			16,512	-	-	-	16,512
			21,532	-	-	-	21,532
Lottery Operations	U.S. Treasury strips	AA	7,006	27,227	30,044	40,287	104,564
	U.S. Federal agency debt	Not rated	5,692	14,102	3,777	1,331	24,902
			12,698	41,329	33,821	41,618	129,466
Central Services	US Treasury obligations	AA	-	-	5,841	-	5,841
			-	-	5,841	-	5,841
	US Federal agency debt	AA	4,601	-	5,762	-	10,363
		A	1,004	-	-	-	1,004
		Not rated	-	-	-	3,993	3,993
			5,605	-	5,762	3,993	15,360
	Corporate bonds	AAA	-	2,179	-	-	2,179
		AA	11,610	1,585	1,586	-	14,781
		A	7,858	5,468	-	-	13,326
		BBB	2,961	4,838	-	-	7,799
			22,429	14,070	1,586	-	38,085
	International debt securities	AAA	-	-	2,643	-	2,643
		AA	2,152	10,192	-	-	12,344
		A	-	1,639	-	-	1,639
			2,152	11,831	2,643	-	16,626
			30,186	25,901	15,832	3,993	75,912
Total			$ 64,416	$ 67,230	$ 50,087	$ 61,765	$ 243,498

[1] $249,640 in investments are held outside of Treasury. See separate schedule.

[2] Within investments rated AA are $5,173 in U.S. Treasury obligations and $104,564 in U.S. Treasury strips, which are explicitly guaranteed by the U.S. government.

The credit rating and average effective duration for the University System Fund's investments held at Treasury at June 30, 2012 (dollars in thousands):

Investment Type	Credit Rating[1]	Balance at June 30, 2012	Average Effective Duration
U.S. Treasury securities	AA	$ 11,606	7.38
		11,606	
U.S. Agency securities	AA	28,495	
	A	3,407	
	Not rated	31,438	
		63,340	3.82
Corporate bonds	AA	15,443	
	A	38,002	
	BBB	11,878	
		65,323	3.78
Municipal bonds	AAA	5,506	
	AA	3,828	
	Not rated	2,542	
		11,876	2.96
Mutual funds - Domestic fixed income	AAA	18,950	
	AA	26,287	
	A	33,078	
	BBB	43,378	
	Below BBB	367	
	Not rated	4,006	
		126,066	3.17
International debt securities	AAA	2,632	
	AA	11,725	
	A	7,270	
		21,627	5.08
Asset backed securities	AAA	7,727	2.34
Collateralized mortgage obligations	AAA	8,163	4.51
Money market fund	N/A	1,386	0.50
Equity investments	N/A	32,137	N/A
Real estate and real estate mortgages	N/A	1,901	N/A
Alternative equities	N/A	8,128	N/A
Less: University System amounts recorded as cash		(1,386)	
Total		$ 357,894	

[1] Within investments rated AA are $11,606 in U.S. Treasury obligations, and within investments rated AA are $4,837 in U.S. Agency securities invested in the Government National Mortgage Association (GNMA). These investments are explicitly guaranteed by the U.S. government.

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, 2012 (in thousands):

Reporting Fund	Investment Type	Credit Rating[3]	Investment Maturities (in years): Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
Common School	U.S. Treasury strips[1]	AA	$ -	$ 2	$ 4	$ -	$ 6
	U.S. Federal agency strips[1]	AA	6	-	-	-	6
	Municipal bonds[1]		20	10	4	1	35
	Domestic mutual funds - debt[1]	Not rated	1,983	-	-	-	1,983
	Corporate bonds[1]	A	-	-	-	3	3
		BBB	-	-	-	9	9
		BB	-	-	-	5	5
		CCC	-	2	-	-	2
			-	2	-	17	19
			2,009	14	8	18	2,049
Revenue Bond	GICs[4]	N/A	-	60,110	-	2,524	62,634
			-	60,110	-	2,524	62,634
Housing and Community Services	U.S. Treasury obligations	AA	18,480	-	1,752	98	20,330
	U.S. Federal agency debt	AAA	37,646	5,351	5,131	47,577	95,705
		P-1	65,762	-	-	-	65,762
		Not rated	29,000	1,798	-	-	30,798
			150,888	7,149	6,883	47,675	212,595
	Municipal bonds	AAA	-	-	-	13,600	13,600
		AA	-	-	-	23,445	23,445
			-	-	-	37,045	37,045
			150,888	7,149	6,883	84,720	249,640
Consumer Protection	U.S. Treasury obligations[1]	AA	550	-	-	-	550
			550	-	-	-	550
Private Purpose Trust	U.S. Treasury obligations	AA	-	168	1	15	184
	Domestic mutual funds - debt	N/A	7	-	-	272	279
	Annuity contracts	N/A	-	-	-	298	298
			7	168	1	585	761
Agency	U.S. Treasury obligations[2]	AA	33,256	27,137	-	-	60,393
	Municipal bonds[2]	A1	-	636	-	-	636
		AA3	-	-	-	111	111
	Time certificates of deposit[2]	Not rated	113	-	-	-	113
			33,369	27,773	-	111	61,253
			$ 186,823	$ 95,214	$ 6,892	$ 87,958	376,887
Common School	Real estate[1]	N/A					1,186
	Domestic equity securities[1]	N/A					4,995
Private Purpose Trust	Domestic equity securities	N/A					101
Total							$ 383,169

[1] Some investments (along with certain cash deposits) 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 statement of fiduciary net assets.

[3] Within investments rated AA are $81,457 in U.S. Treasury obligations and $6 in U.S. Treasury strips. These securities are explicitly guaranteed by the U.S. government.

[4] Guaranteed investment contracts.

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 variable rate at a later date, the maturity is based on the final maturity of the security, not the next variable reset date.

Interest rate risk for the OSTF investments as of June 30, 2012 (in thousands):

	Investment Maturities (in years)			
Investment Type	**Up to 93 Days**	**94 Days to One Year**	**One to Three Years**	**Balance at June 30, 2012[1]**
U.S. Treasury and agency securities	$ 2,156,273	$ 713,345	$ 847,041	$ 3,716,659
Commercial paper	233,006	61,796	-	294,802
Time certificates of deposit	81,100	-	-	81,100
Corporate notes	2,962,336	374,127	897,974	4,234,437
Non-US government debt	-	-	82,466	82,466
Municipal bonds	107,265	-	7,568	114,833
Temporary liquidity guarantee	135,752	375,937	-	511,689
Total	$ 5,675,732	$ 1,525,205	$ 1,835,049	$ 9,035,986

[1] Balance at June 30, 2012, is a combination of amortized cost and fair value.

OSTF policies provide for a minimum composite weighted average credit quality rating for the fund’s holdings to be the equivalent of an AA Standard and Poor’s (S&P) rating. The current minimums for corporate notes are an S&P rating of A-, Moody’s of A3, or Fitch 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 are required to have minimum credit ratings from S&P of AA-, Moody’s of Aa3, or Fitch of AA-. Occasionally, securities are downgraded, but OSTF policies allow them to be retained at the Senior Investment Officer’s discretion. Rating groups were determined using the lowest actual rating from S&P, Moody’s, or Fitch.

Credit risk schedule for the OSTF investments as of June 30, 2012 (in thousands):

Investment Type	AA[1]	A	BBB[2]	N/A[3]	Balance at June 30, 2012
U.S. Treasury and Agency securities	$ 1,410,773	$ 322,182	$ -	$ 1,983,704	$ 3,716,659
Commercial paper	9,994	284,808	-	-	294,802
Corporate notes	1,125,134	2,421,533	637,718	50,052	4,234,437
Non-US government debt	82,466	-	-	-	82,466
Municipal bonds	109,801	5,032	-	-	114,833
Temporary liquidity guarantee	511,689	-	-	-	511,689
Total	$ 3,249,857	$ 3,033,555	$ 637,718	$ 2,033,756	8,954,886
Time certificates of deposit[4]					81,100
Total investments					$ 9,035,986

[1] Within investments rated AA are $100,000 in U.S. Treasury securities and $511,689 in 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 because they have at least one rating of S&P A-, Moody's A3 or Fitch A-.

[3] The $50 million of corporate notes had only estimated ratings as of June 30. Shortly after that date, the securities received an S&P rating of AA+, meeting fund rules.

[4] TCDs are considered deposits for purposes of credit quality and are fully covered by FDIC and state PFCP programs.

Interest Rate Sensitive Investments

As of June 30, 2012, the primary government held approximately $52.8 million in step-coupon debt investments. The interest rate of these securities adjusts on a pre-determined schedule at pre-determined 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 $97.1 million in debt instruments backed by pooled mortgages, to-be-announced federal agency-issued mortgage pools, 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 approximately $12.6 million of asset-backed securities collateralized primarily by automobile, equipment lease, and student loan receivables.

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, 2012, there were three issuers that exceeded 5 percent of the primary government's holdings (excluding the OPERF): $1.4 billion (11.9 percent) in Federal National Mortgage Association (FNMA); $1.3 billion (11 percent) in Federal Home Loan Bank (FHLB); and $909.5 million (7.9 percent) in Federal Home Loan Mortgage Corporation (FHLMC).

The Oregon Housing and Community Services Department also carried concentration of credit risk with 33.2 percent of the department's total investments in FNMA, 19.4 percent in FHLB, 10.9 percent in Federal Agriculture Mortgage Corporation securities, 6.2 percent in Federal Farm Credit Bank securities, 6.1 percent in FHLMC and 5.8 percent in Wyoming Community Development Authority municipal bonds.

Total investments for the Oregon Department of Veterans' Affairs included 32.5 percent in Goldman Sachs, 32.5 percent in Westpac Banking Corp, 23.3 percent in FNMA, and 11.6 percent in General Electric Capital Corporation.

The Oregon State Lottery's investments included 19.2 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.

The investments of the Oregon University System included 7.5 percent in FHLMC.

Within the major governmental funds, the Public Transportation Fund's investments included 10.7 percent in General Electric Capital Corporation, 9.5 percent in Wells Fargo & Company, 9.2 percent in Westpac Banking Corporation, 9.1 percent in UBS AG Stamford, 9.1 percent in FNMA, 6.4 percent in Goldman Sachs, and 6.2 percent in National Retail Properties. The aggregated nonmajor governmental funds' total investments included 12.2 percent in FNMA, and 7 percent in FHLMC. These funds also held nonparticipating guaranteed investment contracts with the following concentrations: 11 percent in the Security Life of Denver Insurance Company, 9.6 percent in American International Group, and 6.3 percent in Bank of America.

The Central Services Fund held 12.6 percent of its investments in FNMA, 9.9 percent in General Electric Company, 7.6 percent in FHLMC, and 6.7 percent in Province of Ontario bonds.

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. Oregon 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, 2012 (in thousands):

	Deposits and Investments (U.S. Dollars)				
Foreign Currency Denomination	**Deposits**	**International Equity Securities**	**International Debt Securities**	**Real Estate Investment Trust**	**Total**
Australian dollar	$ 97	$ 15,139	$ -	$ -	$ 15,236
British sterling pound	64	32,088	-	-	32,152
Canadian dollar	69	12,316	-	-	12,385
Swiss franc	67	11,774	-	-	11,841
Danish krone	2	5,792	-	-	5,794
Euro	92	57,938	-	17	58,047
Hong Kong dollar	38	3,509	-	10	3,557
Israel new shekel	4	425	-	-	429
Japanese yen	526	35,190	-	-	35,716
Mexican peso	79	-	1,616	-	1,695
Norwegian krone	55	1,707	-	-	1,762
New Zealand dollar	17	615	-	-	632
Singapore dollar	45	1,191	-	-	1,236
Swedish krona	14	5,970	-	-	5,984
Total	$ 1,169	$ 183,654	$ 1,616	$ 27	$ 186,466

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, 2012 (in thousands):

Investment Type	Fair Value
Repurchase agreements	$ 12,457
U.S. Treasury securities	1,306,238
U.S. Treasury strips	4,312
U.S. Treasury TIPS	66,629
U.S. Agency securities	271,696
U.S. Agency mortgages	2,025,627
U.S. Agency strips	68,875
International debt securities	2,261,726
Corporate bonds	3,192,669
Bank loans	1,758,832
Temporary Liquidity Guarantee Program (TLGP)	6,718
Municipal bonds	105,359
Collateralized mortgage obligations	1,054,012
Asset-backed securities	502,743
Mutual funds - domestic fixed income	1,523,286
Mutual funds - international fixed income	480,810
Total debt securities	14,641,989
Derivatives	53,607
Domestic equity securities	7,045,171
International equity securities	8,660,293
Mutual funds - domestic equity	1,946,540
Mutual funds - global equity	755,731
Mutual funds - international equity	2,161,639
Mutual funds - target date	293,817
Oregon Savings Growth Plan - self directed	2,184
Limited partnerships and leveraged buyouts	14,544,003
Real estate and real estate investment trusts	6,760,574
Alternative equity	410,251
Opportunity portfolio	933,878
Total investments	$ 58,209,677

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, 2012, the weighted average duration of the fixed income portfolio was 4.05 years and no individual fixed income investment manager portfolios were outside the policy guidelines.

At June 30, 2012, the OPERF held approximately $2.5 billion 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. The OPERF also held approximately $690.9 million in to-be-announced federal agency-issued mortgage pools. An additional $767.5 million of debt instruments are asset-backed securities backed primarily by automobile, equipment lease, and student loan receivables.

Debt investments of the OPERF as of June 30, 2012 (in thousands):

Investment Type	**Balance at June 30, 2012**	**Weighted Average Duration**
U.S. Treasury securities	$ 1,288,241	8.92
U.S. Treasury strips	4,312	5.42
U.S. Treasury TIPS	66,629	6.38
U.S. Agency securities	271,696	6.07
U.S. Agency mortgages	1,985,081	3.24
U.S. Agency strips	68,875	7.51
International debt securities	2,181,281	4.82
Corporate bonds	3,165,388	4.93
Bank loans	1,756,910	0.28
Temporary Liquidity Guarantee Program (TLGP)	6,718	0.15
Municipal bonds	105,219	8.93
Collateralized mortgage obligations	985,069	2.82
Asset-backed securities	454,916	1.37
Mutual funds - domestic fixed income	1,266,586	2.16
Mutual funds - domestic fixed income (OSGP)	98,411	4.68
Mutual funds - international fixed income	480,810	6.13
Mutual funds - stable value	158,289	2.77
No effective duration:		
U.S. Treasury securities	17,997	
U.S. Agency mortgages	40,546	
International debt securities	80,445	
Corporate bonds	27,281	
Bank loans	1,922	
Municipal bonds	140	
Collateralized mortgage obligations	68,943	
Asset-backed securities	47,826	
Repurchase agreements	12,457	
Total debt securities	14,641,988	
Cash equivalent - U.S. government short-term funds	62,849	39 days[1]
Total subject to interest rate risk	$ 14,704,837	

[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, 2012, the fair value of below grade investments, excluding unrated securities, is $2.2 billion, or 26.6 percent, of total securities subject to credit risk, and the weighted quality rating average is A. Overall credit quality deteriorated due to downgrades in both corporate bonds and U.S. government securities. Unrated securities include $2 billion in mutual funds, $1.8 billion in bank loans, and $980.9 million in other debt securities.

Credit ratings for debt securities within the OPERF as of June 30, 2012 (in thousands):

Credit Rating	Balance at June 30, 2012
AAA	$ 759,239
AA	2,036,799
A	886,646
BBB	2,202,902
BB	759,251
B	819,923
CCC	526,968
CC	87,604
C	2,881
D	46,899
Not rated	4,743,831
Total subject to credit risk	12,872,943
U.S. government guaranteed securities	1,769,045
Total	$ 14,641,988

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, 2012, no single issuer debt investments 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, 2012, approximately 3 percent of the debt investment portfolio was invested in non-dollar denominated securities.

The OPERF's exposure to foreign currency risk as of June 30, 2012 (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	$ 74	$ -	$ -	$ -	$ -	$ 74
Australian dollar	1,108	82,299	372,150	74,509	-	530,066
Brazilian real	2,133	22,976	207,682	1,489	-	234,280
British sterling pound	7,563	93,361	1,260,823	60,762	-	1,422,509
Canadian dollar	584	23,115	415,208	16,962	-	455,869
Chilean peso	16	-	6,439	-	-	6,455
Chinese yuan	64	-	-	-	-	64
Colombian peso	-	1,256	7,411	-	-	8,667
Czech koruna	193	-	4,679	-	-	4,872
Danish krone	526	22	95,495	-	-	96,043
Dominican Republic peso	-	1,153	-	-	-	1,153
Egyptian pound	157	-	14,029	-	-	14,186
Euro	44,018	134,662	1,712,011	51,204	380,295	2,322,190
Hong Kong dollar	2,341	-	397,374	94,914	-	494,629
Hungarian forint	4	-	10,501	-	-	10,505
Indian rupee	310	-	66,428	-	-	66,738
Indonesian rupiah	409	-	82,538	-	-	82,947
Israeli shekel	74	-	10,203	-	-	10,277
Japanese yen	17,849	21,804	1,472,877	63,762	-	1,576,292
Malaysian ringgit	190	-	33,205	-	-	33,395
Mexican peso	2,062	52,751	52,860	-	-	107,673
New Zealand dollar	117	-	11,876	-	-	11,993
Nigerian naira	-	-	548	-	-	548
Norwegian krone	548	-	39,798	534	-	40,880
Pakistani rupee	66	-	1,732	-	-	1,798
Peruvian sol	-	100	967	-	-	1,067
Philippine peso	7	-	15,533	-	-	15,540
Polish zloty	35	-	23,436	-	-	23,471
Qatar riyal	-	-	2,574	-	-	2,574
Singapore dollar	255	-	86,914	22,988	-	110,157
South African rand	235	-	190,978	-	-	191,213
South Korean won	1,022	-	300,273	-	-	301,295
Swedish krona	98	-	148,452	5,514	-	154,064
Swiss franc	913	-	368,437	6,409	-	375,759
Taiwanese dollar	1,804	-	117,173	-	-	118,977
Thai baht	832	-	103,042	1,484	-	105,358
Turkish lira	261	1,281	62,675	307	-	64,524
Venezuelan fuerte	6	-	-	-	-	6
Total	$ 85,874	$ 434,780	$ 7,696,321	$ 400,838	$ 380,295	$ 8,998,108

D. Investments – Discretely Presented Component Units

<u>SAIF Corporation (SAIF)</u>

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, 2011, was 5.16 years, with an acceptable range of 4.13 to 6.19 years. As of that date, the fixed income portfolio's duration was 5.16 years.

The following 2011 maturity distribution schedule includes $1.1 billion in interest-rate sensitive securities. As of December 31, 2011, SAIF held $566.1 million of U.S. federal agency mortgage-backed securities and $229.1 million of collateralized 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, 2011, SAIF held $308.8 million of asset-backed securities, which consisted primarily of utility, student loan, and equipment lease receivables. 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, 2011, using the segmented time distribution method (in thousands):

	Investment Maturities (in years)				
Investment Type	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10 or none**	**Balance at December 31, 2011**
U.S. Treasury securities	$ 19,995	$ 61,202	$ 98,366	$ -	$ 179,563
U.S. Agency securities	-	8,618	3,563	1,699	13,880
U.S. Agency mortgages	105,428	214,722	119,295	126,684	566,129
Corporate bonds	67,716	521,282	712,262	592,828	1,894,088
Municipal bonds	2,780	24,243	3,242	96,277	126,542
Collateralized mortgage obligations	25,843	125,456	25,282	52,501	229,082
Asset-backed securities	73,577	139,271	45,264	50,733	308,845
International debt securities	2,972	146,206	145,287	91,803	386,268
BlackRock MSCI ACWI IMI index fund	-	-	-	378,850	378,850
Total	$ 298,311	$ 1,241,000	$ 1,152,561	$ 1,391,375	$ 4,083,247

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.

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, 2011, 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, 2011, using the Standard & Poor's rating scale (in thousands):

Investment Type	AAA	AA[1]	A	BBB	BB	B or below	Not rated	Balance at December 31, 2011
U.S. Treasury securities	$ -	$ 179,563	$ -	$ -	$ -	$ -	$ -	$ 179,563
U.S. Agency securities	-	10,317	-	-	-	-	3,563	13,880
U.S. Agency mortgages	-	566,129	-	-	-	-	-	566,129
Corporate bonds	13,297	158,191	764,153	737,138	161,588	47,618	12,103	1,894,088
Municipal bonds	2,126	59,458	43,661	8,188	-	-	13,109	126,542
Collateralized mortgages	78,254	72,763	2,797	-	-	12,541	62,727	229,082
Asset-backed securities	141,696	80,410	2,803	-	-	439	83,497	308,845
International debt securities	8,156	30,968	134,081	181,417	16,048	11,293	4,305	386,268
Total	$ 243,529	$ 1,157,799	$ 947,495	$ 926,743	$ 177,636	$ 71,891	$ 179,304	$ 3,704,397

[1] Within investments rated AA are $179,563 in U.S. Treasury securities and $149,536 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 $70 million of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2012. 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, 2012, 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 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, 2012, OHSU had the following investments and maturities at fair value (in thousands):

		Investment Maturities (in years)				
Investment Type	**Credit Rating**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10 or none**	**Balance at June 30, 2012**
Cash and money market funds	N/A	$ 189,117	$ -	$ -	$ -	$ 189,117
U.S. Treasury securities	AA	37,386	111,553	24,904	4,465	178,308
U.S. Agency securities	AAA	30,882	38,360	715	-	69,957
Domestic equity securities	N/A	-	-	-	50,351	50,351
International equity securities	N/A	-	-	-	121,631	121,631
International debt securities	AAA	1,376	658	546	1,779	4,359
	AA	-	1,120	641	148	1,909
	A	332	494	905	2,573	4,304
	BBB	-	-	798	-	798
	BB	-	681	66	-	747
	B	-	58	-	-	58
Commercial Paper	A-1+	22,673	-	-	-	22,673
	A-1	27,415	-	-	-	27,415
Corporate bonds	AA+	-	-	1,845	-	1,845
	AA	1,290	4,129	398	-	5,817
	AA-	1,215	-	-	-	1,215
	A+	-	317	-	-	317
	A	203	17,624	1,448	-	19,275
	A-	1,597	5,987	3,361	-	10,945
	BBB+	258	917	3,800	388	5,363
	BBB	1,950	32,731	3,019	-	37,700
	BBB-	-	1,558	804	-	2,362
International corporate bonds	AAA	3,651	8,124	-	-	11,775
	AA	6,430	17,077	-	-	23,507
	AA-	17,894	463	-	-	18,357
	A+	7,469	693	-	-	8,162
	A	2,502	15,709	-	-	18,211
	A-	-	-	1,300	-	1,300
	BBB+	-	-	1,190	-	1,190
	BBB	3,510	7,321	2,275	-	13,106
	BBB-	-	912	-	-	912
Interest receivable	Various	102	-	-	-	102
Asset-backed securities[1]	AAA	9,774	32,053	296	-	42,123
	AA+	409	25,256	860	436	26,961
	BBB+	-	901	-	-	901
Partnerships	N/A	-	-	-	58,759	58,759
Domestic mutual funds - debt	AAA	4,871	482	2,414	1,517	9,284
	AA	1,348	119	427	137	2,031
	A	2,573	137	361	342	3,413
	BBB	3,309	121	411	466	4,307
	BB	261	26	126	18	431
	B	19	15	78	11	123
	Below B	3	5	58	9	75
	Not rated	3	45	24	60	132
Municipal bonds	AAA	3,244	-	-	-	3,244
	AA	2,454	4,217	-	-	6,671
	A	3,791	12,228	-	-	16,019
Domestic mutual funds - equity	N/A	-	-	-	14,295	14,295
Alternative investments	N/A	-	-	-	119,302	119,302
Real estate investments and other		-	-	-	31,021	31,021
Total		$ 389,311	$ 342,091	$ 53,070	$ 407,708	$ 1,192,180

[1] Includes $1,518 which is invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

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, 2012, 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.

The fair value of OHSU foreign-denominated securities by currency type as of June 30, 2012 (in thousands):

Foreign Currency Denomination	Investments (U.S. Dollars)
Australian dollar	$ 70
Brazilian real	487
British sterling pound	6,172
Chilean Peso	558
Euro	3,307
Hungarian Forint	609
South Korean won	672
Malaysian ringgit	666
Mexican peso	1,503
New Zealand dollar	66
Polish zloty	875
South African rand	589
Swiss franc	1,548
Turkish lira	651
Total	$ 17,773

E. Repurchase Agreements

Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2012:

- $415 million, or 34.6 percent, of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies, excluding OPERF.
- $1.25 billion, or 51.3 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 pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2012.

During the year, State Street had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international equity or Canadian fixed income securities. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and the State did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. The State is fully indemnified against losses due to borrower default by its custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of the OSTF and Oregon state agencies other than PERS. 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 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.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2012, is effectively one day. On June 30, 2012, the State had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State.

Securities lending balances on loan, collateral received, and investments of cash collateral as of June 30, 2012, 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	$ 1,377,853	$ 1,344,133	$ 1,165,960
Domestic equity securities	1,079,881	1,080,583	1,048,707
International equity securities	1,097,118	1,073,361	572,540
Domestic fixed income securities	564,563	553,366	561,916
International fixed income securities	95,158	93,071	94,570
Total	$ 4,214,573	$ 4,144,514	$ 3,443,693

State Street, as lending agent, has also created a fund, solely owned by OPERF, to reinvest cash collateral received. OPERF bears the entire risk of 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, 2012 (in thousands):

Quality Rating	**Fair Value**
AAA	$ 109,616
AA[1]	919,892
A[1]	634,792
BBB	456,050
BB and B	8,640
Unrated	300,000
Total subject to credit risk	2,428,990
Allocation from the Oregon Short-Term Fund	16,904
Total securities lending invested cash collateral	$ 2,445,894

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

The interest rate risk of OPERF securities lending invested cash collateral as of June 30, 2012 (in thousands):

Security Type	Fair Value	Effective Weighted Duration Rate (in days)[1]
Asset backed securities	$ 248,777	33
Bank note	39,022	20
Certificates of deposit	50,978	81
Commercial paper	668,823	46
Corporate	125,471	49
U.S. Agency	49,996	65
Repurchase agreement	1,245,923	3
Total subject to interest rate risk	2,428,990	23
Allocation from the Oregon Short-Term Fund	16,904	
Total securities lending invested cash collateral	$ 2,445,894	

[1] Weighted average days to maturity or next reset date.

As of December 31, 2011, the fair values of securities on loan and collateral held for SAIF Corporation were $241 million and $246 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, 2012, the primary government had restricted assets of $2 billion in deposits and $884.4 million in investments. The discretely presented component units had restricted assets of $1.8 billion in investments.

3. DERIVATIVES

Derivatives are financial instruments whose value is derived from underlying assets, reference rates, or indexes. A derivative generally takes the form of a contract in which two parties agree to make payments at some 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 (OHCSD) has entered into 14 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 $305.4 million and the fair value of the swaps totaled negative $37.2 million as of June 30, 2012. During the fiscal year, the swap fair value declined by $11.8 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 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 OHCSD's outstanding swaps as of June 30, 2012 (in thousands):

Bond Series	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Term Date	Counterparty	S&P
Multifamily housing revenue bonds								
2004 B	$ 14,115	12/16/04	3.89%	64% of 1-mo LIBOR[1] + .27%	$ (1,375)	7/1/46	Merrill Lynch	A-
Mortgage revenue bonds								
2003 L	15,000	4/21/10	3.64%	64.7% of 3-mo LIBOR + .23%	(759)	7/1/34	Royal Bank of Canada	AA-
2004 C	15,000	1/24/06	4.03%	64% of 1-mo LIBOR + .29%	(847)	7/1/34	Morgan Stanley	A-
2004 I	15,000	1/24/06	4.01%	64% of 1-mo LIBOR + .29%	(1,085)	7/1/34	Morgan Stanley	A-
2004 L	15,000	5/27/10	3.43%	64.8% of 3-mo LIBOR + .22%	(1,095)	7/1/35	Royal Bank of Canada	AA-
2005 C	10,500	5/27/10	3.35%	64.8% of 3-mo LIBOR + .22%	(760)	7/1/35	Royal Bank of Canada	AA-
2006 C	20,000	2/28/06	4.18%	64% of 1-mo LIBOR + .29%	(2,462)	7/1/36	Morgan Stanley	A-
2006 F	20,000	7/18/06	4.43%	64% of 1-mo LIBOR + .29%	(2,763)	7/1/37	Bank of America	A
2006 G	16,105	7/18/06	3.83%	64% of 1-mo LIBOR + .19%	(2,329)	7/1/16	Merrill Lynch	A-
2007 E	30,000	7/31/07	4.39%	64% of 1-mo LIBOR + .29%	(4,946)	7/1/38	JP Morgan Chase	A+
2007 H	30,000	11/20/07	4.06%	64% of 1-mo LIBOR + .30%	(4,644)	7/1/38	Merrill Lynch	A-
2008 C	35,000	2/26/08	3.75%	64% of 1-mo LIBOR + .30%	(4,701)	7/1/38	Bank of America	A
2008 F	35,000	5/13/08	3.74%	64% of 1-mo LIBOR + .31%	(4,178)	7/1/39	Bank of America	A
2008 I	34,650	8/26/08	3.72%	64% of 1-mo LIBOR + .31%	(5,253)	7/1/37	Bank of America	A
Total	$ 305,370				$ (37,197)			

[1] London Interbank Offered Rate

The multifamily housing revenue bonds (MF) 2004 B swap has a call option where OHCSD 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 OHCSD 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), or 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 OHCSD's tax-exempt bonds are determined weekly by a remarketing agent. OHCSD is exposed to basis risk when the variable rates received, which are based on the one or three-month London Interbank Offered Rate (LIBOR) rates, do not offset the variable rates paid on the bonds. As of June 30, 2012, the one-month LIBOR was 0.25 percent and the three-month LIBOR rate was 0.46 percent. OHCSD's variable rates as of June 30, 2012, can be found in Note 9.

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. OHCSD 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 OHCSD would then be exposed to interest rate risk. In addition, if any of the swaps had a negative value at termination, OHCSD 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. OHCSD 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.

Debt service requirements of the variable rate debt and net swap payments of OHCSD, using interest rates as of June 30, 2012 (in thousands):

Year Ending June 30,	Principal	Interest	Interest Rate Swaps (Net)	Total
2013	$ 190	$ 1,027	$ 10,514	$ 11,731
2014	200	678	10,527	11,405
2015	205	678	10,520	11,403
2016	215	677	10,513	11,405
2017	220	676	10,222	11,118
2018-2022	3,415	3,367	49,579	56,361
2023-2027	20,620	3,242	48,022	71,884
2028-2032	112,885	2,574	39,848	155,307
2033-2037	130,435	1,174	17,957	149,566
2038-2042	33,840	175	2,185	36,200
2043-2047	3,145	27	280	3,452
Total	$ 305,370	$ 14,295	$ 210,167	$ 529,832

OHCSD'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) must 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, 2012, of the swaps that include these provisions is negative $30.9 million. At June 30, 2012, the bonds subject to these provisions are rated Aa2 by Moody's; the bonds are not rated by S&P.

Department of Veterans' Affairs

The Department of Veterans' Affairs (DVA) 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 2012, DVA 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, 2012 (in thousands):

Description	Notional Amount	Fair Value June 30, 2011	Fair Value Increase/(Decrease)	Fair Value June 30, 2012
Series 84	$ 25,000	$ (1,809)	$ (1,238)	$ (3,047)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2012, 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.

The terms and objectives of DVA outstanding derivative instruments as of June 30, 2012 (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%	$(3,047)

The Series 84 swap was structured with an option that gives the DVA 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 DVA interest rate swap is with Morgan Stanley Capital Services (counterparty), which is rated A- and Baa1 by S&P and Moody's, respectively. If the counterparty's credit rating falls below certain levels, the counterparty is required to post collateral to the lower of the following ratings (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, 2012, 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 DVA is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As the one-month LIBOR rate decreases, the net payment on the swap increases.

The DVA 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 DVA becomes exposed to basis risk because the variable rate payments received by the DVA are based on a rate other than the interest rate paid on the VRDO bonds. At June 30, 2012, the interest rate on the variable rate hedged debt is 0.17 percent, while the 62.6 percent of one-month LIBOR plus 0.265 percent is 0.41 percent.

The DVA 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 DVA 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 DVA. Using interest rates as of June 30, 2012, 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	
2013	$	-	$	42	$	815	$	857
2014		-		43		814		857
2015		-		43		814		857
2016		410		42		804		1,256
2017		445		42		790		1,277
2018-2022		2,720		195		3,700		6,615
2023-2027		3,735		168		3,170		7,073
2028-2032		5,140		131		2,442		7,713
2033-2037		7,080		80		1,439		8,599
2038-2040		5,470		16		231		5,717
Total	$	25,000	$	802	$	15,019	$	40,821

If the State's unsecured, unenhanced, general obligation debt rating reaches certain levels, the DVA 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 so 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.

The terms of the OUS forward contracts outstanding at June 30, 2012 (in thousands):

Currency	Notional Amount		Principal Amount		Effective Date	Maturity Date	Contract Rate		Fair Value	
Chinese Yuan Renminbi	$	100	$	16	5/1/2012	10/1/2012	$	0.16	$	(1)
Euro		511		689	6/1/2012	1/31/2013		1.35		(51)
		42		57	5/1/2012	10/31/2012		1.36		(5)
		250		339	5/15/2012	8/15/2012		1.36		(27)
		250		342	5/1/2012	7/31/2012		1.37		(31)
		250		342	5/1/2012	7/31/2012		1.37		(31)
Japanese Yen		7,324		94	7/2/2012	4/15/2013		0.01		(2)
		2,376		31	2/20/2012	7/31/2012		0.01		(1)
Total	$	11,103	$	1,910					$	(149)

OUS has entered into foreign currency exchange contracts to offset the foreign currency risk associated with its investments in international debt and equity securities. 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 adverse changes in the value of the currency and the failure of the counterparty to perform.

The following schedule presents the OUS foreign currency exchange contracts as of June 30, 2012 (in thousands):

Description	Delivery Dates	Notional Value	Fair Market Value
Foreign currency exchange contracts purchased:			
Australian dollar	9/19/2012	$ 1,177	$ 1,220
British pound sterling	9/19/2012	1,386	1,398
Canadian dollar	9/19/2012	667	674
Danish krone	9/19/2012	52	53
Euro	9/19/2012	2,691	2,741
Hong Kong dollar	9/19/2012	440	440
Israeli shekel	9/19/2012	2	2
Japanese yen	9/19/2012	896	893
New Zealand dollar	9/19/2012	49	51
Norwegian krone	9/19/2012	189	192
Singapore dollar	9/19/2012	327	331
Swedish krona	9/19/2012	416	428
Swiss franc	9/19/2012	561	571
Total contracts purchased		8,853	8,994
Foreign currency exchange contracts sold:			
Australian dollar	9/19/2012	1,177	1,220
British pound sterling	9/19/2012	1,387	1,399
Danish krone	9/19/2012	52	53
Euro	9/19/2012	3,504	3,568
Hong Kong dollar	9/19/2012	331	331
Japanese yen	9/19/2012	896	893
New Zealand dollar	9/19/2012	84	87
Norwegian krone	9/19/2012	191	195
Singapore dollar	9/19/2012	207	210
Swedish krona	9/19/2012	415	427
Swiss franc	9/19/2012	560	570
Total contracts sold		8,804	8,953
Total foreign currency exchange contracts		$ 17,657	$ 17,947

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, 2012, was negative $53 thousand.

The foreign currency exchange contracts within the CSF as of June 30, 2012 (in thousands):

Description	Delivery Dates	Notional Value	Fair Market Value
Foreign currency exchange contracts purchased:			
Australian dollar	9/19/2012	$ 10	$ 11
British pound sterling	9/19/2012	2,629	2,652
Canadian dollar	9/19/2012	6,712	6,778
Hong Kong dollar	9/19/2012	2,604	2,605
Japanese yen	9/19/2012	3,205	3,187
New Zealand dollar	9/19/2012	12	12
Norwegian krone	9/19/2012	764	778
Singapore dollar	9/19/2012	1,339	1,358
Swedish krona	9/19/2012	443	450
Swiss franc	9/19/2012	6,629	6,748
Total contracts purchased		24,347	24,579
Foreign currency exchange contracts sold:			
Australian dollar	9/19/2012	900	879
British pound sterling	9/19/2012	2,630	2,607
Canadian dollar	9/19/2012	77	76
Euro	9/19/2012	8,552	8,406
Hong Kong dollar	9/19/2012	1,138	1,138
Japanese yen	9/19/2012	2,904	2,916
New Zealand dollar	9/19/2012	294	285
Norwegian krone	9/19/2012	764	750
Singapore dollar	9/19/2012	14	14
Swedish krona	9/19/2012	437	424
Swiss franc	9/19/2012	6,629	6,510
Total contracts sold		24,339	24,005
Total foreign currency exchange contracts		$ 48,686	$ 48,584

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 pre-determined 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, 2012, was $61.8 thousand. The fair value of rights and warrants within the CSF portfolio as of June 30, 2012 (in thousands):

Type	Expiration Date	Related Number of Shares	Fair Value
Rights	7/19/2012	17,140	$ 14

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.

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 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 ability 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 $26.6 million for the fiscal year ended June 30, 2012.

Foreign currency forward contracts that represent purchase commitments within the PERS portfolio as of June 30, 2012 (in thousands):

Description	**Delivery Dates**	**Notional Value**	**Fair Value**
Australian dollar	8/14/2012 - 9/19/2012	$ 122,560	$ 3,074
Brazilian real	7/3/2012 - 9/5/2012	38,942	552
Canadian dollar	8/14/2012 - 9/20/2012	153,541	1,364
Chinese yuan	7/20/2012 - 9/8/2015	13,431	(395)
Columbian peso	9/19/2012	21	-
Danish krone	9/19/2012	2,532	32
Euro	7/3/2012 - 9/19/2012	313,707	4,272
Hong Kong dollar	7/3/2012 - 9/19/2012	45,277	12
Israeli shekel	9/19/2012	6,983	(13)
Japanese yen	8/14/2012 - 9/19/2012	191,053	(1,730)
Malaysian ringgit	9/19/2012	177	(1)
Mexican peso	7/26/2012 - 9/19/2012	23,751	1,000
New Zealand dollar	8/14/2012 - 9/19/2012	96,617	2,285
Norwegian krone	7/27/2012 - 9/19/2012	202,269	1,381
Philippine peso	10/31/2012	1,284	38
Pound sterling	7/3/2012 - 9/24/2012	271,590	1,258
Singapore dollar	8/3/2012 - 9/19/2012	44,856	498
South Korean won	7/12/2012 - 9/28/2012	2,797	(4)
Swedish krona	8/14/2012 - 9/19/2012	222,561	4,825
Swiss franc	9/19/2012	33,349	519
Thai baht	9/19/2012	351	(3)
Total		$ 1,787,649	$ 18,964

Foreign currency forward contracts that represent sell commitments within the PERS portfolio as of June 30, 2012 (in thousands):

Description	Delivery Dates	Notional Value	Fair Value
Australian dollar	7/18/2012 - 3/20/2013	$ 248,285	$ (4,189)
Brazilian real	7/3/2012 - 9/5/2012	59,085	(396)
Canadian dollar	7/18/2012 - 9/19/2012	107,821	(442)
Chinese yuan	7/20/2012 -10/15/2012	1,981	30
Colombian peso	9/19/2012	1,285	(2)
Danish krone	9/19/2012	5,967	(161)
Euro	7/3/2012 - 3/29/2013	694,896	1,984
Hong Kong dollar	9/19/2012	37,196	(12)
Israeli shekel	9/19/2012	238	2
Japanese yen	7/18/2012 - 9/19/2012	329,763	3,382
Mexican peso	7/26/2012 - 9/20/2012	26,066	(147)
New Zealand dollar	8/14/2012 - 9/19/2012	76,504	(4,713)
Norwegian krone	8/14/2012 - 9/19/2012	83,226	(2,013)
Peruvian nouveau sol	9/19/2012	97	-
Pound sterling	7/3/2012 - 11/29/2013	237,686	(808)
Singapore dollar	9/19/2012	22,199	(321)
South Korean won	7/12/2012 - 9/19/2012	1,563	(15)
Swedish krona	8/14/2012 - 9/19/2012	27,828	(841)
Swiss franc	8/14/2012 - 12/19/2012	129,260	(928)
Turkish lira	7/20/2012	1,284	(1)
Total		$ 2,092,230	$ (9,591)

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 because the clearing house, which is the issuer of or counterparty to each exchange-traded futures contract, 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 $84.6 million for the fiscal year ended June 30, 2012. The change in fair value resulting from forward contract settlements totaled $3.4 million for the fiscal year ended June 30, 2012. The fair value of the futures contracts reported within the PERS portfolio is $0.

The balance of the fixed income futures contracts within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Fixed Income Type	Expiration Date	Number of Contracts	Notional Value
Long cash and cash equivalents:			
90 day Euro	3/18/2013 - 3/16/2015	375	$ 93,245
Short cash and cash equivalents:			
90 day Euro	3/17/2014	361	(89,681)
Long fixed income:			
30 year U.S. Treasury bonds	9/19/2012	723	106,981
10 year U.S. Treasury notes	9/19/2012	907	120,971
5 year U.S. Treasury notes	9/28/2012	4,620	572,736
2 year U.S. Treasury notes	9/28/2012	2,158	475,165
Ultra long U.S. Treasury bonds	9/19/2012	960	160,170
UK long gilt bond	9/26/2012	153	28,583
Total long fixed income			1,464,606
Short fixed income:			
30 year U.S. Treasury bonds	9/19/2012	1,096	(162,174)
10 year Australian Treasury bonds	9/17/2012	247	(24,552)
10 year U.S. Treasury notes	9/19/2012	4,268	(569,245)
2 year U.S. Treasury notes	9/28/2012	311	(68,478)
Total short fixed income			(824,449)
Total fixed income futures contracts			$ 643,721

The balance of the index futures contracts within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Index Type	Expiration Date	Number of Contracts	Notional Value
Long purchased indexes:			
AEX	7/20/2012	39	$ 3,041
ASX SPI 200	9/20/2012	92	9,565
CAC 40	7/20/2012	1,755	71,092
DAX	9/21/2012	174	35,394
DJ Euro STOXX 50	9/21/2012	423	12,105
FTSE 100	9/21/2012	1,184	102,565
FTSE MIB	9/21/2012	101	9,162
Hang Seng	7/30/2012	33	4,137
IBEX 35	7/20/2012	315	27,926
OMX 30	7/20/2012	630	9,390
Russell 1000 Mini	9/21/2012	751	56,152
Russell 2000 Mini	9/21/2012	1,831	145,638
S&P 500 E Mini	9/21/2012	2,661	180,469
S&P 500	9/20/2012	80	27,128
S&P Midcap 400 E Mini	9/21/2012	95	8,925
S&P TSE 60	9/20/2012	118	15,311
SGX MSCI Singapore	7/30/2012	38	1,992
Swiss Market	9/21/2012	507	32,455
TOPIX	9/14/2012	515	49,635
Total long purchased indexes			802,082
Short purchased indexes:			
AEX	7/20/2012	58	(4,523)
ASX SPI 200	9/20/2012	615	(63,939)
Hang Seng	7/30/2012	55	(6,895)
S&P 500 E MINI	9/21/2012	772	(52,357)
S&P TSE 60	9/20/2012	323	(41,911)
Total short purchased indexes			(169,625)
Total purchased indexes			$ 632,457

The balance of the forward contracts within the PERS portfolio as of June 30, 2012 (in thousands):

Type of Forward Contract	Expiration Date	Notional Value	Fair Value
Forward assets:			
U.S. Treasury notes	2/15/2022	$ 53,900	$ 55,637
U.S. Treasury strips	1/15/2022	16,018	16,967
Total forward assets		69,918	72,604
Forward liabilities:			
U.S. Treasury TIPS	1/15/2022	(67,500)	(71,499)
Total forward liabilities		(67,500)	(71,499)
Total forward contracts		$ 2,418	$ 1,105

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 in accordance with the terms of the respective swap agreements to provide value and recourse to the OPERF or its counterparties.

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 fails 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 fails 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 fails to perform.

The change in fair value of swap contracts within the PERS portfolio for the year ended June 30, 2012, was negative $17 million. The balances of the swap contracts as of June 30, 2012 (in thousands):

Description	PERS Receives	PERS Pays	Maturity date	Notional Value	Fair Value
Interest rate swaps -					
pay fixed liability	3 month LIBOR	0.99 - 4.28%	6/20/2016 -4/19/2041	$ 200,230	$ (5,908)
receive fixed asset	0.54% - 10.58%	See note[1]	1/2/2014 - 5/24/2042	135,580	3,957
receive fixed liability	0.54%	3 Month LIBOR	6/26/2014	156,400	(33)
Credit default swaps -					
pay fixed assets	CDP[2]	0.00 - 5.00%	9/20/2012 - 2/17/2052	357,257	23,727
pay fixed liabilities	CDP[2]	0.00 - 5.00%	9/20/2012 - 3/20/2019	91,605	(1,286)
receive fixed assets	0.25 - 4.42%	CDP[2]	9/20/2012 - 6/25/2036	21,966	720
receive fixed liabilities	0.08 - 5.00%	CDP[2]	9/20/2012 - 10/12/2052	294,646	(22,907)
Total equity return swaps	Equity position	3 month LIBOR	5/15/2012	121	9,914
Total swap contracts				$ 1,257,805	$ 8,184

[1] PERS pays/receives counterparty based on 1-month Mexican TIIE rate, 3-month CDOR, 3-month LIBOR, 12-month Brazilian CETIP interbank rate, 12-month BRDCI.

[2] Credit default protection. Represents the difference between the original price of the reference asset and the recovery amount should a credit default event occurs.

The counterparties' credit ratings for swaps contracts within the PERS portfolio as of June 30, 2012 (in thousands):

Counterparty Information	S&P	Moody's	Credit Default Swaps	Interest Rate Swaps	Total Return Swaps	Total
Bank of America Merrill Lynch	A-	Baa2	$ 449	$ -	$ 9,914	$ 10,363
Barclay's Bank	A+	A2	1,936	-	-	1,936
BNP PARIBAS S.A.	AA-	A2	(22)	-	-	(22)
Citibank	A	A3	(72)	-	-	(72)
Citigroup Global Markets	A-	Baa2	2,621	-	-	2,621
CME Group	AA-	NR	362	1,355	-	1,717
Credit Suisse	A+	A1	1,866	-	-	1,866
Deutsche Bank	A+	A2	(1,225)	35	-	(1,190)
Goldman Sachs	A-	A3	(1,928)	(3,399)	-	(5,327)
HBSC Bank	N/A	N/A	(4)	-	-	(4)
JP Morgan Chase	A	A2	(721)	(567)	-	(1,288)
Morgan Stanley	A-	Baa1	214	132	-	346
Royal Bank of Scotland	A	A3	64	-	-	64
UBS AG Stamford	A	A2	(3,286)	460	-	(2,826)
Total swaps subject to credit risk			$ 254	$ (1,984)	$ 9,914	$ 8,184

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's ability to perform. The change in fair value of option contracts within the PERS portfolio for the year ended June 30, 2012, was $800 thousand.

The balance of the option contracts within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Description	Expiration Date	Contracts	Units	Fair Value
Fixed Income:				
Purchased calls				
FVA USD 3M30Y S ATM	9/19/2012 - 12/10/2012	2,200,000	2,200,000	$ 175
Total purchased calls			2,200,000	175
Written calls				
INF CAP USD CPURNSA	3/4/2015	1,800,000	(1,800,000)	(6)
IRO USD 2Y 1.0562MYC	10/11/2012	30,600,000	(30,600,000)	(292)
IRO USD 2Y 0.915 MYC	11/14/2012	8,800,000	(8,800,000)	(60)
IRO USD 5Y 1.4 C BRC	3/18/2013	25,000,000	(25,000,000)	(393)
IRO USD 5Y C 1.7000	3/18/2013	14,900,000	(14,900,000)	(410)
IRO USD 5Y C 1.7 CBK	3/18/2013	3,300,000	(3,300,000)	(91)
Total written calls			(84,400,000)	(1,252)
Written puts				
INF Floor USD CPURNS	3/4/2015	1,800,000	(1,800,000)	(6)
INF Floor USD CPURNSA	10/13/2020	800,000	(800,000)	(2)
IRO USD 2Y 1.0562 MYC	10/11/2012	30,600,000	(30,600,000)	(4)
IRO USD 2Y 0.915 MYC	11/14/2012	8,800,000	(8,800,000)	(3)
IRO USD 5Y 1.4 P BRC	3/18/2013	25,000,000	(25,000,000)	(156)
IRO USD 5Y P 1.7000	3/18/2013	14,900,000	(14,900,000)	(51)
IRO USD 5Y P 1.7 CBK	3/18/2013	3,300,000	(3,300,000)	(11)
Total written puts			(85,200,000)	(233)
Total fixed income			(167,400,000)	(1,310)
Option futures:				
Calls				
Written:				
10 year Treasury note	8/24/2012	294	(294,000)	(156)
Total calls written			(294,000)	(156)
Total option future calls			(294,000)	(156)
Puts				
Purchased:				
10 year Treasury note	7/27/2012	451	451,000	49
2 year Euro midcurve	9/14/2012 - 12/14/2012	1,252	3,130,000	113
3 year Euro midcurve	12/14/2012	1,448	3,620,000	185
Total puts purchased			7,201,000	347
Written:				
10 year Treasury note	7/27/2012 - 8/24/2012	446	(446,000)	(81)
2 year Euro midcurve	9/14/2012 - 12/14/2012	1,252	(3,130,000)	(42)
3 year Euro midcurve	12/14/2012	1,448	(3,620,000)	(136)
Total puts written			(7,196,000)	(259)
Total option future puts			5,000	88
Total option futures			(289,000)	(68)
Total option contracts			(167,689,000)	$ (1,378)

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's ability to perform. The change in fair value of swaption contracts within the PERS portfolio for the year ended June 30, 2012, was negative $1.7 million. The balance of the swaption contracts as of June 30, 2012 (dollars in thousands):

Description	Expiration Date	Contracts	Units	Fair Value
Calls				
Purchased				
10-year RTR	12/17/2012 - 4/5/2013	110,700	110,700,000	$ 5,124
Total calls purchased			110,700,000	5,124
Written				
5-year RTR	5/8/2014 - 3/20/2017	103,500	(103,500,000)	(3,757)
30-year RTR	12/17/2012	21,100	(21,100,000)	(974)
Total calls written			(124,600,000)	(4,731)
Puts				
Purchased				
30-year RTP	5/2/2012 - 11/11/2013	76,600,000	76,600,000	340
30-year RTP	9/16/2013	17,000,000	17,000,000	72
10-year RTP	4/5/2013 - 3/16/2017	115,900,000	115,900,000	1,415
Pound sterling	12/15/2015	2,800,000	2,800,000	193
IRO Pound sterling	12/15/2015	6,300,000	6,300,000	435
Payer 0.92	9/19/2012 - 9/20/2012	4,920,000	4,920,000	70
Payer 0.93	7/18/2012 - 9/19/2012	31,860,000	31,860,000	89
Total puts purchased			255,380,000	2,614
Written				
10-year RTP	3/16/2017	54,000,000	(54,000,000)	(704)
IRO Euro	7/1/2014	2,500,000	(2,500,000)	-
Swaption 317U153B3	7/10/2012	3,800,000	(3,800,000)	-
5 Year RPT	5/8/2014 - 3/20/2017	103,500,000	(103,500,000)	(1,625)
Payer 0.87	9/19/2012	4,920,000	(4,920,000)	(26)
Payer 0.88	7/18/2012 - 9/19/2012	31,860,000	(31,860,000)	(10)
Total puts written			(200,580,000)	(2,365)
Total swaption contracts			40,900,000	$ 642

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, 2012, was negative $3.8 million.

The fair value of rights and warrants within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Type	Expiration Date	Related Number of Shares	Fair Value
Rights	7/10/2012 - 7/20/2012	158,491	$ 76
Warrants	10/31/2012 - 1/19/2021	1,352,725	6,952
Total fair value		1,511,216	$ 7,028

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, 2012:

	Notional Value	Fair Value
2005 Swap #1	$ 42,725	$ (8,509)
2005 Swap #2	42,700	(8,510)
Total	$ 85,425	$ (17,019)

The notional amounts of the swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028. The swaps originated on October 18, 2005 and are callable in 2014. 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. 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 $4.7 million during the year ended June 30, 2012.

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 1998A, Series 1998B, Series 2002B, and Series 2009B bonds. As part of the 2012 refinancing, the hedging effectiveness was reevaluated, the swaps reassigned as hedges of the interest payments on the 2012B-1, 2012B-2 and 2012B-3 Series 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 $0 value at the inception of the hedge. The total value of the companion debt instrument is as follows (in thousands):

Instrument	Hedging Bonds	Beginning Date	Beginning Balance	Ending Date	Ending Balance	Change in Value
2005A	1998B/2002B	6/30/2011	$ 2,817	6/30/2012	$ 2,620	$ (197)
2005A	2012B-1/2012B-2	5/15/2012	5,001	6/30/2012	4,948	(53)
2005B	1998B/2002B	6/30/2011	2,819	6/30/2012	2,621	(198)
2005B	2012B-1/2012B-2	5/15/2012	5,001	6/30/2012	4,947	(54)
2004AB	1998B/2009B	6/30/2011	565	6/30/2012	-	(565)
2004AB	1998A/2009B	6/30/2011	564	6/30/2012	-	(564)

The companion debt instrument for the swaps, as amended for the 2012 refinancing, 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 $15.1 million as of June 30, 2012.

The current hedging instruments for the 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 is $821 thousand as of June 30, 2012.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2012, the counterparties' credit ratings were A+ from Standard & Poor's, A2 from Moody's, and A+ from Fitch. Additionally, the swaps expose 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. 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 pre-determined value on the reporting date. The collateral posting limit was $30 million compared to a total relevant swap liability value of $17 million as of June 30, 2012, resulting in a requirement that OHSU post zero collateral as of June 30, 2012.

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, 2012 (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities								
General accounts	$ 19,253	$ 82,759	$ 13,346	$ 17,399	$ 2,008	$ 87,239	$ 222,004	$ 63,060
Due from federal government	-	116,857	40,265	35,533	-	157,515	350,170	-
Interest	-	-	908	1,440	1,465	2,001	5,814	687
Healthcare providers	-	49,084	-	-	-	-	49,084	-
Broker receivable	-	-	-	-	3,760	-	3,760	-
Notes	-	-	-	100	-	3,290	3,390	47
Contracts	-	-	1,086	280	-	-	1,366	-
Mortgages	-	5,551	-	11	-	-	5,562	-
Benefit recoveries	25,738	659	-	-	-	-	26,397	-
Court fines and fees	-	-	-	-	-	624,544	624,544	-
Collection assessments	-	-	-	-	-	293,903	293,903	-
Child support recoveries	-	-	-	-	-	278,527	278,527	-
Workers' compensation recoveries	-	-	-	-	-	56,885	56,885	-
Other	17,662	-	3,104	15,322	703	37,306	74,097	195
Gross receivables	62,653	254,910	58,709	70,085	7,936	1,541,210	1,995,503	63,989
Allowance for doubtful accounts	(22,234)	(6,383)	(448)	(4,151)	(53)	(1,078,656)	(1,111,925)	(1,703)
Total receivables, net	$ 40,419	$ 248,527	$ 58,261	$ 65,934	$ 7,883	$ 462,554	$ 883,578	$ 62,286

Receivables reported for business-type activities at June 30, 2012 (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities							
General accounts	$ 151	$ 95	$ 20,932	$ 278,058	$173,595	$ 10,409	$ 483,240
Due from federal government	-	-	-	17,139	46,811	917	64,867
Interest	7,336	1,486	-	674	-	14,433	23,929
Broker receivable	-	-	-	-	31	-	31
Mortgages	2,434	-	-	-	-	-	2,434
Loans	-	-	-	-	18,223	-	18,223
Loans - long-term	-	-	-	-	59,148	-	59,148
Benefit recoveries	-	-	-	59,898	-	-	59,898
Other	-	1,082	3,097	30,067	-	67	34,313
Gross receivables	9,921	2,663	24,029	385,836	297,808	25,826	746,083
Allowance for doubtful accounts	(2,434)	-	(263)	(27,835)	(29,087)	(52)	(59,671)
Total receivables, net	$ 7,487	$ 2,663	$ 23,766	$ 358,001	$268,721	$ 25,774	$ 686,412

Receivables reported for fiduciary funds at June 30, 2012 (in thousands):

	Agency
Fiduciary fund activities	
Restitution	$ 464,264
Other	2,733
Gross receivables	466,997
Allowance for doubtful accounts	(373,914)
Total receivables, net	$ 93,083

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2011, and the Oregon Health and Science University (OHSU) at June 30, 2012 (in thousands):

	SAIF	OHSU
Discretely presented component units		
Premiums receivable	$ 299,718	$ -
Broker receivable	1,487	-
Patient accounts	-	217,145
Student loans	-	31,395
Grants and contracts receivable	-	20,749
Due from federal government	-	35,550
Interest	36,663	2,330
Other	14,861	3,566
Gross receivables	352,729	310,735
Allowance for doubtful accounts	(1,405)	(9,838)
Total receivables, net	$ 351,324	$ 300,897

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, 2012 (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities								
General accounts	$ 122,419	$ 165,409	$ 69,638	$ 13,783	$ 1,889	$ 155,536	$ 528,674	$ 26,467
Interest	-	-	-	-	-	-	-	863
Broker payable	-	-	-	-	21,967	-	21,967	-
Taxes	17	-	-	-	-	-	17	-
Contracts payable - retainage	74	-	-	-	-	-	74	158
Total payables	$ 122,510	$ 165,409	$ 69,638	$ 13,783	$ 23,856	$ 155,536	$ 550,732	$ 27,488

Payables reported for business-type activities at June 30, 2012 (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities							
General accounts	$ 913	$ 228	$ 8,847	$ 26,362	$137,293	$ 26,852	$ 200,495
Interest	27,844	450	-	-	30,497	5,545	64,336
Broker payable	-	-	-	-	76	-	76
Loans	1,500	-	-	-	-	-	1,500
Contracts	-	-	12	-	35,445	-	35,457
Total payables	$ 30,257	$ 678	$ 8,859	$ 26,362	$203,311	$ 32,397	$ 301,864

Payables reported for fiduciary funds at June 30, 2012 (in thousands):

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
Fiduciary fund activities				
General accounts	$ 57,902	$ 155	$ -	$ 4
Broker payable	2,209,223	-	93,670	-
Mortgages	-	2,041	-	-
Compensated absences payable	1,564	-	-	-
Total payables	$ 2,268,689	$ 2,196	$ 93,670	$ 4

Payables reported for SAIF Corporation (SAIF) at December 31, 2011, and the Oregon Health and Science University (OHSU) at June 30, 2012 (in thousands):

	SAIF	OHSU
Discretely presented component units		
General accounts	$ 22,896	$ 188,289
Contracts	-	36,420
Retrospective premiums	35,072	-
Reinsurance payable	5,496	-
Commissions payable	9,046	-
Broker payable	4	-
Total payables	$ 72,514	$ 224,709

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, 2012 and 2011, the Oregon Lottery's share of MUSL's operating expenses was $64.7 thousand and $32.5 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, 2012 and 2011 (in thousands). Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government Securities.

	2012	2011
Assets	$ 583,165	$ 641,435
Liabilities	$ 583,010	$ 641,194
Net Assets - unrestricted	155	241
Total liabilitites and net assets	$ 583,165	$ 641,435
Unrestricted revenues	$ 4,783	$ 4,101
Unrestricted expenses	4,869	4,364
Total change in unrestricted net assets	$ (86)	$ (263)

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, 2012 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	$ 1,778,293	$ 30,876	$ 26,592	$ 1,782,577
Construction in progress	1,469,843	504,398	721,176	1,253,065
Works of art and other nondepreciable assets	1,924	108	-	2,032
Total capital assets not being depreciated	3,250,060	535,382	747,768	3,037,674
Capital assets being depreciated:				
Buildings, property, and equipment	3,146,327	340,708	218,769	3,268,266
Infrastructure	16,167,440	855,028	477,318	16,545,150
Total capital assets being depreciated	19,313,767	1,195,736	696,087	19,813,416
Less accumulated depreciation for:				
Buildings, property, and equipment	1,345,318	121,391	46,509	1,420,200
Infrastructure	9,552,760	203,514	472,619	9,283,655
Total accumulated depreciation	10,898,078	324,905	519,128	10,703,855
Total capital assets being depreciated, net	8,415,689	870,831	176,959	9,109,561
Total capital assets, net	$ 11,665,749	$ 1,406,213	$ 924,727	$ 12,147,235

The beginning balance has been restated from $11,690,449 to $11,665,749 to reflect prior period adjustments totaling $24,700.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	$ 132,230	$ 2,958	$ 41	$ 135,147
Construction in progress	332,727	1,888	13,864	320,751
Works of art and other nondepreciable assets	72,450	2,284	6,056	68,678
Total capital assets not being depreciated	537,407	7,130	19,961	524,576
Capital assets being depreciated:				
Buildings, property, and equipment	3,883,143	649,157	253,673	4,278,627
Infrastructure	96,237	8,721	984	103,974
Total capital assets being depreciated	3,979,380	657,878	254,657	4,382,601
Less accumulated depreciation for:				
Buildings, property, and equipment	1,627,516	158,240	21,647	1,764,109
Infrastructure	48,836	3,474	-	52,310
Total accumulated depreciation	1,676,352	161,714	21,647	1,816,419
Total capital assets being depreciated, net	2,303,028	496,164	233,010	2,566,182
Total capital assets, net	$ 2,840,435	$ 503,294	$ 252,971	$ 3,090,758

The beginning balance has been restated from $2,840,994 to $2,840,435 to reflect prior period adjustments totaling $559.

	Beginning Balance	Increases	Decreases	Ending Balance
Fiduciary fund activities				
Capital assets not being depreciated:				
Land	$ 958	$ -	$ -	$ 958
Construction in progress	165	-	165	-
Total capital assets not being depreciated	1,123	-	165	958
Capital assets being depreciated:				
Buildings, property, and equipment	49,070	3,131	65	52,136
Total capital assets being depreciated	49,070	3,131	65	52,136
Less accumulated depreciation for:				
Buildings, property, and equipment	10,863	2,322	65	13,120
Total accumulated depreciation	10,863	2,322	65	13,120
Total capital assets being depreciated, net	38,207	809	-	39,016
Total capital assets, net	$ 39,330	$ 809	$ 165	$ 39,974

Depreciation Expense

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

Governmental activities	**Amount**
Education	$ 723
Human services	9,150
Public safety	35,509
Economic and community development	1,743
Natural resources	18,670
Transportation	221,455
Consumer and business services	727
Administration	3,477
Legislative	1,693
Judicial	2,457
Subtotal	295,604
Internal service funds	29,301
Total depreciation expense	$ 324,905

Business-type activities	**Amount**
Housing and Community Services	$ 1
Veterans' Loan	109
Lottery Operations	26,794
University System	124,963
Other business-type activities	9,847
Total depreciation expense	$ 161,714

Fiduciary fund activities:	**Amount**
Pension and Other Employee Benefit Trust	$ 2,322
Total depreciation expense	$ 2,322

Construction Commitments

The State has active construction projects, which will be funded through either 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, 2012 (in thousands):

			Remaining Commitment Source of Funds			
Project	Spent-to-Date	Remaining Commitment	General	Federal	Lottery	Other
Military facilities	$ 34,558	$ 20,995	$ -	$ 20,062	$ -	$ 933
Oregon State Hospital facility	362,732	37,422	-	-	-	37,422
Prison construction and upgrades	45,559	5,282	6	-	-	5,276
University building construction and upgrades	300,573	210,775	7,611	7,801	8,124	187,239
Road and bridge construction	778,478	618,561	-	333,951	-	284,610
State park facilities	4,036	8,307	-	827	6,867	613
Upgrade and maintenance of various facilities	82,883	93,319	54	611	-	92,654
Total Construction Commitments	$ 1,608,819	$ 994,661	$ 7,671	$ 363,252	$ 14,991	$ 608,747

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. These assets have not been capitalized because they meet the conditions to qualify as collections that are not subject to capitalization. These conditions are:

1. The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
2. The collections are protected, kept unencumbered, cared for, and preserved; and
3. The collections are subject to state agency policy that requires 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	Amount
Public safety	$ 272
Natural resources	399
Transportation	797
Administration	1,244
Judicial	53
Total insurance recoveries	$ 2,765

Business-type activities	Amount
University System	$ 956
Lottery Operations	75
Other business-type activities	1
Total insurance recoveries	$ 1,032

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 security 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, 2011 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 3,029	$ -	$ -	$ 3,029
Total capital assets not being depreciated	3,029	-	-	3,029
Capital assets being depreciated:				
Buildings, property, and equipment	42,227	404	1,054	41,577
Total capital assets being depreciated	42,227	404	1,054	41,577
Less accumulated depreciation for:				
Buildings, property, and equipment	27,715	1,277	901	28,091
Total accumulated depreciation	27,715	1,277	901	28,091
Total capital assets being depreciated, net	14,512	(873)	153	13,486
Total SAIF Corporation capital assets, net	$ 17,541	$ (873)	$ 153	$ 16,515

Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 58,770	$ 13,673	$ -	$ 72,443
Construction in progress	59,406	126,203	101,749	83,860
Total capital assets not being depreciated	118,176	139,876	101,749	156,303
Capital assets being depreciated:				
Buildings, property, and equipment	2,098,774	119,523	25,312	2,192,985
Total capital assets being depreciated	2,098,774	119,523	25,312	2,192,985
Less accumulated depreciation for:				
Buildings, property, and equipment	979,795	111,174	24,328	1,066,641
Total accumulated depreciation	979,795	111,174	24,328	1,066,641
Total capital assets being depreciated, net	1,118,979	8,349	984	1,126,344
Total OHSU capital assets, net	$ 1,237,155	$ 148,225	$ 102,733	$ 1,282,647

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 expense and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2012, were $109.2 million for the primary government and $20.5 million for component units.

Future minimum rental payments for operating leases in effect as of June 30, 2012 (in thousands):

Year Ending June 30,	Primary Government	Component Units
2013	$ 92,066	$ 22,539
2014	75,171	19,087
2015	61,293	17,087
2016	51,317	16,725
2017	43,284	16,628
2018-2022	119,742	58,759
2023-2027	19,356	1,163
2028-2032	4,952	-
2033-2037	1,055	-
2038-2042	460	-
2043-2047	238	-
2048-2052	276	-
2053-2057	319	-
Total future minimum rental payments	$ 469,529	$ 151,988

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 on the government-wide statement of net assets.

Carrying value of assets acquired through capital leases as of June 30, 2012 (in thousands):

Asset Class	Governmental Activities	Business-type Activities	Component Units
Buildings, property, and equipment	$ 19,676	$ 705	$ 14,759
Less accumulated depreciation	(6,880)	(182)	(8,890)
Total	$ 12,796	$ 523	$ 5,869

Future minimum lease payments for capital leases and the related net present value as of June 30, 2012 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities	Component Units
2013	$ 7,076	$ 107	$ 4,182
2014	2,119	102	419
2015	1,108	100	148
2016	16	97	124
2017	5	93	-
2018-2022	-	235	-
Total future minimum lease payments	10,324	734	4,873
Less amounts representing interest	(1,835)	(178)	(210)
Present value of minimum lease payments	$ 8,489	$ 556	$ 4,663

C. Lease Receivables

The State receives rental income from land, property, and equipment leased to non-state entities. For the year ended June 30, 2012, the State received rental income of $11.9 million on leased assets with a carrying value of $56.2 million, net of $17.3 million in accumulated depreciation.

Future minimum lease revenues for non-cancelable operating leases as of June 30, 2012 (in thousands):

Year Ending June 30,	Primary Government
2013	$ 10,042
2014	6,519
2015	5,184
2016	4,585
2017	3,635
2018-2022	12,631
2023-2027	9,399
2028-2032	8,380
2033-2037	6,430
2038-2042	3,475
2043-2047	1,099
2048-2052	465
2053-2057	306
Total future minimum lease revenues	$ 72,150

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, 2012, the amount of net appreciation available for authorization for expenditure was $16.3 million. The amount available for distribution during fiscal year 2013 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. Expendable endowment funds are 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. For the year ended June 30, 2012, the amount of net appreciation available for authorization for expenditure was $44.9 million. Of this amount, the OHSU Foundation's board authorized a 4.5 percent distribution based on a three-year moving average of the fair value of the endowment pool. 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. Expendable endowment funds are 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 2011, to meet seasonal cash management needs within fiscal year 2012. In addition, the Oregon Department of Human Services (DHS) repaid a loan from the Oregon Short-Term Fund made to cover end of biennium cash flow needs.

Short-term debt activity for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Tax anticipation notes	$ -	$ 800,799	$ 800,799	$ -
DHS line of credit	95,000	-	95,000	-
Total short-term debt activity	$ 95,000	$ 800,799	$ 895,799	$ -

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. Article XI-Q provides authorization to finance real or personal property projects to 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.

Debt service requirements for general obligation bonds as of June 30, 2012 (in thousands):

	Governmental Activities		Business-type Activities		Fiduciary Fund Activities	
Year ending June 30,	Principal [1]	Interest	Principal [2]	Interest	Principal	Interest
2013	$ 91,030	$ 155,530	$ 71,237	$ 103,628	$ 535	$ 115
2014	107,536	151,634	74,199	100,385	545	105
2015	119,500	146,706	78,226	95,339	565	88
2016	129,925	140,854	80,151	93,423	585	60
2017	140,575	134,377	78,860	91,783	615	31
2018-2022	896,770	556,802	448,749	376,945	-	-
2023-2027	1,237,030	265,499	441,025	255,261	-	-
2028-2032	93,830	31,807	407,220	154,852	-	-
2033-2037	82,485	9,892	320,400	74,168	-	-
2038-2042	1,520	38	190,125	13,817	-	-
2043-2047	-	-	10,600	218	-	-
2048-2052	-	-	210	7	-	-
Total	$ 2,900,201	$ 1,593,139	$ 2,201,002	$ 1,359,826	$ 2,845	$ 399

[1] Includes $1,984 million in pensions bond debt.

[2] Includes a total of $187.3 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 0.16 percent for $85.5 million of these bonds, 0.17 percent for $79.9 million, and 0.23 percent for $21.9 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.

Debt service requirements for revenue bonds as of June 30, 2012 (in thousands):

	Governmental Activities		Business-type Activities		Discretely Presented Component Units	
Year ending June 30,	**Principal [1]**	**Interest**	**Principal [2,3]**	**Interest**	**Principal [4,5,6]**	**Interest**
2013	$ 128,111	$ 143,760	$ 34,934	$ 49,490	$ 11,794	$ 25,184
2014	125,013	139,082	39,719	48,806	12,152	25,404
2015	126,457	133,166	43,303	47,458	14,006	29,861
2016	114,912	127,834	44,148	45,899	14,700	30,366
2017	129,335	122,063	44,725	44,220	11,016	34,003
2018-2022	659,505	526,088	252,619	191,883	58,318	169,665
2023-2027	764,808	381,759	299,177	131,416	120,955	112,379
2028-2032	699,095	206,624	301,715	71,440	148,335	86,146
2033-2037	417,075	36,417	261,735	33,407	120,680	50,120
2038-2042	-	-	102,310	10,316	130,545	17,141
2043-2047	-	-	13,245	1,565	30,610	72
2048-2052	-	-	2,425	390	-	-
2053-2057	-	-	265	6	-	-
Total	$ 3,164,311	$ 1,816,793	$ 1,440,320	$ 676,296	$ 673,111	$ 580,341

[1] Includes a total of $265.3 million of bonds with variable interest rates adjusted weekly based on the rates determined by the remarketing agent. The interest rate at the end of the fiscal year was 0.63 percent.

[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 $1.2 million of the bonds and 11.5 percent for $1.7 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 0.17 percent for $16.1 million of these bonds, 0.18 percent for $64.9 million, 0.20 percent for $60.5 million, 0.23 percent for $95 million, 0.25 percent for $69.7 million, and 0.34 percent for $14.1 million.

[4] Includes bonds with variable rates of interest adjusted daily based on the auction rate. The rate as of fiscal year-end was 0.14 percent for $19.1 million of these bonds and 0.15 percent for $28.5 million.

[5] Includes bonds with variable rates of interest adjusted weekly based on the auction rate. The rate as of fiscal year-end was 0.15 percent for $28.5 million of these bonds and 0.16 percent for $28.5 million.

[6] Includes bonds with variable rates of interest adjusted monthly based on the auction rate. The rate as of fiscal year-end was 0.65 percent for $88.8 million of these bonds.

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.

Debt service requirements for certificates of participation as of June 30, 2012 (in thousands):

	Governmental Activities		Business-type Activities	
Year ending June 30,	Principal	Interest	Principal	Interest
2013	$ 81,839	$ 44,782	$ 9,366	$ 4,632
2014	70,757	41,280	6,748	4,248
2015	67,547	38,024	5,533	3,937
2016	55,867	35,147	4,938	3,694
2017	48,031	32,810	4,774	3,470
2018-2022	190,706	136,033	22,064	14,444
2023-2027	186,555	90,858	24,505	9,081
2028-2032	174,275	45,240	14,020	3,117
2033-2037	68,320	9,322	4,360	546
2038-2042	6,960	553	-	-
Total	$ 950,857	$ 474,049	$ 96,308	$ 47,169

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, 2012 (in thousands):

	Governmental Activities	
Year ending June 30,	Principal	Interest
2013	$ 69,900	$ 3,136
2014	28,195	696
Total	$ 98,095	$ 3,832

F. Changes in Long-Term Debt

Changes in long-term debt for governmental activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds/certificates payable:					
General obligation bonds	$ 2,616,800	$ 401,246	$ 117,845	$ 2,900,201	$ 91,030
Revenue bonds	3,281,497	271,102	388,288	3,164,311	128,111
Certificates of participation	1,255,518	28,385	333,046	950,857	81,839
General appropriation bonds	163,195	-	65,100	98,095	69,900
Less deferred amounts:					
For issuance discounts	(3,087)	-	(319)	(2,768)	-
For issuance premiums	179,554	98,250	35,318	242,486	-
On refunding	(24,618)	(37,037)	(5,250)	(56,405)	-
Total bonds/certificates payable	$ 7,468,859	$ 761,946	$ 934,028	$ 7,296,777	$ 370,880

Changes in long-term debt for business-type activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds/certificates payable:					
General obligation bonds	$ 2,334,289	$ 125,894	$ 259,181	$ 2,201,002	$ 71,237
Revenue bonds	1,572,998	79,868	212,546	1,440,320	34,934
Certificates of participation	107,457	870	12,019	96,308	9,366
Less deferred amounts:					
For issuance discounts	(1,482)	-	(373)	(1,109)	-
For issuance premiums	65,414	21,594	10,276	76,732	-
On refunding	(18,844)	(8,612)	(1,922)	(25,534)	-
Accreted interest	58,404	5,164	10,504	53,064	-
Total bonds/certificates payable	$ 4,118,236	$ 224,778	$ 502,231	$ 3,840,783	$ 115,537

Changes in long-term debt for fiduciary fund activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities					
Bonds/certificates payable:					
General obligation bonds	$ -	$ 2,845	$ -	$ 2,845	$ 535
Certificates of participation	3,580	-	3,580	-	-
Less deferred amounts:					
For issuance premiums	148	319	164	303	-
On refunding	(113)	(80)	(117)	(76)	-
Total bonds/certificates payable	$ 3,615	$ 3,084	$ 3,627	$ 3,072	$ 535

Changes in long-term debt for the Oregon Health and Science University, a discretely presented component unit, for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component unit					
Bonds/certificates payable:					
Revenue bonds	$ 628,522	$ 338,755	$ 294,166	$ 673,111	$ 11,794
Less deferred amounts:					
For issuance discounts	(5,589)	-	(330)	(5,259)	-
For issuance premiums	780	12,601	244	13,137	-
On refunding	(4,005)	5,025	(258)	1,278	-
Accreted interest	32,940	3,161	1,174	34,927	-
Total bonds/certificates payable	$ 652,648	$ 359,542	$ 294,996	$ 717,194	$ 11,794

G. Demand Bonds

Oregon 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, 2012 (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
73H	$ 21,900	Bayerische Landesbank[1]	11/30/2015	0.0850%	JP Morgan Securities Inc.	0.05%
83	10,965	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	0.4250%	JP Morgan Securities Inc.	0.05%
84	30,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	0.4250%	JP Morgan Securities Inc.	0.05%
85	15,140	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
86	31,320	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
87C	9,045	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
88B	30,000	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
90B	38,885	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	0.4250%	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 26, 2013.

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 Oregon 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, subject to certain conditions. Under the SBPA for Series 83, 84, and 90B, the Bank of Tokyo-Mitsubishi UFJ, Ltd. will commit to purchase any Series 83, 84, or 90B unremarketed bonds, subject to certain conditions. Under the SBPA for Series 85, 86, 87C, and 88B, U.S. Bank National Association, will commit to purchase any Series 85, 86, 87C, or 88B unremarketed bonds, subject to certain conditions.

If a tender advance does occur under the Series 73H SBPA, it will accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus 0.5 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 first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid in approximately two years, although they can be repaid earlier if DVA elects to do so. If repayment of any tender advance does not occur within the timeframe specified in the Series 73H SBPA, a default has occurred.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the Series 73H SBPAs. Therefore, no tender advances or draws were outstanding at June 30, 2012.

If a tender advance does occur under the Series 83, 84, and 90B SBPA, it will accrue interest at the bank's base rate (either a prime lending rate plus 1 percent, or the federal funds rate plus 2 percent, or 7.5 percent, whichever is higher) for the time period up to 30 days; at the bank's base rate plus 0.5 percent for the time period covering 31 days up to 60 days; and at the bank's base rate plus 1 percent for the time period thereafter. If the tender advance is in default, interest will accrue at the bank's base rate plus 2 percent. Interest on a tender advance must generally be repaid first 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, an indexed rate, or a non-covered interest rate, or (c) the effective date of delivery of a substitute alternative liquidity facility. Tendered bonds that are unremarketed by the 91st day after the purchase date of the tender advances must be paid in full over a four year period in eight equal (or nearly equal) semi-annual installments, unless and until the bonds are remarketed or redeemed. If repayment of any tender advance does not occur within the specified timeframe contained in the Series 83, 84, and 90B SBPA, a default has occurred.

During fiscal year 2012, no tender advances or draws have been necessary to purchase unremarketed bonds under the Series 83, 84, and 90B SBPA. Therefore, no tender advances or draws were outstanding as of June 30, 2012.

If a tender advance does occur under the Series 85-88B SBPA, it will accrue interest at the bank's base rate (either a prime lending rate plus 1 percent, the federal funds rate plus 2 percent, the Securities Industry and Financial Markets Association (SIFMA) rate plus 1 percent or 7 percent for the time period 31 days after the purchase date and thereafter, whichever is higher) for the time period up to 30 days; at the bank's base rate plus 1 percent for the time period covering 31 days up to 90 days; and at the bank's base rate plus 1.5 percent for the time period thereafter. If the tender advance is in default, interest will accrue at the bank's base rate plus 3 percent. Interest on a tender advance must generally be repaid first 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, an indexed rate, or a non-covered interest rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. Tendered bonds that are unremarketed by the 91st day after the purchase date of the tender advance must be paid in full over a four year period in eight equal (or nearly equal) semi-annual installments, unless and until the bonds are remarketed or redeemed. If repayment of any tender advance does not occur within the specified timeframe contained in the Series 85-88B SBPAs, a default has occurred.

During fiscal year 2012, no tender advances or draws have been necessary to purchase unremarketed bonds under the Series 85-88B SBPA. Therefore, no tender advances or draws were outstanding as of June 30, 2012.

Oregon Housing and Community Services Department

Included in Oregon Housing and Community Services Department's (OHCSD) long-term debt is $320.3 million in variable rate demand bonds. OHCSD'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.

OHCSD has entered into standby bond purchase agreements (SBPAs) 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 SBPAs 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 SBPAs. The maximum rate is 12 percent (Bank of America, N.A., State Street Bank and Trust Company, and JPMorgan Chase Bank, N.A.). 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 are to be paid on the first 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 JPMorgan Chase Bank, N.A.). There were no bank bonds on June 30, 2012.

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	$ 14,115	Bank of America, N.A.	8/27/2014	0.8000%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.08%
MRB 2003 L	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2004 C	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2004 I	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2004 L	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2005 C	10,500	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2005 F	14,885	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2006 C	20,000	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2006 F	20,000	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2006 G	16,105	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2007 E	30,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	J.P. Morgan Securities, LLC	0.07%
MRB 2007 H	30,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	J.P. Morgan Securities, LLC	0.07%
MRB 2008 C	35,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	J.P. Morgan Securities, LLC	0.07%
MRB 2008 F	35,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%
MRB 2008 I	34,650	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%

Discretely Presented Component Unit

The discretely presented component unit, Oregon Health and Science University, entered into multiple credit enhancement facilities, including irrevocable standby letters of credit with Union Bank and US Bank NA, as listed in the table below (dollars in thousands):

Series	Facility Counterparty	Bonds Par	Facility Matures	Average Interest Rate	Reset
2012 B-1	Union Bank	$ 28,525	5/15/2017	0.167%	Weekly
2012 B-2	Union Bank	28,525	5/15/2017	0.167%	Weekly
2012 B-3	Union Bank	28,520	5/15/2017	0.167%	Daily
2012 C	US Bank, NA	19,125	11/15/2015	0.164%	Daily
2012 D	US Bank, NA	88,805	11/1/2016	0.646%	Monthly

The letters of credit will fund any put made by bondholders that is not successfully remarketed. In the event the standby letters of credit fund a put by bondholders, no principal payments are due for 367 days.

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.

No-commitment debt as of June 30, 2012 (in thousands):

Primary Government	Amount
Oregon Business Development Department	$ 402,126
Oregon Facilities Authority	1,631,215
Housing and Community Services Department	203,215
Total No-Commitment Debt	**$ 2,236,556**

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.

Current/advance refunding issues that occurred between July 1, 2011, and June 30, 2012:

On November 9, 2011, the Oregon Department of Administrative Services (DAS) issued $59.9 million in 2011 Series N General Obligation Bonds with an average interest rate of 4.3 percent. These bonds refunded $62.4 million of certain outstanding 2003 Series Opportunity Bonds with an average interest rate of 4.4 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 12 years by $3.2 million and resulted in an economic gain of $3.2 million.

On November 9, 2011, DAS issued $36.3 million in 2011 Series O Certificates of Participation with an average interest rate of 4.4 percent. These certificates refunded $37.7 million of various outstanding series certificates of participation with an average interest rate of 4.8 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 16 years by $2.6 million and resulted in an economic gain of $2.1 million.

On November 9, 2011, DAS issued $5.5 million in 2011 Series P General Obligation Bonds with an average interest rate of 3.7 percent. These bonds refunded $5.5 million of outstanding 2002 Series D Certificates of Participation with an average interest rate of 4.9 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next year by $825.2 thousand and resulted in an economic gain of $646.3 thousand.

On April 4, 2012, DAS issued $28.4 million in 2012 Series A Certificates of Participation with an average interest rate of 4.9 percent. The certificates were issued to refund $30.6 million of outstanding 2002 Series B and 2003 Series B Certificates of Participation with an average interest rate of 5.1 percent. The $27.8 million current refunding and $2.8 million advanced refunding was undertaken to reduce the total debt service payments over the next 6 years by $3.5 million and resulted in an economic gain of $230.1 thousand.

On April 4, 2012, DAS issued $18.3 million in 2012 Series K General Obligation Bonds with an average interest rate of 4.9 percent. The bonds were issued to refund $19.1 million of outstanding 2002 Series B and 2005 Series A Certificates of Participation with an average interest rate of 5.1 percent. The current refunding of $3.1 million and the advanced refunding of $16 million was undertaken to reduce the total debt service payments over the next 11 years by $1.1 million and resulted in an economic gain of $1.2 million.

On April 4, 2012, DAS issued $129.3 million in 2012 Series L General Obligation Bonds with an average interest rate of 4.9 percent. These bonds refunded $143.3 million of various outstanding series certificates of participation with an average interest rate of 5.1 percent. The $122 million current refunding and $21.3 million advanced refunding was undertaken to reduce the total debt service payments over the next 11 years by $22.5 million and resulted in an economic gain of $3.5 million.

On April 4, 2012, DAS issued $7.4 million in 2012 Series M General Obligation Bonds with an average interest rate of 4.9 percent. These bonds refunded $7 million of outstanding 2002 Series E and 2003 Series A Certificates of Participation with an average interest rate of 5.1 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 3 years by $375.9 thousand and resulted in an economic gain of $358.7 thousand.

On April 25, 2012, the Oregon University System issued $100.5 million in 2012 Series A, B, and C General Obligation Bonds with an average interest rate of 4.5 percent. These bonds refunded $106.6 million of various outstanding series general obligation bonds with an average interest rate of 4.8 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 18 years by $12.9 million and resulted in an economic gain of $10.8 million.

On April 25, 2012, DAS issued $53.5 million in 2012 Series B Lottery Revenue Bonds with an average interest rate of 4.5 percent. These bonds refunded $60.5 million of various outstanding series lottery revenue bonds with an average interest rate of 4.5 percent. The $165 thousand current refunding and the $60.4 million advanced refunding was undertaken to reduce the total debt service payments over the next 13 years by $8.2 million and resulted in an economic gain of $4.4 million.

On May 5, 2012, the Oregon Health and Science University, a discretely presented component unit, issued $253.2 million in 2012 Series A, C, and D Revenue Bonds with an average interest rate of 3.6 percent. These bonds refunded $282.7 million of various outstanding series revenue bonds with an average interest rate of 3.5 percent. The combination of current and advanced refunding was undertaken to reduce the total debt service payments over the next 21 years by $38.2 million and resulted in an economic gain of $8.7 million.

On June 26, 2012, the Oregon Department of Transportation (ODOT) issued $130 million in 2012 Series A Revenue Bonds with an average interest rate of 5 percent. These bonds refunded $142.2 million of various outstanding series revenue bonds with an average interest rate of 5 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 17 years by $21.1 million and resulted in an economic gain of $16.7 million.

On June 26, 2012, ODOT issued $70.9 million in 2012 Series B Revenue Bonds with an average interest rate of 2 percent. These bonds refunded $63 million of outstanding 2004 Series B and 2005 Series B Revenue Bonds with an average interest rate of 5.1 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 3 years by $4.8 million and resulted in an economic gain of $4.2 million.

On November 9, 2011, ODOT issued highway user tax revenue subordinate lien notes for $265.3 million in favor of Citibank, N.A., as the initial lender. The proceeds from the issuance were used to refund, in their entirety, the 2006 Series B Bonds and the 2007 Series B Bonds on a current refunding basis. The 2011 Series A Note bears interest at a variable interest rate determined on the basis of a seven-day SIFMA index plus a margin. The 2011 Series A Note is subject to optional, mandatory, and extraordinary prepayment or redemption, and a term-out period. The lender's initial commitment expires on the mandatory prepayment date of November 7, 2014, with the aggregate outstanding principal amount of the loan due in six equal, semiannual installments beginning six months after the anniversary of the mandatory prepayment date (the "term-out period"). On the date the 2011 Series A Note is prepaid, in whole, in accordance with (a) optional prepayment provisions, (b) mandatory prepayment provisions, (c) term-out period requirements or (d) mandatory tender provisions, the Department of Transportation will remarket the 2011 Series A Note. The final maturity for this series is November 2027.

J. Defeased Debt

The State has defeased certain general obligation and revenue bonds, as well as certificates of participations, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for defeased bonds is not included in the State's financial statements. On June 30, 2012, approximately $915.4 million of bonds outstanding are considered defeased for the primary government. Additionally, approximately $38.5 million is considered defeased for the discretely presented component unit, Oregon Health and Science University, as of June 30, 2012.

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, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences payable	$ 165,454	$ 17,211	$ 7,674	$ 174,991	$ 115,495
Claims and judgments payable	1,062,128	142,523	168,746	1,035,905	131,180
Arbitrage rebate payable	1,502	1,280	1,502	1,280	896
Custodial liabilities	273,047	328,572	372,256	229,363	226,066
Contracts, mortgages, and notes payable	102,182	51,855	99,330	54,707	11,900
Obligations under capital lease	9,638	4,632	5,781	8,489	5,687
Pollution remediation obligation	10,886	182	406	10,662	3,296
Net OPEB obligation	37,187	5,932	-	43,119	-
Total other long-term liabilities	$ 1,662,024	$ 552,187	$ 655,695	$ 1,558,516	$ 494,520

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 mainly liquidated through the General Fund, Health and Social Services Fund, and the Public Transportation 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. The liability for contracts, mortgages, and notes is generally liquidated through the General Fund, the Public Transportation Fund, and the Health and Social Services 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.

Changes in other long-term liabilities for business-type activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences payable	$ 62,218	$ 13,317	$ 8,344	$ 67,191	$ 58,600
Claims and judgments payable	-	26,345	12,386	13,959	13,959
Lottery prize awards payable	141,109	270,839	257,587	154,361	29,320
Arbitrage rebate payable	13,548	3,069	152	16,465	123
Custodial liabilities	38,004	23,965	18,426	43,543	32,098
Contracts, mortgages, and notes payable	18,133	21,672	2,848	36,957	13,249
Contracts payable to component unit	28,029	-	26,795	1,234	1,234
Obligations under capital lease	615	16	75	556	65
Net OPEB obligation	17,828	3,217	19	21,026	-
Derivative instruments liability	27,218	13,026	-	40,244	-
Total other long-term liabilities	$ 346,702	$ 375,466	$ 326,632	$ 395,536	$ 148,648

Changes in other long-term liabilities for fiduciary fund activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities					
Custodial liabilities	$ 1,847,335	$ 8,686,087	$ 8,658,273	$ 1,875,149	$ 58,999
Contracts, mortgages, and notes payable	2,174	31	164	2,041	80
Net OPEB obligation	364	90	7	447	-
Total other long-term liabilities	$ 1,849,873	$ 8,686,208	$ 8,658,444	$ 1,877,637	$ 59,079

Changes in other long-term liabilities for the discretely presented component units, SAIF Corporation for the year ended December 31, 2011, and the Oregon Health and Science University for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component units					
Obligations under life income agreements	$ 17,134	$ 1,862	$ 2,761	$ 16,235	$ -
Reserve for loss and loss adjustment expense	3,004,639	328,879	314,125	3,019,393	225,388
Claims and judgments payable	56,091	6,712	1,575	61,228	18,678
Contracts, mortgages, and notes payable	36,649	5,256	5,485	36,420	1,948
Obligations under capital lease	5,805	-	1,142	4,663	4,034
Advances from primary government	48,648	558	4,375	44,831	2,374
Net OPEB obligation	6,331	1,740	-	8,071	-
Derivative instruments liability	7,776	8,181	-	15,957	-
Total other long-term liabilities	$ 3,183,073	$ 353,188	$ 329,463	$ 3,206,798	$ 252,422

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, 2012 (in thousands):

Primary Government	Amount
Department of Administrative Services	$ 1,280
Department of Veterans' Affairs	15,860
Oregon University System	123
Housing and Community Services Department	482
Total arbitrage rebate liability	$ 17,745

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, 2012, the State recognized an estimated liability of $10.7 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, 2012.

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 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, 2012, 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 more detail in Note 23.

12. PLEDGED REVENUES

A. Unobligated Net Lottery Proceeds

The State has pledged future unobligated net lottery proceeds to repay $1.1 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 2033. Total principal and interest remaining to be paid on the bonds is $1.6 billion. In fiscal year 2013, principal and interest payments on the bonds are expected to require approximately 23.1 percent of unobligated net lottery proceeds. Principal and interest paid for the current year and total unobligated net lottery proceeds recognized were $134.8 million and $529.6 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 $2.1 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. Total principal and interest remaining to be paid on the bonds is $3.4 billion. Fiscal year 2013 principal and interest payments on the bonds are expected to require approximately 25.4 percent of pledged revenues. Principal and interest paid for the current year and total pledged revenues recognized were $150.2 million and $566.9 million, respectively.

This page intentionally left blank.

13. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2012 (in thousands):

	Due from Other Funds				
Due to Other Funds	**General**	**Health and Social Services**	**Public Transportation**	**Environmental Management**	**Common School**
General	$ -	$ 50,576	$ 90,048	$ 67,008	$ 24
Health and Social Services	16,817	-	-	203	-
Public Transportation	200	-	-	13,147	-
Environmental Management	1,556	-	4,237	-	112
Common School	-	-	-	786	-
Nonmajor Governmental Funds	20,116	8,295	64	137	-
Housing and Community Services	-	-	-	-	-
Lottery Operations	126,123	-	-	-	-
Unemployment Compensation	-	-	-	-	-
Nonmajor Enterprise Funds	75,914	3,238	-	1,350	-
Internal Service Funds	86	-	-	-	-
Fiduciary Funds	10	-	-	-	-
Total	$ 240,822	$ 62,109	$ 94,349	$ 82,631	$ 136

	Advances to Other Funds			
Advances from Other Funds	**Common School**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
General	$ -	$ -	$ 648	$ 648
Environmental Management	300	-	-	300
Nonmajor Governmental Funds	19,000	88	-	19,088
University System	-	96,599	-	96,599
Nonmajor Enterprise Funds	-	100	-	100
Internal Service Funds	-	190	-	190
Total	$ 19,300	$ 96,977	$ 648	$ 116,925

Interfund balances result from the time lag between the date a transaction for interfund goods and services or reimbursable expenditures/expenses is recorded and the date the payment between funds is made. Advances to and from other funds are not expected to be repaid within one year.

Due from Other Funds (continued)

Nonmajor Governmental Funds	Housing and Community Services	Veterans' Loan	University System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
$ 232,200	$ -	$ -	$ 6,857	$ 1,077	$ 1,154	$ -	$ 448,944
468	-	-	-	62	-	-	17,550
3,821	-	-	-	-	-	-	17,168
1,141	-	-	14	-	-	-	7,060
-	-	-	-	-	-	-	786
19,467	33	-	755	-	2,742	-	51,609
7	-	-	-	-	-	-	7
-	-	-	-	-	-	-	126,123
9,139	-	-	-	-	-	-	9,139
4	-	68	-	-	84	506	81,164
51	-	-	-	-	-	-	137
-	-	-	-	37	-	7,707	7,754
$ 266,298	$ 33	$ 68	$ 7,626	$ 1,176	$ 3,980	$ 8,213	$ 767,441

Interfund transfers reported in the fund financial statements as of June 30, 2012 (in thousands):

	Transfers from Other Funds				
Transfers to Other Funds	**General**	**Health and Social Services**	**Public Transportation**	**Environmental Management**	**Common School**
General	$ -	$ 27,503	$ 3,026	$ 107,035	$ 139
Health and Social Services	18,690	-	-	660	-
Public Transportation	5,276	-	-	30,159	-
Environmental Management	20,632	83	1,279	-	11,062
Common School	47,986	-	-	6,718	-
Nonmajor Governmental Funds	159,048	56,338	85,173	729	-
Housing and Community Services	-	-	-	-	-
Veterans' Loan	-	-	-	-	-
Lottery Operations	529,562	-	-	-	-
Unemployment Compensation	-	-	-	-	-
University System	4,269	-	-	-	-
Nonmajor Enterprise Funds	137,859	8,300	-	323	-
Internal Service Funds	16,989	4,107	-	837	-
Subtotal	940,311	96,331	89,478	146,461	11,201
Long-term liability transferred from general governmental activities to a nonmajor enterprise fund	-	-	-	-	-
Total	$ 940,311	$ 96,331	$ 89,478	$ 146,461	$ 11,201

Transfers are used to move (1) revenues collected by one fund to the fund authorized by statute or the State's budget to expend them, (2) receipts restricted to debt service or capital construction to the appropriate funds, and (3) unrestricted revenues collected by the General Fund for various programs accounted for in other funds according to State budget requirements.

During the 2012 legislative session, actions were taken to balance the General Fund budget for the 2011-13 biennium. These actions resulted in resource additions or expenditure reductions in the General Fund. Of the $940.3 million transferred to the General Fund during fiscal year 2012, $100.9 million of Other Funds were transferred as a part of the Legislature's rebalancing plan.

In the fund financial statements, total transfers to other funds of $3,061,946 exceed total transfers from other funds of $3,061,056 due to the transfer of long-term liabilities from general governmental activities to the State Hospital Fund, a nonmajor enterprise fund.

Transfers from Other Funds (continued)

Nonmajor Governmental Funds	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
$ 512,838	$ -	$ 343,539	$ 144,652	$ 371	$ -	$ 1,139,103
107,186	-	-	37,905	143,163	-	307,604
230,312	-	-	-	-	-	265,747
27,038	-	2,708	-	954	-	63,756
265	-	-	-	-	-	54,969
90,663	487	8,150	179	722	151	401,640
166	-	-	-	-	-	166
229	-	-	-	-	-	229
1,460	-	-	-	-	-	531,022
50,891	-	-	-	-	-	50,891
35,374	-	-	-	-	-	39,643
9,623	-	-	16,430	700	-	173,235
12,008	-	-	-	-	-	33,941
1,078,053	487	354,397	199,166	145,910	151	3,061,946
-	-	-	(890)	-	-	(890)
$ 1,078,053	$ 487	$ 354,397	$ 198,276	$ 145,910	$ 151	$ 3,061,056

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 (OHCSD) to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Article XI-I (2) of the Oregon Constitution authorizes OHCSD 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 OHCSD's various bond funds for the year ended June 30, 2012 (in thousands):

Condensed balance sheet	**Special Public Works Fund**	**Water Fund**	**Mortgage Revenue Bonds**	**Homeowner Revenue Bonds**
Assets:				
Interfund receivables	$ -	$ 100	$ -	$ 5
Other current assets	92,768	18,856	36,760	24,008
Noncurrent assets	211,593	96,901	952,929	166,299
Deferred outflows	-	-	35,823	-
Total assets	$ 304,361	$ 115,857	$ 1,025,512	$ 190,312
Liabilities:				
Due to other funds	$ 3	$ -	$ -	$ -
Current liabilities	14,114	4,094	21,765	23,699
Noncurrent liabilities	71,914	37,410	913,008	163,636
Total liabilities	86,031	41,504	934,773	187,335
Net assets:				
Restricted	-	894	90,739	2,977
Unrestricted	218,330	73,459	-	-
Total net assets	218,330	74,353	90,739	2,977
Total liabilities and net assets	$ 304,361	$ 115,857	$ 1,025,512	$ 190,312

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	$ 9,526	$ 4,269	$ 44,406	$ 3,917
Other operating revenue	-	-	17	-
Amortization	-	-	(439)	(91)
Other operating expenses	(8,180)	(3,761)	(45,925)	(5,597)
Operating income (loss)	1,346	508	(1,941)	(1,771)
Total nonoperating revenues (expenses)	478	74	6,121	929
Transfers from other funds	-	13,620	900	1,630
Transfers to other funds	(13,924)	(2,962)	(2,694)	-
Change in net assets	(12,100)	11,240	2,386	788
Beginning net assets (as restated)	230,430	63,113	88,353	2,189
Ending net assets	$ 218,330	$ 74,353	$ 90,739	$ 2,977

Condensed statement of cash flows	Special Public Works Fund	Water Fund	Mortgage Revenue Bonds	Homeowner Revenue Bonds
Net cash provided (used) by:				
Operating activities	$ 15,417	$ 9,534	$ 150,900	$ (60,762)
Noncapital financing activities	(47,248)	(8,821)	(143,996)	25,919
Investing activities	479	74	9,599	47,514
Net increase (decrease)	(31,352)	787	16,503	12,671
Beginning cash and cash equivalents (as restated)	112,952	15,585	16,006	491
Ending cash and cash equivalents	$ 81,600	$ 16,372	$ 32,509	$ 13,162

Condensed balance sheet	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Assets:			
Current assets	$ 8,318	$ 1,244	$ 12,040
Noncurrent assets	178,437	10,304	188,121
Deferred outflows	1,374	-	-
Total assets	$ 188,129	$ 11,548	$ 200,161
Liabilities:			
Interfund payables	$ -	$ -	$ 11
Other current liabilities	7,490	1,158	11,134
Noncurrent liabilities	156,089	2,643	119,809
Total liabilities	163,579	3,801	130,954
Net assets:			
Restricted	24,550	7,747	69,207
Total net assets	24,550	7,747	69,207
Total liabilities and net assets	$ 188,129	$ 11,548	$ 200,161

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	$ 9,671	$ 300	$ 10,464
Other operating revenue	168	-	179
Depreciation and amortization	(119)	(8)	(95)
Other operating expenses	(7,825)	(361)	(8,932)
Operating income (loss)	1,895	(69)	1,616
Total nonoperating revenues (expenses)	2,376	119	2,945
Transfers from other funds	390	-	-
Transfers to other funds	(1,000)	(1,770)	(158)
Change in net assets	3,661	(1,720)	4,403
Beginning net assets (as restated)	20,889	9,467	64,804
Ending net assets	$ 24,550	$ 7,747	$ 69,207

Condensed statement of cash flows	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Net cash provided (used) by:			
Operating activities	$ 15,527	$ 2,511	$ 15,068
Noncapital financing activities	(18,277)	(3,136)	(29,268)
Investing activities	4,520	957	7,088
Net increase (decrease)	1,770	332	(7,112)
Beginning cash and cash equivalents (as restated)	1,333	277	35,182
Ending cash and cash equivalents	$ 3,103	$ 609	$ 28,070

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, 2012, PERS had 902 employer members consisting of:

State agencies	113
Community colleges	17
School districts	287
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, 2012, there were 45,629 active and 20,017 inactive members for a total of 65,646 PERS Tier One plan members and 48,150 active and 16,902 inactive members for a total of 65,052 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 a 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, 2012, there were 76,002 active and 5,367 inactive members for a total of 81,369 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.

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 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://www.oregon.gov/PERS/Pages/section/financial_reports/financials.aspx

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, 2012, 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 information including, but not limited 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, 2012, 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. In the absence of observable market prices, general partners determine the fair value by using valuation methods considered most appropriate. A variety of factors are considered, 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 and Alternative Equity portfolios are recorded at fair values as of June 30, 2012, 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 while investments in the Alternative Equity portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and absolute return or hedge fund strategies.) Investments in these portfolios represent publicly traded securities that are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited 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, Alternative Equity, and real estate investment portfolio 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 percent 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, 2011, and ending June 30, 2013, expressed as a percentage of covered payroll:

Tier One - Tier Two Employer Rates		**OPSRP Employer Rates**	
General Service	Police and Fire	General Service	Police and Fire
8.80%	16.65%	7.44%	10.15%

State agencies' employer contributions to PERS for fiscal years ended June 30, 2012, 2011, and 2010, totaled approximately $214.4 million, $79.5 million, and $66.4 million, respectively. Member contributions for the year ended June 30, 2012, were $139.2 million. The actual contribution equaled the contractually required contribution in each fiscal year. The contractually required contribution rates for the biennium ending June 30, 2013, are significantly higher 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 2012 was $276.1 million and included $61.7 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 2012 were 16.1 percent for ORP Tier One and ORP Tier Two and 6.2 percent for the OPSRP equivalent. Total OUS employer contributions to the ORP for the years ended June 30, 2012, 2011, and 2010, were approximately $27.8 million, $21.6 million, and $21 million, respectively. The OUS employee contributions to the ORP for the years ended June 30, 2012, 2011, and 2010, were approximately $14.9 million, $14.3 million, $13.6 million, respectively.

Discretely Presented Component Units

The SAIF Corporation's employer contributions to PERS for years ended December 31, 2011, 2010, and 2009, were approximately $3.2 million, $1.3 million, and $2.6 million, respectively. Employer contributions to PERS for the Oregon Health and Science University (OHSU) for fiscal years ended June 30, 2012, 2011, and 2010, were approximately $33.5 million, $12.5 million, and $11.7 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, 2012, 2011, and 2010, were approximately $24.2 million, $21.6 million, $18.4 million, respectively, and were equal to the employees' share 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 902 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 41,467 as of June 30, 2012.

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 1,136 as of June 30, 2012.

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

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. The 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, 2012, 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 information including, but not limited 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, 2012, 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. In the absence of observable market prices, general partners determine the fair value by using valuation methods considered most appropriate. A variety of factors are considered, 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 and Alternative Equity portfolios are recorded at fair values as of June 30, 2012, 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 while investments in Alternative Equity portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and absolute return or hedge fund strategies.) Investments in these portfolios represent publicly traded securities that are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited 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, Alternative Equity, and real estate investment portfolio 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 ending June 30, 2013, state agencies contribute 0.09 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 contribute 0.5 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 $12.9 million, $5.8 million, and $5.8 million for years ended June 30, 2012, 2011, and 2010, 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)
12/31/2011	$239.6	$461.1	$221.5	52%	$8,550.5	2.6%

For the biennium ending June 30, 2013, state agencies contribute 0.05 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 contribute 0.11 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 $3.4 million, $1.4 million, and $1.5 million for the years ended June 30, 2012, 2011, and 2010, 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)
12/31/2011	$4.5	$34.4	$29.9	13.2%	$2,376.9	1.3%

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, 2011, 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 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 unfunded actuarial accrued liability is being amortized as a level percentage of combined valuation payroll over a closed period of 10 years. 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, 2012, was $266.6 million and $4.6 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, 2012, PEBB Plan members consisted of 49,415 active employees and 1,672 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, 2012, is $64.6 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, 2012, retired plan members contributed $24.3 million through their required contributions. The average monthly contribution was $1,210. Active employees do not contribute to the plan.

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)
7/1/2011	-	$154.7	$154.7	-	$2,647	5.8%

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, 2011, using the entry age normal cost method. The 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 3.5 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.5 percent. The plan uses a medical healthcare cost inflation adjustment of 4.03 percent in fiscal year 2012, 8.4 percent in fiscal year 2013, 7.9 percent in fiscal year 2014, 6.6 percent in 2015, an average of 6.1 percent between fiscal years 2016 and 2040, and the rate grades down from 6 percent to 5.5 percent between fiscal years 2041 and 2061. The dental healthcare cost inflation adjustment was graded from an average of 2.73 percent in fiscal year 2012 to an average of 5 percent for all subsequent fiscal years. The plan's inflation assumption is 2.75 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll using an open 15-year period.

For fiscal years ended June 30, 2012, 2011, and 2010, 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, 2012	June 30, 2011	June 30, 2010
Annual required contribution	$ 20.0	$ 17.4	$ 16.7
Interest on net OPEB obligation	1.9	1.9	1.6
ARC adjustment	(3.7)	(2.7)	(2.3)
Annual OPEB cost (expense)	18.2	16.6	16.0
Contributions made	(9.0)	(8.9)	(8.4)
Increase in net OPEB obligation	9.2	7.7	7.6
Net OPEB obligation - beginning of year	55.4	47.7	40.1
Net OPEB obligation - end of year	$ 64.6	$ 55.4	$ 47.7
Percent of annual OPEB cost contributed	49.5%	53.6%	52.5%

C. Discretely Presented Component Units

SAIF Corporation

SAIF Corporation (SAIF) administers a single-employer defined benefit 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, 2011, retired plan members made $851 thousand in required contributions. The required contribution rate per member was an average of $717 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)
1/1/2011	-	$6,980	$6,980	-	$56,948	12.3%

The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of January 1, 2011, 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 6.75 percent in the first year, 6.5 percent in the second year, 6 percent in the third, 5.75 percent for the fourth through twenty-fifth year, 5.5 percent for the twenty-sixth through thirtieth year, and 5.25 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, 2011, 2010, and 2009, 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, 2011	December 31, 2010	December 31, 2009
Annual required contribution	$ 875	$ 762	$ 730
Interest on net OPEB obligation	69	49	26
ARC adjustment	(96)	(68)	(36)
Annual OPEB cost (expense)	848	743	720
Contributions made	(468)	(376)	(299)
Increase in net OPEB obligation	380	367	421
Net OPEB obligation - beginning of year	1,260	893	472
Net OPEB obligation - end of year	$ 1,640	$ 1,260	$ 893
Percent of annual OPEB cost contributed	55.2%	50.6%	41.5%

Oregon Health and Science University

The Oregon Health and Science University (OHSU) administers a single-employer defined benefit 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)
1/1/2012	-	$19,894	$19,894	-	$791,382	2.5%

The actuarial valuation as of January 1, 2012, used an assumed discount rate of 3.5 percent. The assumed healthcare cost trend rate is 9 percent in 2012, declining gradually to 4 percent in 2032, and remaining at 4 percent thereafter. The actuarial cost method used is the projected unit credit method.

For fiscal years ended June 30, 2012, 2011, and 2010, 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, 2012	June 30, 2011	June 30, 2010
Annual required contribution	$ 2,207	$ 1,719	$ 2,262
Interest on net OPEB obligation	173	145	102
Annual OPEB cost (expense)	2,380	1,864	2,364
Contributions made	(1,020)	(1,008)	(1,064)
Increase in net OPEB obligation	1,360	856	1,300
Net OPEB obligation - beginning of year	5,071	4,215	2,915
Net OPEB obligation - end of year	$ 6,431	$ 5,071	$ 4,215
Percent of annual OPEB cost contributed	43%	54%	45%

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, 2012, averaged 0.23 percent of amounts deferred.

Participants direct the selection of investment options and 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, 2012, the fair value of the investments was $1.1 billion.

B. Discretely Presented Component Units

<u>SAIF Corporation</u>

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, 2011.

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

A. Voluntary Early Retirement Plans

Oregon University System

Portland State University (PSU) offered a retirement incentive program to eligible faculty and staff. In exchange for relinquishing tenure and/or resignation, PSU will provide financial assistance either through a one-time cash incentive or by offsetting postretirement healthcare costs. Thirty-five employees chose the one-time incentive payment. PSU will pay these employees a total of $884 thousand in fiscal year 2013. Twelve employees accepted the health benefit subsidy, resulting in a $428 thousand liability to be paid out through fiscal year 2015.

The Oregon Institute of Technology offered an early retirement incentive program to faculty and staff that closed on October 31, 2011. Two employees accepted the offer to receive fixed health benefit subsidies until age 65 through 2019.

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, participating faculty members receive subsidy payments for health benefits for a term not to exceed 36 months following retirement. The subsidy payment is 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 offered a tenure relinquishment plan that closed November 30, 2011. Faculty members who accepted the plan retired December 31, 2011. In exchange for early retirement, faculty members receive a fixed subsidy amount for health benefits until age 65. Two faculty members will continue to receive payments under this plan through 2018.

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, 2012, nine retirees were participating in the health and dental 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 $1.8 million and $924 thousand, respectively. The amount of the liability was determined by calculating the present value of expected future benefit payments using discount rates ranging from 0.25 to 6 percent.

B. Involuntary Early Termination

Oregon University System

The Oregon University System has severance agreements with three former employees related to early termination of their employment contracts. The future payout period under each severance agreement ranges from one to six years. The liability for early termination 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 $865 thousand and $1.4 million, respectively. The amount of the liability was determined by calculating the present value of expected future benefit payments using discount rates ranging from 3.4 to 3.8 percent.

19. RISK FINANCING

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

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible. The moneys set aside by Risk Management 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

Risk Management 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. Risk Management 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.

Risk Management 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 $56 million as of June 30, 2012. Independent actuaries determine biennial loss forecasts.

Periodically, Risk Management 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, 2012 and 2011 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2012	$ 136,168	$ 24,696	$ (41,231)	$ 119,633
2011	126,051	43,840	(33,723)	136,168

The June 30, 2012, 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. The reserve is considered adequate to cover catastrophic losses due to large claims in the self-insured plans, as well as unexpected increases in trend, utilization, or other potential fluctuations. PEBB has not purchased stop-loss coverage on any of the plans.

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.

In fiscal year 2011, settlements exceeded coverage for the vision plan. The amount of claims for the medical and dental plans did not exceed the self-insured coverage for the past three years.

Changes in the balance of aggregate claims liabilities for the self-insured healthcare plans for the years ended June 30, 2012 and 2011 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2012	$ 57,412	$ 582,408	$ (569,899)	$ 69,921
2011	83,502	573,549	(599,639)	57,412

The June 30, 2012, balance of claims liabilities is included in claims and judgments payable on the combining balance sheet of the internal service funds under Central Services.

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, 2012, 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, 2012 and 2011 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2012	$ 863,334	$ -	$ (16,983)	$ 846,351
2011	900,553	-	(37,219)	863,334

The June 30, 2012, 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 $14.7 million in calendar year 2011, which was net of favorable development of $126.7 million. Loss reserves decreased $21 million. Favorable loss reserve development in prior accident years offset loss reserves for the 2011 calendar accident year. 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. Indemnity loss reserves were virtually unchanged. Loss adjustment expense reserves increased $35.7 million. The unfavorable development was largely attributed to an increase in selected loss adjustment expense for the calendar year 2011.

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 2011 was $260.3 million. The related discount was $90 million as of December 31, 2011.

Anticipated salvage and subrogation of $29.6 million was included as a reduction of the reserve for loss and loss adjustment expense at December 31, 2011.

As of December 31, 2011, SAIF had provided reserves of $27.6 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.

Changes in the balance of the liability for loss and loss adjustment expense related to workers' compensation insurance underwritten by SAIF for 2011 and 2010 (in thousands):

Calendar Year	Beginning Balance	Incurred Losses and Loss Adjustment Expenses	Loss and Loss Adjustment Expense Payments	Ending Balance
2011	$ 3,004,639	$ 328,879	$ (314,125)	$ 3,019,393
2010	2,958,911	365,150	(319,422)	3,004,639

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 a discretely presented component unit of the State, maintains several self-funded insurance programs. Coverage for professional, general, automobile, directors and officers, cyber, 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 2012 was calculated using a 3 percent discount rate. Excess insurance coverage is provided by a variety of insurers for claims that may exceed coverage limits up to an annual aggregate of $105 million. 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 utilizes 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 $13.8 million as of June 30, 2012.

OHSU also purchases workers' compensation coverage from SAIF. The SAIF policy is written as a paid loss retrospective plan. Six months after the policy term, and every 12 months thereafter, a retrospective evaluation is completed to determine any additional amounts to be paid, including outstanding reserves, for claims relating to the policy year.

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.

The amount of claims settlements did not exceed OHSU's self-insurance and commercial insurance coverage for the past three years.

The total liability reported for OHSU's self-funded insurance programs was $61.2 million and $56.1 million for fiscal years ended June 30, 2012 and 2011, 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, 2012 (in thousands):

Primary Government

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	$ 1,126
Unemployment Compensation	Assessments	(101)
Unemployment Compensation	Fines and forfeitures	2,618
University System	Charges for services	185,500
Nonmajor Enterprise Funds	Charges for services	6,079
Nonmajor Enterprise Funds	Other	25
Nonmajor Enterprise Funds	Sales	5,524
Internal Service Funds	Other	60
Total primary government		$ 200,831

Discretely Presented Component Units

Component Units	Type of Revenue	Amount
SAIF Corporation	Charges for services	$ (168)
Oregon Health and Science University	Charges for services	1,151,280
Oregon Health and Science University	Gifts, grants and contracts	(434)
Total discretely presented component units		$ 1,150,678

21. FUND EQUITY

A. Net Assets Restricted by Enabling Legislation

The following schedule summarizes the State's net assets at June 30, 2012, 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	$ 138,473
Education	257,288
Community protection	12,307
Consumer protection	69,113
Employment services	119,504
Residential assistance	47,066
Other programs	96,648
Nonexpendable Net Assets Restricted for:	
Education	868
Residential assistance	23,424
Workers' compensation	250
Total Net Assets Restricted by Enabling Legislation	$ 764,941

B. Changes to Beginning Fund Balance

As of June 30, 2012, the beginning fund balances were restated as follows (in thousands):

	Beginning Balance	Prior Period Adjustments	Beginning Balance-Restated
Governmental funds and activities			
General	$ 244,154	$ 3,730	$ 247,884
Health and Social Services	589,792	(108,895)	480,897
Public Transportation	767,013	18,112	785,125
Environmental Management	787,600	5,246	792,846
Common School	945,289	(905)	944,384
Other (nonmajor)	1,612,669	(69,029)	1,543,640
Capital assets, net of depreciation	11,399,106	196,129	11,595,235
Other noncurrent assets	1,714,102	-	1,714,102
Long-term liabilities	(7,502,789)	(1,080)	(7,503,869)
Internal service funds	271,844	(24,706)	247,138
Total governmental funds and activities	$ 10,828,780	$ 18,602	$ 10,847,382
Proprietary funds and business-type activities			
Housing and Community Services	$ 209,961	$ -	$ 209,961
Veterans' Loan	133,291	543	133,834
Lottery Operations	136,598	-	136,598
Unemployment Compensation	1,258,692	18,605	1,277,297
University System	1,554,413	-	1,554,413
Other (nonmajor)	946,150	(559)	945,591
Internal service funds adjustment	5,648	-	5,648
Total proprietary funds and business-type activities	$ 4,244,753	$ 18,589	$ 4,263,342
Fiduciary funds			
Pension and Other Employee Benefit Trust	$ 61,189,775	$ -	$ 61,189,775
Private Purpose Trust	28,674	-	28,674
Investment Trust	4,196,110	-	4,196,110
Total fiduciary funds	$ 65,414,559	$ -	$ 65,414,559
Discretely presented component units			
SAIF Corporation	$ 1,167,152	$ -	$ 1,167,152
Oregon Health and Science University	1,870,088	-	1,870,088
Oregon University System Foundations	1,378,687	123	1,378,810
Total discretely presented component units	$ 4,415,927	$ 123	$ 4,416,050

Significant prior period adjustments were made in four governmental funds or activities. Adjustments totaling $108.9 million were made in the Health and Social Services Fund and were largely the result of revenues that were recognized in the incorrect period. In fiscal year 2011, $18.1 million in expenditures of the Capital Projects Fund, which is a nonmajor fund, were incorrectly recorded in the Public Transportation Fund. A current year prior period adjustment was made to correct the error. In fiscal year 2011, the activity of Oregon Affordable Housing Assistance Corporation (OAHAC) was reported in a governmental fund. It has since been determined that the activity should be reported as a discretely presented component unit. To make this correction, a prior period adjustment of $47.4 million was recorded in the Other (nonmajor) Fund. In addition, several agencies made corrections to their capital asset accounts, including a $189 million adjustment to capitalize highway infrastructure costs that were previously considered as maintenance costs.

In the Unemployment Compensation Fund, prior period adjustments of $18.6 million were made to record income that should have been recognized in the prior fiscal year.

C. Fund Balances – Governmental Funds

The following table displays in detail the June 30, 2012, 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	$ 33,342	$ 644	$ 25,911	$ 25,754	$ 3	$ 3,175	$ 88,829
Required to be maintained intact	19	52	40	250	-	27,162	27,523
Restricted for:							
Health and social service programs	1,279	308,436	-	-	-	-	309,715
Transportation programs	-	-	780,615	-	-	-	780,615
Natural resource programs	8,409	-	-	754,368	-	-	762,777
Education	-	-	-	-	899,397	175,481	1,074,878
Education stabilization	-	-	-	-	-	120,488	120,488
Community protection	-	-	-	-	-	174,468	174,468
Consumer protection	-	-	-	-	-	68,516	68,516
Employment services	-	-	-	-	-	124,206	124,206
Residential assistance	-	-	-	-	-	104,256	104,256
Debt service	-	-	-	-	-	348,014	348,014
Capital projects	-	-	-	-	-	53,543	53,543
Other purposes	99,770	-	-	-	-	76,478	176,248
Committed to:							
Health and social service programs	-	125,532	-	-	-	-	125,532
Natural resource programs	-	-	-	59,551	-	-	59,551
Education	-	-	-	-	-	14,158	14,158
Business development	-	-	-	-	-	27,737	27,737
Community protection	-	-	-	-	-	70,423	70,423
Consumer protection	-	-	-	-	-	27,388	27,388
Employment services	-	-	-	-	-	74,504	74,504
Residential assistance	-	-	-	-	-	144,233	144,233
Stabilization	61,534	-	-	-	-	-	61,534
Other purposes	-	-	-	-	-	1,514	1,514
Assigned to:							
Health and social service programs	-	15,292	-	-	-	-	15,292
Natural resource programs	-	-	-	5,311	-	-	5,311
Education	-	-	-	-	-	3,327	3,327
Community protection	-	-	-	-	-	5,292	5,292
Employment services	-	-	-	-	-	3,137	3,137
Other purposes	-	-	-	-	-	5,117	5,117
Unassigned:	(162,867)	-	-	-	-	-	(162,867)
Total fund balances	$ 41,486	$ 449,956	$ 806,566	$ 845,234	$ 899,400	$ 1,652,617	$ 4,695,259

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.

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. Intent is expressed by state officials to whom the State has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balance is 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 if approved by three-fifths of the members of the Legislative Assembly and 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, 2012, was $61.5 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 retained by the fund or 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 is met, the Education Stability Fund can also be used by the Legislature for public education. The Governor must declare an emergency and the expenditure must be approved by a three-fifths majority in each chamber. The fund balance of the Education Stability Fund as of June 30, 2012, was $120.5 million.

22. COMMITMENTS

The State has significant commitments as of June 30, 2012, 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.

Commitments in effect as of June 30, 2012, and the anticipated sources of funding (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	$ 172,179	$ 30,316	$ 139	$ 13,476	$ 216,110
Grant & loan commitments	240,853	247,595	60,795	278,976	828,219
Personal services contracts	110,908	22,551	808	26,662	160,929
Equipment purchases	22	81	4,643	20	4,766
Public defense contracts	121,697	-	-	-	121,697
Systems development	750	1,697	-	16,675	19,122
Total commitments	$ 646,409	$ 302,240	$ 66,385	$ 335,809	$ 1,350,843

Encumbrance balances as of June 30, 2012, in the governmental funds (in thousands):

Governmental Funds	Amount
General	$ 16,995
Environmental Management	1,633
Health and Social Services	7,006
Other Nonmajor	15,279
Total	$ 40,913

The Oregon Investment Council has entered into agreements that commit the investment managers for the Oregon Public Employees Retirement Fund (OPERF), 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, 2012, the OPERF had $7.5 billion in commitments to purchase private equity investments, $2.3 billion to purchase real estate investments, and $304.5 million to purchase Opportunity Fund investments, and $532.4 million to purchase Alternative Equity portfolio investments. As of June 30, 2012, the CSF, OUS Endowment Fund, and the OGA had $90.9 million, $4 million, and $28 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

Public Employees Retirement System

Several Oregon employees filed lawsuits challenging various aspects of the 2003 legislation that enacted significant changes to 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. In December 2011, the Oregon Supreme Court 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 expected trial date is March 2013.

The most recent actuarial valuations of the PERS system take into account the court decisions in existence when the valuations were completed.

Portland Harbor Superfund

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). Over 200 parties, private companies and public entities, 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 that will be shared by liable parties. A draft feasibility study outlines eleven alternative options, ranging in costs from $269 million to $1.8 billion. It is also too early to estimate the proportionate share of the 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 2016 – 2017.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources caused by contamination at the site, which is an additional type of recovery under the Superfund law known as natural resource damages (NRD). The NRD claim will be asserted against all PRPs, including ODOT and DSL, by the Portland Harbor natural resource trustees, a group composed of five tribes, two federal agencies, and the State. 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 the NRD claim will take 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). The EPA may request, as authorized by the Superfund law, that the State 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.

Community Mental Health Programs

The State is engaged in discussions with the United States Department of Justice (USDOJ) concerning the State's community mental health programs. The USDOJ is conducting an ongoing investigation to determine if the State has complied with the federal Americans with Disabilities Act. Currently, the State has no specific information on the cost of implementing any changes that may result from the investigation. The State expects that if the USDOJ determines there are violations of federal law, the USDOJ will issue written findings that specify the nature of any violations. At that time, the State will be in a better position to estimate the costs to remedy any asserted violations. It is possible that the costs of changes, if any, to the State's community mental health programs could reach or exceed $50 million.

Multistate Tax Compact

The Oregon Tax Court has a case pending that challenges the State's departure from provisions in the Multistate Tax Compact (Compact) when apportioning income attributable to corporations operating in more than one state. Under the Compact, the income of a multi-state corporation is apportioned to a state using an equally weighted three-factor formula. The formula compares in-state payroll, property, and sales to the corporation's overall payroll, property, and sales. Currently, the State uses only sales in Oregon and does not use the other two factors to apportion corporate income. The taxpayer in Health Net v. Dept. of Revenue asserts that the Compact is a binding contractual arrangement that cannot be unilaterally changed by a participating state and, therefore, the State must allow taxpayers to apportion multi-state corporate income based only on the formula in the Compact. If the taxpayer prevails and a court determines the State must use the Compact formula, other corporations may seek refunds using the same theory and the State may collect less corporate income taxes in the future. The State has insufficient data to predict accurately the amounts it could be required to refund or the overall impact on future revenues. Those amounts would depend on the circumstances of individual corporations that may, or may not, seek refunds and actions taken by the Legislative Assembly in response to an adverse ruling. Such actions could include withdrawing from the Compact or adopting legislative changes to apportionment statutes. Preliminary estimates, however, indicate the potential maximum refund liability and reductions in corporate income tax revenues, without any legislative action, would exceed $50 million. The State anticipates that the Oregon Tax Court's ruling will be appealed to the Oregon Supreme Court by either the State or the taxpayer.

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, 2012, Oregon school districts, community colleges, and education service districts had issued a total of $3.2 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, 2012, 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, 2012 (in thousands):

Type of Debt	Amount
General Obligation Bonds	
Department of Environmental Quality	$ 10,975
Department of Administrative Services	7,155
Department of Energy	11,910
Revenue Bonds	
Housing and Community Services Department	$ 36,760

B. Bond Calls

Bond calls that have occurred since July 1, 2012 (in thousands):

Type of Call	Amount
Revenue Bonds	
Housing and Community Services Department	$ 93,170

C. Interest Rate Swaps

On July 1, 2012, Oregon Housing and Community Services Department terminated notional amounts of swaps related to Mortgage Revenue Bonds 2004 Series C and Mortgage Revenue Bonds 2004 Series I by $690,000 and $160,000, respectively. These terminations were made pursuant to optional par termination provisions included in each of these swap agreements.

D. Tax Anticipation Notes Issuance

On July 10, 2012, the State issued $639.5 million of full faith and credit Tax Anticipation Notes, 2012 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.

E. Debt Guarantees

Under Article XI-K of the Oregon Constitution, $371.2 million in bonds for school districts were issued and guaranteed following the fiscal year ended June 30, 2012, as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

School District	Series	Amount
Washington County School District 48J (Beaverton)	2012A	$ 33,075
Washington County School Disctric 48J (Beaverton)	2012B	126,325
Washington County School District 1J (Hillsboro)	2012	98,950
Lane County School District 1 (Pleasant Hill)	2012	2,455
Tillamook County School District 56 (Neah-Kah-Nie)	2012	9,390
Coos County School District 41 (Myrtle Point)	2012	2,000
Multnomah County School District 40 (David Douglas)	2012	2,386
Washington County School District 13 (Banks)	2012A	785
Washington County School District 13 (Banks)	2012B	2,740
Washington County School District 13 (Banks)	2012C	6,972
Multnomah County School District 40 (David Douglas)	2012A	17,940
Multnomah County School District 40 (David Douglas)	2012B	29,172
Lane Community College	2012	38,000
Douglas County School District 22 (North Douglas)	2012	960
Total Debt Guarantees		$ 371,150

25. VIOLATION OF LEGAL PROVISION

The Public Employees Retirement System (PERS) is in violation of ORS 238.660, which requires that all moneys paid to PERS “shall be deposited with the State Treasurer.” PERS has transferred monthly premiums paid by PERS Health Insurance Program participants, as well as Early Retiree Reinsurance Program funds, to insurance carriers for payment of claims. Amounts transferred exceeded claims by approximately $75 million at June 30, 2012. PERS is determining the most effective method of redirecting these moneys to the State Treasurer.

Required Supplementary Information

This page intentionally left blank.

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, 2013
As of June 30, 2012
(In Thousands)

	General Fund			
	2011-2013 Original Budget	**2011-2013 Final Budget**	**1st Year Actual**	**Variance Over/ (Under)**
Revenues:				
Personal Income Taxes	$ 12,229,701	$ 12,229,701	$ 5,822,895	$ (6,406,806)
Corporate Income Taxes	863,323	863,323	431,024	(432,299)
Tobacco Taxes	132,830	132,830	65,734	(67,096)
Motor Fuels Taxes	-	-	-	-
Weight Mile Taxes	-	-	-	-
Vehicle Registration Taxes	-	-	-	-
Other Taxes	292,610	292,610	152,687	(139,923)
Licenses and Fees	145,331	146,388	104,557	(41,831)
Federal	-	-	-	-
Charges for Services	11,152	11,152	6,009	(5,143)
Fines and Forfeitures	44,873	44,873	51,075	6,202
Rents and Royalties	-	-	-	-
Investment Income	9,913	9,913	9,838	(75)
Sales	1,054	1,054	601	(453)
Donations and Grants	-	-	-	-
Foreclosure Settlement Proceeds	-	-	25,253	25,253
Pension Bond Debt Service Assessments	-	-	-	-
Other	20,190	20,190	12,653	(7,537)
Total Revenues	13,750,977	13,752,034	6,682,326	(7,069,708)
Expenditures:				
Education	6,751,883	6,754,274	3,592,578	(3,161,696)
Human Services	3,803,850	3,864,119	2,073,138	(1,790,981)
Public Safety	1,906,132	1,957,138	955,773	(1,001,365)
Economic and Community Development	24,011	28,951	10,560	(18,391)
Natural Resources	129,006	130,829	62,610	(68,219)
Transportation	17,416	2,000	967	(1,033)
Consumer and Business Services	11,283	11,069	5,698	(5,371)
Administration	184,116	202,988	92,998	(109,990)
Legislative	152,957	181,727	35,625	(146,102)
Judicial	581,942	590,673	307,957	(282,716)
Total Expenditures	13,562,596	13,723,768	7,137,904	(6,585,864)
Excess (Deficiency) of Revenues Over (Under) Expenditures	188,381	28,266	(455,578)	(483,844)
Other Financing Sources (Uses):				
Transfers from Other Funds	915,321	991,148	627,433	(363,715)
Transfers to Other Funds	(669,169)	(668,265)	(470,023)	198,242
Long-term Debt Issued	-	-	-	-
Debt Issuance Premium	-	-	-	-
Loan Proceeds	-	-	-	-
Gain(Loss) on Disposition of Assets	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 434,533	$ 351,149	(298,168)	$ (649,317)
Budgetary Fund Balances - Beginning			522,312	
Prior Period Adjustments			(1,120)	
Budgetary Fund Balances - Beginning - As Restated			521,192	
Prior Biennium Transactions			(154,551)	
Budgetary Fund Balances - Ending			$ 68,473	

Federal Funds				Lottery Funds			
2011-2013 Original Budget	2011-2013 Final Budget	1st Year Actual	Variance Over/ (Under)	2011-2013 Original Budget	2011-2013 Final Budget	1st Year Actual	Variance Over/ (Under)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,574,360	11,731,319	5,011,839	(6,719,480)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,706	2,706	1,433	(1,273)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,574,360	11,731,319	5,011,839	(6,719,480)	2,706	2,706	1,433	(1,273)
1,009,664	1,010,601	407,195	(603,406)	641,764	640,922	101,834	(539,088)
8,024,860	8,335,009	3,976,900	(4,358,109)	10,780	10,389	5,539	(4,850)
456,054	470,479	182,865	(287,614)	6,653	6,856	3,341	(3,515)
527,095	582,002	246,827	(335,175)	146,724	149,142	74,379	(74,763)
314,663	320,261	135,116	(185,145)	167,082	169,225	59,198	(110,027)
120,025	125,758	49,791	(75,967)	69,701	72,615	31,964	(40,651)
6,923	9,357	3,349	(6,008)	-	-	-	-
13,133	16,497	5,443	(11,054)	13,597	13,929	6,486	(7,443)
-	-	-	-	-	-	-	-
851	851	715	(136)	-	-	-	-
10,473,268	10,870,815	5,008,201	(5,862,614)	1,056,301	1,063,078	282,741	(780,337)
1,101,092	860,504	3,638	(856,866)	(1,053,595)	(1,060,372)	(281,308)	779,064
8,944	8,944	36,029	27,085	2,478,877	2,432,260	863,268	(1,568,992)
(547,662)	(547,662)	(45,607)	502,055	(1,373,086)	(1,304,313)	(278,437)	1,025,876
-	-	-	-	-	-	144	144
-	-	-	-	-	-	22	22
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ 562,374	$ 321,786	(5,940)	$ (327,726)	$ 52,196	$ 67,575	303,689	$ 236,114
		65,526				(234,523)	
		(796)				-	
		64,730				(234,523)	
		(73,490)				(166,586)	
		$ (14,700)				$ (97,420)	

(continued on next page)

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, 2013
As of June 30, 2012
(In Thousands)
(continued from previous page)

	Other Funds			
	2011-2013 Original Budget	2011-2013 Final Budget	1st Year Actual	Variance Over/ (Under)
Revenues:				
Personal Income Taxes	$ -	$ -	$ -	$ -
Corporate Income Taxes	-	-	-	-
Tobacco Taxes	323,911	323,911	172,824	(151,087)
Motor Fuels Taxes	980,292	980,292	448,921	(531,371)
Weight Mile Taxes	630,234	630,234	233,633	(396,601)
Vehicle Registration Taxes	564,625	564,625	253,044	(311,581)
Other Taxes	902,826	901,260	504,718	(396,542)
Licenses and Fees	779,872	779,959	328,723	(451,236)
Federal	968,878	970,028	558,869	(411,159)
Charges for Services	2,559,792	2,524,023	1,377,894	(1,146,129)
Fines and Forfeitures	199,239	197,939	78,328	(119,611)
Rents and Royalties	115,095	115,095	52,597	(62,498)
Investment Income	247,212	249,907	32,548	(217,359)
Sales	474,339	475,139	118,255	(356,884)
Donations and Grants	32,507	37,733	17,938	(19,795)
Foreclosure Settlement Proceeds	-	-	-	-
Pension Bond Debt Service Assessments	-	-	144,409	144,409
Other	921,235	901,795	316,394	(585,401)
Total Revenues	9,700,057	9,651,940	4,639,095	(5,012,845)
Expenditures:				
Education	2,370,275	2,467,972	1,075,864	(1,392,108)
Human Services	2,441,514	2,472,628	932,945	(1,539,683)
Public Safety	519,395	529,006	224,323	(304,683)
Economic and Community Development	344,420	358,959	130,127	(228,832)
Natural Resources	806,723	816,383	316,245	(500,138)
Transportation	3,558,283	3,613,113	1,269,271	(2,343,842)
Consumer and Business Services	321,647	321,937	140,447	(181,490)
Administration	1,240,324	1,249,934	577,093	(672,841)
Legislative	5,696	5,696	1,527	(4,169)
Judicial	26,160	59,675	24,496	(35,179)
Total Expenditures	11,634,437	11,895,303	4,692,338	(7,202,965)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,934,380)	(2,243,363)	(53,243)	2,190,120
Other Financing Sources (Uses):				
Transfers from Other Funds	5,600,038	5,699,079	2,824,503	(2,874,576)
Transfers to Other Funds	(6,510,778)	(6,502,979)	(2,617,715)	3,885,264
Long-term Debt Issued	1,942,052	2,053,731	130,283	(1,923,448)
Debt Issuance Premium	-	-	10,367	10,367
Loan Proceeds	34,787	34,787	250	(34,537)
Gain(Loss) on Disposition of Assets	-	-	1,063	1,063
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ (868,281)	$ (958,745)	295,508	$ 1,254,253
Budgetary Fund Balances - Beginning			3,163,714	
Prior Period Adjustments			3,747	
Budgetary Fund Balances - Beginning - As Restated			3,167,461	
Prior Biennium Transactions			(267,028)	
Budgetary Fund Balances - Ending			$ 3,195,941	

Total All Budgeted Appropriated Funds			
2011-2013 Original Budget	2011-2013 Final Budget	1st Year Actual	Variance Over/ (Under)
$ 12,229,701	$ 12,229,701	$ 5,822,895	$ (6,406,806)
863,323	863,323	431,024	(432,299)
456,741	456,741	238,558	(218,183)
980,292	980,292	448,921	(531,371)
630,234	630,234	233,633	(396,601)
564,625	564,625	253,044	(311,581)
1,195,436	1,193,870	657,405	(536,465)
925,203	926,347	433,280	(493,067)
12,543,238	12,701,347	5,570,708	(7,130,639)
2,570,944	2,535,175	1,383,903	(1,151,272)
244,112	242,812	129,403	(113,409)
115,095	115,095	52,597	(62,498)
259,831	262,526	43,819	(218,707)
475,393	476,193	118,856	(357,337)
32,507	37,733	17,938	(19,795)
-	-	25,253	25,253
-	-	144,409	144,409
941,425	921,985	329,047	(592,938)
35,028,100	35,137,999	16,334,693	(18,803,306)
10,773,586	10,873,769	5,177,471	(5,696,298)
14,281,004	14,682,145	6,988,522	(7,693,623)
2,888,234	2,963,479	1,366,302	(1,597,177)
1,042,250	1,119,054	461,893	(657,161)
1,417,474	1,436,698	573,169	(863,529)
3,765,425	3,813,486	1,351,993	(2,461,493)
339,853	342,363	149,494	(192,869)
1,451,170	1,483,348	682,020	(801,328)
158,653	187,423	37,152	(150,271)
608,953	651,199	333,168	(318,031)
36,726,602	37,552,964	17,121,184	(20,431,780)
(1,698,502)	(2,414,965)	(786,491)	1,628,474
9,003,180	9,131,431	4,351,233	(4,780,198)
(9,100,695)	(9,023,219)	(3,411,782)	5,611,437
1,942,052	2,053,731	130,427	(1,923,304)
-	-	10,389	10,389
34,787	34,787	250	(34,537)
-	-	1,063	1,063
$ 180,822	$ (218,235)	295,089	$ 513,324
		3,517,029	
		1,831	
		3,518,860	
		(661,655)	
		$ 3,152,294	

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.

Ballot Measure 71 changed the constitutional requirement for the Legislature to meet from once every two years to once each year and limited the session length to 160 calendar days in the odd-numbered year and to 35 calendar days in the even-numbered year. The session begins in January in odd-numbered years and in February in even-numbered years. In odd-numbered years, 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 2011-2013 biennium as of June 30, 2012. A copy of this report is available at the Chief Financial Office, 155 Cottage Street NE, 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.

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, 2012, 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	$(298,168)	$ -	$ 12,096	$ 21,638	$ (264,434)	$ (171,087)	$3,053,634	$ (2,825,967)	$ (207,854)
Health and Social Services	-	(50,337)	814	256,627	207,104	(129,857)	57,739	(165,480)	(30,494)
Public Transportation	-	(1,785)	-	72,210	70,425	(83,854)	45,865	(9,852)	22,584
Environmental Management	-	(17,443)	31,664	31,620	45,841	(49,400)	28,070	29,643	54,154
Common School	-	-	-	1,034	1,034	347	(197)	(46,168)	(44,984)
Nonmajor Governmental	-	62,630	254,086	(39,406)	277,310	(343,051)	45,980	128,715	108,954
Housing and Community Services	-	-	-	(610)	(610)	(69)	77	10,769	10,167
Veterans' Loan	-	-	-	(6,494)	(6,494)	633	(622)	3,384	(3,099)
Lottery Operations	-	-	-	-	-	-	-	2,996	2,996
Unemployment Compensation	-	-	-	-	-	-	-	276,955	276,955
University System	-	-	4,366	(25,867)	(21,501)	(144,129)	165,630	10,221	10,221
Nonmajor Proprietary	-	995	663	6,176	7,834	(7,938)	(59,250)	164,517	105,163
Internal Service	-	-	-	(25,521)	(25,521)	22,394	10,613	188,932	196,418
Pension and Other Employee Benefit Trust	-	-	-	3,486	3,486	(3,075)	(40,762)	(1,693,174)	(1,733,525)
Private Purpose Trust	-	-	-	615	615	1	(544)	(2,827)	(2,755)
Investment Trust	-	-	-	-	-	-	-	127,734	127,734
Totals	$(298,168)	$ (5,940)	$ 303,689	$ 295,508	$ 295,089	$ (909,085)	$3,306,233	$ (3,799,602)	$ (1,107,365)

Required Supplementary Information
Schedules 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	0.0%	$ 2,187.2	14.8%
7/1/2009	-	161.7	161.7	0.0%	2,562.5	6.3%
7/1/2011[1]	-	154.7	154.7	0.0%	2,647.0	5.8%
Retiree Health Insurance Premium Account (PERS Plan)[2]						
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%
12/31/2011	4.5	34.4	29.9	13.2%	2,376.9	1.3%

[1] The July 1, 2011, PEBB Plan actuarial valuation included notable changes from the previous valuation. The current actuarial valuation estimates that 85 percent of males and 60 percent of females who elect coverage upon retirement will also elect spousal coverage. The previous valuation estimated 75 percent of males and 30 percent of females who elect coverage upon retirement would also elect spousal coverage. In addition, the amortization period used for recognizing unfunded AAL was reduced from 30 years as a level dollar amount to 15 years as a level percentage of payroll. The impact of these changes is an increase in the annual required contribution.

[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, RHIPA is not as well funded as the pension program. To address this issue, the Board shortened the shortfall amortization period to improve more rapidly the funded status of the program. The State’s contribution rates as of July 2011 reflected 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, PO Box 23700, Tigard, OR 97281-3700. This report may also be accessed online at:

http://www.oregon.gov/PERS/Pages/section/financial_reports/financials.aspx

[3] Differences due to rounding.

This page intentionally left blank.

Combining Fund Financial Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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. Public utilities taxes and business license fees comprise the main funding sources.

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 are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for 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 and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund

The permanent fund is used to account for and report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the State’s programs. These earnings provide 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, 2012
(In Thousands)

	Special Revenue Funds		
	Agricultural Resources	**Business Development**	**Community Protection**
ASSETS			
Cash and Cash Equivalents	$ 23,426	$ 53,046	$ 220,887
Investments	-	-	-
Custodial Assets	-	-	-
Securities Lending Collateral	1,634	6,525	16,887
Accounts and Interest Receivable (net)	3,921	511	46,472
Taxes Receivable (net)	-	-	-
Due from Other Funds	167	6,697	40,376
Due from Component Units	-	-	-
Inventories	123	32	690
Prepaid Items	48	-	241
Net Contracts, Notes, and Other Receivables	-	183	184,337
Loans Receivable (net)	-	2,528	-
Total Assets	$ 29,319	$ 69,522	$ 509,890
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	$ 1,186	$ 366	$ 20,601
Obligations Under Securities Lending	1,634	6,525	16,887
Due to Other Funds	11	182	32,548
Due to Other Governments	-	241	2,858
Deferred Revenue	15	916	185,273
Custodial Liabilities	71	2,549	463
Advances from Other Funds	-	-	88
Total Liabilities	2,917	10,779	258,718
Fund Balances:			
Nonspendable	197	33	989
Restricted by:			
Federal Laws and Regulations	34	5,843	20,480
Oregon Constitution	666	17,885	3,674
Enabling Legislation	23,234	7,204	25,022
Debt Covenants	-	4	123,917
Donors and Other External Parties	-	-	1,375
Committed	-	27,737	70,423
Assigned	2,271	37	5,292
Total Fund Balances	26,402	58,743	251,172
Total Liabilities and Fund Balances	$ 29,319	$ 69,522	$ 509,890

Special Revenue Funds

Consumer Protection	Education Support	Employment Services	Nutritional Support	Residential Assistance	Other Special Revenue
$ 97,726	$ 187,089	$ 56,793	$ 136	$ 83,105	$ 17,313
-	40,328	113,116	-	16,294	-
2,095	-	-	-	-	-
12,578	24,305	7,310	-	10,697	2,218
1,903	94,482	60,379	18,728	5,264	239
9,002	601	-	-	-	-
362	79,657	9,203	-	3,085	8
-	-	-	-	6	-
73	-	1,176	85	19	1,088
52	140	258	-	-	96
2,543	8	26,115	-	3,847	-
-	-	-	-	167,694	19
$ 126,334	$ 426,610	$ 274,350	$ 18,949	$ 290,011	$ 20,981
$ 1,395	$ 65,146	$ 27,779	$ 11,490	$ 2,780	$ 356
12,578	24,305	7,310	-	10,697	2,218
6,014	396	8,344	3,825	114	39
5,599	22,249	-	969	1,709	-
2,543	876	26,616	95	5,042	-
2,169	36	919	-	-	12
-	-	-	-	19,000	-
30,298	113,008	70,968	16,379	39,342	2,625
132	148	1,535	85	19	238
-	2,507	403	1,095	40,744	12,035
-	258,922	-	-	-	-
68,516	9,611	123,803	1,390	44,898	3,591
-	22,009	-	-	18,229	70
-	2,920	-	-	385	911
27,388	14,158	74,504	-	144,233	1,482
-	3,327	3,137	-	2,161	29
96,036	313,602	203,382	2,570	250,669	18,356
$ 126,334	$ 426,610	$ 274,350	$ 18,949	$ 290,011	$ 20,981

(continued on next page)

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012
(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	$ 118,599	$ 3,029	$ 47,836	$ 2
Investments	62,634	-	-	-
Custodial Assets	-	-	-	-
Securities Lending Collateral	-	-	-	-
Accounts and Interest Receivable (net)	9,717	-	3,032	-
Taxes Receivable (net)	-	-	-	-
Due from Other Funds	113,898	-	-	-
Due from Component Units	-	-	-	-
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Net Contracts, Notes, and Other Receivables	-	-	-	-
Loans Receivable (net)	-	-	-	-
Total Assets	$ 304,848	$ 3,029	$ 50,868	$ 2
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Interest Payable	$ 10,661	$ -	$ -	$ -
Obligations Under Securities Lending	-	-	-	-
Due to Other Funds	-	-	72	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
Custodial Liabilities	-	-	-	-
Advances from Other Funds	-	-	-	-
Total Liabilities	10,661	-	72	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted by:				
Federal Laws and Regulations	-	-	-	-
Oregon Constitution	167,134	-	-	-
Enabling Legislation	-	-	-	-
Debt Covenants	127,053	3,029	50,796	2
Donors and Other External Parties	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Total Fund Balances	294,187	3,029	50,796	2
Total Liabilities and Fund Balances	$ 304,848	$ 3,029	$ 50,868	$ 2

	Capital Projects Fund	Permanent Fund	Total
	$ 56,507	$ 30,754	$ 996,248
	-	-	232,372
	-	-	2,095
	-	3,957	86,111
	777	96	245,521
	-	-	9,603
	12,795	50	266,298
	-	-	6
	1	-	3,287
	-	-	835
	-	-	217,033
	-	-	170,241
	$ 70,080	$ 34,857	$ 2,229,650
	$ 13,705	$ 71	$ 155,536
	-	3,957	86,111
	64	-	51,609
	87	-	33,712
	2,029	1,353	224,758
	-	-	6,219
	-	-	19,088
	15,885	5,381	577,033
	1	26,960	30,337
	41	236	83,418
	-	-	448,281
	598	2,280	310,147
	52,904	-	398,013
	-	-	5,591
	32	-	359,957
	619	-	16,873
	54,195	29,476	1,652,617
	$ 70,080	$ 34,857	$ 2,229,650

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012
(In Thousands)

	Special Revenue Funds		
	Agricultural Resources	**Business Development**	**Community Protection**
Revenues:			
Public Utilities Taxes	$ -	$ -	$ -
Insurance Premium Tax	-	-	-
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	-	-	-
Licenses and Fees	19,580	2,892	6,980
Federal	8,231	18,089	187,185
Charges for Services	8,739	478	15,886
Fines and Forfeitures	19	11	61,332
Rents and Royalties	-	-	2,232
Investment Income	96	316	682
Sales	45	1,648	697
Donations and Grants	-	11,283	971
Contributions to Permanent Funds	-	-	-
Pension Bond Debt Service Assessments	-	-	-
Other	649	1,055	51,492
Total Revenues	37,359	35,772	327,457
Expenditures:			
Current:			
Education	-	-	-
Human Services	-	-	2,383
Public Safety	-	2,362	321,233
Economic and Community Development	-	49,747	-
Natural Resources	40,287	111	-
Transportation	-	-	9,595
Consumer and Business Services	-	-	-
Administration	-	2,442	792
Legislative	-	-	-
Judicial	-	-	26,614
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	-	26
Other Debt Service	-	433	487
Total Expenditures	40,287	55,095	361,130
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,928)	(19,323)	(33,673)
Other Financing Sources (Uses):			
Transfers from Other Funds	4,894	38,695	88,496
Transfers to Other Funds	(889)	(3,782)	(113,510)
Insurance Recoveries	-	-	100
Long-term Debt Issued	-	433	84,673
Debt Issuance Premium	-	-	10,078
Refunding Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	4,005	35,346	69,837
Net Change in Fund Balances	1,077	16,023	36,164
Fund Balances - Beginning	25,354	42,896	217,683
Prior Period Adjustments	-	(187)	(2,700)
Fund Balances - Beginning - As Restated	25,354	42,709	214,983
Change in Inventories	(29)	11	25
Fund Balances - Ending	$ 26,402	$ 58,743	$ 251,172

Special Revenue Funds

Consumer Protection	Education Support	Employment Services	Nutritional Support	Residential Assistance	Other Special Revenue
$ 40,364	$ -	$ -	$ -	$ 31,946	$ -
2	-	6	-	-	-
-	-	71,977	-	-	-
-	-	53,669	-	-	-
31,379	271	-	-	6,340	-
95,617	300	2,297	-	454	-
3,939	456,592	226,845	1,422,947	133,253	3,360
1,815	4,495	19,999	1,468	7,568	1,285
1,224	-	3,848	-	35	-
-	140	-	-	-	522
1,056	7,334	3,713	5	6,878	77
26	216	284	-	-	1,897
5	4,252	339	-	60	179
-	-	-	-	-	-
-	-	-	-	-	-
705	1,564	5,667	16,056	137	41
176,132	475,164	388,644	1,440,476	186,671	7,361
2,580	494,327	42,795	172,769	-	-
-	-	-	1,267,259	-	-
-	-	-	-	-	-
-	-	160,545	956	181,381	2,308
2,968	-	-	-	286	-
7	-	-	-	-	-
126,381	-	144,302	-	5,195	-
28,714	21,952	780	45	1	6,016
-	-	-	-	-	1,686
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	13
-	2,747	-	-	-	2
-	6	-	-	-	22
160,650	519,032	348,422	1,441,029	186,863	10,047
15,482	(43,868)	40,222	(553)	(192)	(2,686)
14,396	251,908	51,005	-	16,639	2,862
(38,139)	(70,922)	(81,926)	(1,588)	(1,753)	(1,029)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(23,743)	180,986	(30,921)	(1,588)	14,886	1,833
(8,261)	137,118	9,301	(2,141)	14,694	(853)
98,866	180,861	200,147	4,626	277,696	19,283
5,422	(4,377)	(6,062)	-	(41,720)	-
104,288	176,484	194,085	4,626	235,976	19,283
9	-	(4)	85	(1)	(74)
$ 96,036	$ 313,602	$ 203,382	$ 2,570	$ 250,669	$ 18,356

(continued on next page)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012
(In Thousands)
(continued from previous page)

	Debt Service Funds			
	Revenue Bond	**Certificates of Participation**	**General Obligation Bond**	**General Appropriation Bond**
Revenues:				
Public Utilities Taxes	$ -	$ -	$ -	$ -
Insurance Premium Tax	-	-	-	-
Employer-Employee Taxes	-	-	-	-
Workers' Compensation Insurance Taxes	-	-	-	-
Other Taxes	-	-	-	-
Licenses and Fees	-	-	-	-
Federal	10,811	2,819	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Rents and Royalties	-	-	-	-
Investment Income	3,361	27	432	30
Sales	-	-	-	-
Donations and Grants	-	-	-	-
Contributions to Permanent Funds	-	-	-	-
Pension Bond Debt Service Assessments	-	-	5,681	-
Other	292	-	-	-
Total Revenues	14,464	2,846	6,113	30
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	129,377	3,858	47,450	65,100
Interest	147,356	13,374	126,632	6,503
Other Debt Service	1,546	1,583	27	-
Total Expenditures	278,279	18,815	174,109	71,603
Excess (Deficiency) of Revenues Over (Under) Expenditures	(263,815)	(15,969)	(167,996)	(71,573)
Other Financing Sources (Uses):				
Transfers from Other Funds	296,326	7,705	167,162	71,568
Transfers to Other Funds	(85,386)	(1)	(721)	-
Insurance Recoveries	-	-	-	-
Long-term Debt Issued	500	1,928	-	-
Debt Issuance Premium	37,837	29,859	8,267	-
Refunding Debt Issued	250,923	191,601	59,865	-
Refunded Debt Payment to Escrow Agent	(287,199)	(220,085)	(67,549)	-
Total Other Financing Sources (Uses)	213,001	11,007	167,024	71,568
Net Change in Fund Balances	(50,814)	(4,962)	(972)	(5)
Fund Balances - Beginning	345,001	7,991	51,768	7
Prior Period Adjustments	-	-	-	-
Fund Balances - Beginning - As Restated	345,001	7,991	51,768	7
Change in Inventories	-	-	-	-
Fund Balances - Ending	$ 294,187	$ 3,029	$ 50,796	$ 2

Capital Projects Fund	Permanent Fund	Total
$ -	$ -	$ 72,310
-	-	8
-	-	71,977
-	-	53,669
-	-	37,990
-	-	128,120
19,157	-	2,493,228
-	-	61,733
-	-	66,469
-	-	2,894
484	182	24,673
20	-	4,833
11	-	17,100
-	76	76
-	-	5,681
1,465	199	79,322
21,137	457	3,120,083
-	-	712,471
-	2,561	1,272,203
-	-	323,595
-	-	394,937
-	31	43,683
-	-	9,602
-	7	275,885
-	-	60,742
-	-	1,686
-	-	26,614
129,337	-	129,337
-	-	245,798
-	-	296,640
-	-	4,104
129,337	2,599	3,797,297
(108,200)	(2,142)	(677,214)
62,415	3,982	1,078,053
(939)	(1,055)	(401,640)
-	-	100
7,352	-	94,886
1,172	-	87,213
-	-	502,389
-	-	(574,833)
70,000	2,927	786,168
(38,200)	785	108,954
111,912	28,578	1,612,669
(19,518)	113	(69,029)
92,394	28,691	1,543,640
1	-	23
$ 54,195	$ 29,476	$ 1,652,617

This page intentionally left blank.

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 activities of 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 Oregon Health Authority, the Public Employees Retirement System, and the Water Resources Department.

Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2012
(In Thousands)

	Energy Loan	Safe Drinking Water	Business Development
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ -	$ 45,028	$ 14,572
Cash and Cash Equivalents - Restricted	-	-	-
Securities Lending Collateral	-	5,301	1,716
Accounts and Interest Receivable (net)	2,518	2,962	91
Due from Other Funds	1,077	62	-
Inventories	-	-	-
Prepaid Items	-	-	-
Foreclosed and Deeded Property	802	-	-
Total Current Assets	4,397	53,353	16,379
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	43,265	-	-
Deferred Charges	1,858	-	-
Advances to Other Funds	96,877	-	-
Net Contracts, Notes, and Other Receivables	-	-	-
Loans Receivable (net)	111,915	165,979	23,790
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	253,915	165,979	23,790
Total Assets	$ 258,312	$ 219,332	$ 40,169
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	$ 3,090	$ 24	$ 10
Obligations Under Securities Lending	-	5,301	1,716
Due to Other Funds	-	-	1
Unearned Revenue	177	-	995
Matured Bonds/COPs and Coupons Payable	-	-	-
Compensated Absences Payable	26	17	17
Claims and Judgments Payable	-	-	-
Custodial Liabilities	6,200	-	-
Bonds/COPs Payable	16,828	-	-
Total Current Liabilities	26,321	5,342	2,739
Noncurrent Liabilities:			
Compensated Absences Payable	13	9	9
Bonds/COPs Payable	235,352	-	-
Advances from Other Funds	-	100	-
Net OPEB Obligation	11	4	6
Total Noncurrent Liabilities	235,376	113	15
Total Liabilities	261,697	5,455	2,754
Net Assets:			
Invested in Capital Assets, Net of Related Debt	-	-	-
Expendable Net Assets Restricted for:			
Debt Service	-	-	-
Unrestricted	(3,385)	213,877	37,415
Total Net Assets	(3,385)	213,877	37,415
Total Liabilities and Net Assets	$ 258,312	$ 219,332	$ 40,169

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ 77,279	$ 6,002	$ 30,554	$ 5,810	$ 14,647	$ 135,711	$ 329,603
-	-	-	10,255	-	190	10,445
9,098	770	4,105	1,891	1,725	2,438	27,044
6,391	6,297	252	1,566	2,484	3,199	25,760
-	-	-	-	-	37	1,176
-	517	21,420	-	-	5,489	27,426
-	624	-	-	-	336	960
-	-	-	-	-	-	802
92,768	14,210	56,331	19,522	18,856	147,400	423,216
4,321	-	-	-	1,725	2	49,313
1,086	-	-	-	506	22	3,472
-	-	-	-	100	-	96,977
-	-	-	14	-	-	14
206,186	-	-	-	94,670	18,085	620,625
-	41	1,456	2,100	-	3,385	6,982
-	386,056	23,122	15,551	-	44,116	469,109
-	188	-	458	-	37	683
-	2,048	-	-	-	-	2,048
-	-	-	40	-	-	40
-	(25,167)	(11,939)	(4,498)	-	(24,209)	(66,077)
211,593	363,166	12,639	13,665	97,001	41,438	1,183,186
$ 304,361	$ 377,376	$ 68,970	$ 33,187	$ 115,857	$ 188,838	$ 1,606,402
$ 1,673	$ 3,465	$ 16,369	$ 1,543	$ 842	$ 5,381	$ 32,397
9,098	770	4,105	1,891	1,725	2,438	27,044
3	65,922	13,230	68	-	1,940	81,164
-	-	108	125	-	-	1,405
-	-	-	-	-	190	190
53	6,519	749	3	22	753	8,159
-	-	-	-	-	13,959	13,959
-	-	503	-	-	5,732	12,435
3,290	-	-	-	1,505	1,829	23,452
14,117	76,676	35,064	3,630	4,094	32,222	200,205
27	3,358	386	2	11	281	4,096
71,867	-	-	-	37,392	3,042	347,653
-	-	-	-	-	-	100
20	3,053	276	1	7	216	3,594
71,914	6,411	662	3	37,410	3,539	355,443
86,031	83,087	35,726	3,633	41,504	35,761	555,648
-	363,166	12,639	13,426	-	18,458	407,689
-	-	-	-	894	-	894
218,330	(68,877)	20,605	16,128	73,459	134,619	642,171
218,330	294,289	33,244	29,554	74,353	153,077	1,050,754
$ 304,361	$ 377,376	$ 68,970	$ 33,187	$ 115,857	$ 188,838	$ 1,606,402

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012
(In Thousands)

	Energy Loan	Safe Drinking Water	Business Development
Operating Revenues:			
Licenses and Fees	$ 271	$ -	$ -
Federal	-	-	5
Charges for Services	316	-	24
Fines and Forfeitures	21	-	-
Rents and Royalties	-	-	1
Sales	-	-	-
Loan Interest Income	11,549	3,793	1,355
Other	54	-	6
Total Operating Revenues	12,211	3,793	1,391
Operating Expenses:			
Salaries and Wages	697	364	390
Services and Supplies	506	27	94
Cost of Goods Sold	-	-	-
Distributions to Other Governments	-	123	-
Special Payments	2,314	4,450	120
Bond and COP Interest	10,102	-	-
Other Debt Service	1	-	-
Depreciation and Amortization	-	-	-
Bad Debt Expense	4,782	-	336
Total Operating Expenses	18,402	4,964	940
Operating Income (Loss)	(6,191)	(1,171)	451
Nonoperating Revenues (Expenses):			
Investment Income (Loss)	222	262	88
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	-
Other Nonoperating Items	-	(13)	(4)
Total Nonoperating Revenues (Expenses)	222	249	84
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	(5,969)	(922)	535
Capital Contributions	-	-	-
Transfers from Other Funds	1,077	23,140	-
Transfers to Other Funds	(747)	(15)	(3,746)
Change in Net Assets	(5,639)	22,203	(3,211)
Net Assets - Beginning	2,254	191,674	40,626
Prior Period Adjustments	-	-	-
Net Assets - Beginning - As Restated	2,254	191,674	40,626
Net Assets - Ending	$ (3,385)	$ 213,877	$ 37,415

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ -	$ 12	$ 4,342	$ -	$ -	$ 2,959	$ 7,584
-	-	-	6,195	-	-	6,200
-	73,332	-	7,483	-	220,931	302,086
-	-	449	-	-	16	486
-	36	-	-	-	16	53
-	60	465,351	-	-	12,788	478,199
9,526	-	-	-	4,269	688	31,180
-	1,572	279	2	-	975	2,888
9,526	75,012	470,421	13,680	4,269	238,373	828,676
1,215	210,469	16,025	231	488	20,818	250,697
352	52,952	49,052	11,686	152	31,984	146,805
-	-	226,887	-	-	14,875	241,762
1,394	-	51,356	-	837	250	53,960
536	249	283	-	-	150,671	158,623
4,203	-	-	-	2,097	122	16,524
447	-	-	-	187	2	637
-	7,122	946	318	-	1,461	9,847
33	-	-	-	-	-	5,151
8,180	270,792	344,549	12,235	3,761	220,183	884,006
1,346	(195,780)	125,872	1,445	508	18,190	(55,330)
503	-	-	85	78	197	1,435
-	-	16,893	-	-	-	16,893
-	-	9	-	-	4	13
(25)	-	-	(4)	(4)	(19)	(69)
478	-	16,902	81	74	182	18,272
1,824	(195,780)	142,774	1,526	582	18,372	(37,058)
-	116,114	-	1,066	-	-	117,180
-	143,647	-	178	13,620	16,614	198,276
(13,924)	(7,797)	(143,090)	(9)	(2,962)	(945)	(173,235)
(12,100)	56,184	(316)	2,761	11,240	34,041	105,163
230,430	238,664	33,560	26,793	63,113	119,036	946,150
-	(559)	-	-	-	-	(559)
230,430	238,105	33,560	26,793	63,113	119,036	945,591
$ 218,330	$ 294,289	$ 33,244	$ 29,554	$ 74,353	$ 153,077	$ 1,050,754

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012
(In Thousands)

	Energy Loan	Safe Drinking Water	Business Development
Cash Flows from Operating Activities:			
Receipts from Customers	$ 666	$ -	$ 1,024
Receipts from Other Funds for Services	-	-	-
Loan Principal Repayments	19,743	5,188	4,332
Loan Interest Received	11,222	3,006	1,345
Payments to Employees for Services	(677)	(376)	(405)
Payments to Suppliers	(3,805)	(16)	(45)
Payments to Other Funds for Services	(217)	(14)	(47)
Claims Paid	-	-	-
Loans Made	(28,184)	(30,376)	(3,054)
Distributions to Other Governments	-	(123)	-
Other Receipts (Payments)	4,793	-	(114)
Net Cash Provided (Used) in Operating Activities	3,541	(22,711)	3,036
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	21,680	-	-
Principal Payments on Bonds/COPS	(21,333)	-	-
Interest Payments on Bonds/COPS	(10,461)	-	-
Bond/COP Issuance Costs	(191)	-	-
Taxes and Assessments Received	-	-	-
Transfers from Other Funds	1,078	23,221	-
Transfers to Other Funds	(747)	(15)	(3,730)
Net Cash Provided (Used) in Noncapital Financing Activities	(9,974)	23,206	(3,730)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Other Interest Payments	-	-	-
Acquisition of Capital Assets	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Capital Contributions	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	-	-	-
Cash Flows from Investing Activities:			
Interest on Investments and Cash Balances	222	238	80
Interest Income from Securities Lending	-	24	8
Interest Expense from Securities Lending	-	(13)	(4)
Net Cash Provided (Used) in Investing Activities	222	249	84
Net Increase (Decrease) in Cash and Cash Equivalents	(6,211)	744	(610)
Cash and Cash Equivalents - Beginning	49,476	44,284	15,182
Cash and Cash Equivalents - Ending	$ 43,265	$ 45,028	$ 14,572

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ -	$ 79,793	$ 470,114	$ 13,532	$ -	$ 226,794	$ 791,923
-	112	-	-	-	9,845	9,957
18,168	-	-	-	10,309	713	58,453
9,202	-	-	-	4,628	748	30,151
(1,274)	(216,966)	(16,583)	(231)	(497)	(20,724)	(257,733)
(150)	(41,639)	(273,759)	(10,402)	(52)	(21,589)	(351,457)
(212)	(15,138)	(3,285)	(864)	(102)	(1,417)	(21,296)
-	-	-	-	-	(160,152)	(160,152)
(8,129)	-	-	-	(3,700)	(2,290)	(75,733)
(1,698)	-	(49,854)	-	(839)	(254)	(52,768)
(490)	55,958	51	2	(213)	(14,859)	45,128
15,417	(137,880)	126,684	2,037	9,534	16,815	16,473
-	-	-	-	-	2,584	24,264
(28,525)	-	-	-	(16,975)	-	(66,833)
(4,859)	-	-	-	(2,504)	-	(17,824)
-	-	-	-	-	-	(191)
-	-	16,887	-	-	-	16,887
-	143,726	-	438	13,620	17,512	199,595
(13,864)	-	(138,878)	(269)	(2,962)	(644)	(161,109)
(47,248)	143,726	(121,991)	169	(8,821)	19,452	(5,211)
-	-	-	-	-	61	61
-	-	-	-	-	(4,235)	(4,235)
-	-	-	-	-	(220)	(220)
-	-	-	-	-	(4)	(4)
-	(1,431)	(795)	(1,702)	-	(3,458)	(7,386)
-	-	9	-	-	4	13
-	-	-	1,066	-	-	1,066
-	(1,431)	(786)	(636)	-	(7,852)	(10,705)
458	-	-	78	71	345	1,492
46	-	-	8	7	14	107
(25)	-	-	(4)	(4)	(7)	(57)
479	-	-	82	74	352	1,542
(31,352)	4,415	3,907	1,652	787	28,767	2,099
112,952	1,587	26,647	14,413	15,585	107,136	387,262
$ 81,600	$ 6,002	$ 30,554	$ 16,065	$ 16,372	$ 135,903	$ 389,361

(continued on next page)

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012
(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)	$ (6,191)	$ (1,171)	$ 451
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	-	-	-
Amortization of Bond/COP Issuance Costs	227	-	-
Amortization of Bond/COP Premium and Discount	(556)	-	-
Amortization of Deferred Charges	20	-	-
Bad Debt Expense	4,782	-	336
Interest Payments Reported as Operating Expense	10,461	-	-
Bond/COP Issuance Costs Reported as Operating Expense	193	-	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(236)	(787)	463
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Foreclosed and Deeded Property	(802)	-	-
Deferred Charges	(257)	-	-
Advances to Other Funds	(5,406)	-	-
Loans Receivable	(2,234)	(20,738)	806
Accounts and Interest Payable	187	(8)	(16)
Due to Other Funds	-	(2)	1
Due to Other Governments	-	-	-
Unearned Revenue	(21)	-	995
Compensated Absences Payable	3	(6)	(1)
Claims and Judgments Payable	-	-	-
Custodial Liabilities	3,370	-	-
Net OPEB Obligation	1	1	1
Total Adjustments	9,732	(21,540)	2,585
Net Cash Provided (Used) by Operating Activities	$ 3,541	$ (22,711)	$ 3,036
Noncash Investing and Capital and Related Financing Activities:			
Capital Assets Transferred from Governmental Funds	$ -	$ -	$ -
Advanced Debt Refunding Deposited with Escrow Agent	-	-	-

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ 1,346	$ (195,780)	$ 125,872	$ 1,445	$ 508	$ 18,190	$ (55,330)
-	7,122	946	318	-	1,461	9,847
330	-	-	-	-	-	557
51	-	-	-	16	(82)	(571)
117	-	-	-	187	30	354
33	-	-	-	-	-	5,151
4,859	-	-	-	2,503	220	18,043
-	-	-	-	-	-	193
90	6,356	(87)	(177)	359	662	6,643
7	-	-	-	-	(37)	(30)
-	3	323	-	-	770	1,096
-	23	-	-	-	(124)	(101)
-	-	-	-	-	-	(802)
-	-	-	-	-	(20)	(277)
-	-	-	-	-	-	(5,406)
10,037	-	-	-	6,609	(1,576)	(7,096)
(1,054)	(11,482)	(554)	417	(438)	1,376	(11,572)
2	54,543	-	2	(5)	(97)	54,444
(36)	-	-	-	-	-	(36)
-	-	(27)	32	-	-	979
(1)	837	33	(1)	7	(2)	869
-	-	-	-	-	(9,533)	(9,533)
(366)	(4)	140	-	(213)	5,549	8,476
2	502	38	1	1	28	575
14,071	57,900	812	592	9,026	(1,375)	71,803
$ 15,417	$ (137,880)	$ 126,684	$ 2,037	$ 9,534	$ 16,815	$ 16,473
$ -	$ 116,114	$ -	$ -	$ -	$ -	$ 116,114
-	-	-	-	-	2,563	2,563

This page intentionally left blank.

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, 2012
(In Thousands)

	Central Services	Legal Services
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 350,785	$ 9,536
Securities Lending Collateral	27,643	1,227
Accounts and Interest Receivable (net)	52,304	6,531
Due from Other Funds	130	3,850
Inventories	1,103	180
Prepaid Items	1,151	-
Total Current Assets	433,116	21,324
Noncurrent Assets:		
Cash and Cash Equivalents - Restricted	23,148	-
Investments - Restricted	75,912	-
Deferred Charges	879	-
Advances to Other Funds	648	-
Net Contracts, Notes, and Other Receivables	78	13
Loans Receivable (net)	26	-
Capital Assets:		
Land	9,343	-
Buildings, Property, and Equipment	548,492	4,759
Construction in Progress	8,059	183
Infrastructure	637	-
Works of Art and Other Nondepreciable Assets	167	-
Less Accumulated Depreciation and Amortization	(297,347)	(3,054)
Total Noncurrent Assets	370,042	1,901
Total Assets	$ 803,158	$ 23,225
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts and Interest Payable	$ 25,773	$ 632
Obligations Under Securities Lending	27,643	1,227
Due to Other Funds	-	103
Unearned Revenue	18,389	1,266
Compensated Absences Payable	3,230	3,109
Claims and Judgments Payable	36,964	-
Custodial Liabilities	3,271	5
Contracts, Mortgages, and Notes Payable	158	-
Bonds/COPs Payable	13,969	-
Obligations Under Capital Leases	5,674	12
Total Current Liabilities	135,071	6,354
Noncurrent Liabilities:		
Compensated Absences Payable	1,664	1,602
Claims and Judgments Payable	152,590	-
Custodial Liabilities	3,271	-
Bonds/COPs Payable	104,221	-
Obligations Under Capital Leases	2,742	60
Advances from Other Funds	190	-
Net OPEB Obligation	936	725
Total Noncurrent Liabilities	265,614	2,387
Total Liabilities	400,685	8,741
Net Assets:		
Invested in Capital Assets, Net of Related Debt	142,743	1,816
Unrestricted	259,730	12,668
Total Net Assets	402,473	14,484
Total Liabilities and Net Assets	$ 803,158	$ 23,225

Banking Services	Audit Services	Forestry Services	Other	Total
$ 6,399	$ 2,226	$ 5,678	$ 4,046	$ 378,670
824	286	731	521	31,232
2,087	368	682	223	62,195
-	-	-	-	3,980
12	-	219	8	1,522
-	20	-	-	1,171
9,322	2,900	7,310	4,798	478,770
-	-	-	-	23,148
-	-	-	-	75,912
-	-	-	-	879
-	-	-	-	648
-	-	-	-	91
-	-	-	-	26
-	-	-	-	9,343
2,691	444	19,557	5,647	581,590
-	-	-	-	8,242
-	-	-	-	637
-	-	-	-	167
(2,552)	(444)	(14,615)	(3,585)	(321,597)
139	-	4,942	2,062	379,086
$ 9,461	$ 2,900	$ 12,252	$ 6,860	$ 857,856
$ 385	$ 151	$ 291	$ 98	$ 27,330
824	286	731	521	31,232
-	-	-	34	137
-	-	-	-	19,655
498	267	116	-	7,220
-	-	-	-	36,964
-	-	-	1	3,277
-	-	-	-	158
-	-	-	-	13,969
-	-	-	-	5,686
1,707	704	1,138	654	145,628
257	137	60	-	3,720
-	-	-	-	152,590
-	-	-	-	3,271
-	-	-	-	104,221
-	-	-	-	2,802
-	-	-	-	190
100	75	36	6	1,878
357	212	96	6	268,672
2,064	916	1,234	660	414,300
140	-	4,942	2,061	151,702
7,257	1,984	6,076	4,139	291,854
7,397	1,984	11,018	6,200	443,556
$ 9,461	$ 2,900	$ 12,252	$ 6,860	$ 857,856

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2012
(In Thousands)

	Central Services	Legal Services
Operating Revenues:		
Charges for Services	$ 858,043	$ 66,346
Rents and Royalties	37,539	-
Sales	7,154	31
Other	10,034	67
Total Operating Revenues	912,770	66,444
Operating Expenses:		
Salaries and Wages	60,734	54,535
Services and Supplies	740,350	9,912
Cost of Goods Sold	9,456	-
Distributions to Other Governments	-	185
Special Payments	659	-
Bond and COP Interest	5,003	-
Other Debt Service	91	-
Depreciation and Amortization	27,105	464
Total Operating Expenses	843,398	65,096
Operating Income (Loss)	69,372	1,348
Nonoperating Revenues (Expenses):		
Investment Income	4,436	-
Gain (Loss) on Disposition of Assets	646	-
Insurance Recoveries	1,244	-
Loan Interest Income	41	-
Loan Interest Expense	(12)	(3)
Other Nonoperating Items	(208)	-
Total Nonoperating Revenues (Expenses)	6,147	(3)
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	75,519	1,345
Capital Contributions	69	-
Transfers from Other Funds	145,834	-
Transfers to Other Funds	(26,857)	(2,256)
Change in Net Assets	194,565	(911)
Net Assets - Beginning	232,624	15,385
Prior Period Adjustments	(24,716)	10
Net Assets - Beginning - As Restated	207,908	15,395
Net Assets - Ending	$ 402,473	$ 14,484

Banking Services	Audit Services	Forestry Services	Other	Total
$ 17,414	$ 10,391	$ 2,546	$ 1,966	$ 956,706
-	-	4,655	-	42,194
-	-	418	-	7,603
250	-	1	269	10,621
17,664	10,391	7,620	2,235	1,017,124
9,594	5,633	1,856	110	132,462
6,222	1,267	3,012	1,113	761,876
-	-	-	-	9,456
-	-	-	-	185
-	-	-	-	659
-	-	-	-	5,003
-	-	-	-	91
125	8	1,254	345	29,301
15,941	6,908	6,122	1,568	939,033
1,723	3,483	1,498	667	78,091
-	-	-	-	4,436
-	-	139	-	785
-	-	-	6	1,250
-	-	-	-	41
-	-	-	-	(15)
-	-	-	-	(208)
-	-	139	6	6,289
1,723	3,483	1,637	673	84,380
-	-	-	-	69
-	-	18	58	145,910
(415)	(3,206)	(1,065)	(142)	(33,941)
1,308	277	590	589	196,418
6,089	1,707	10,428	5,611	271,844
-	-	-	-	(24,706)
6,089	1,707	10,428	5,611	247,138
$ 7,397	$ 1,984	$ 11,018	$ 6,200	$ 443,556

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012
(In Thousands)

	Central Services	Legal Services
Cash Flows from Operating Activities:		
Receipts from Customers	$ 591,289	$ 17,790
Receipts from Other Funds for Services	291,994	51,577
Payments to Employees for Services	(66,572)	(56,389)
Payments to Suppliers	(705,564)	(9,809)
Payments to Other Funds for Services	(28,917)	(4,350)
Claims Paid	(20,473)	-
Distributions to Other Governments	-	(244)
Other Receipts (Payments)	53,374	(334)
Net Cash Provided (Used) in Operating Activities	115,131	(1,759)
Cash Flows from Noncapital Financing Activities:		
Insurance Recoveries Other than Capital Assets	32	-
Transfers from Other Funds	145,724	-
Transfers to Other Funds	(38,528)	(6,002)
Net Cash Provided (Used) in Noncapital Financing Activities	107,228	(6,002)
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Bond/COP Sales	31,397	-
Principal Payments on Bonds/COPS	(45,050)	-
Interest Payments on Bonds/COPS	(5,481)	-
Bond/COP Issuance Costs	(306)	-
Repayments on Advances Received	34	-
Interest on Advances	41	-
Principal Payments on Loans	(83)	-
Interest Payments on Loans	(12)	(3)
Acquisition of Capital Assets	(19,677)	(404)
Payments on Capital Leases	-	(8)
Proceeds from Disposition of Capital Assets	981	-
Insurance Recoveries for Capital Assets	1,222	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(36,934)	(415)
Cash Flows from Investing Activities:		
Purchases of Investments	(33,524)	-
Proceeds from Sales and Maturities of Investments	20,242	-
Interest on Investments and Cash Balances	1,930	-
Interest Income from Securities Lending	387	-
Interest Expense from Securities Lending	(208)	-
Net Cash Provided (Used) in Investing Activities	(11,173)	-
Net Increase (Decrease) in Cash and Cash Equivalents	174,252	(8,176)
Cash and Cash Equivalents - Beginning	199,581	17,712
Prior Period Adjustments Restating Beginning Cash Balances	100	-
Cash and Cash Equivalents - Ending	$ 373,933	$ 9,536

Banking Services	Audit Services	Forestry Services	Other	Total
$ -	$ -	$ -	$ -	$ 609,079
18,098	10,064	7,042	1,921	380,696
(9,943)	(5,822)	(1,916)	(125)	(140,767)
(4,870)	(800)	(2,843)	(897)	(724,783)
(1,177)	(408)	(137)	(221)	(35,210)
-	-	-	-	(20,473)
-	-	-	-	(244)
-	-	1	265	53,306
2,108	3,034	2,147	943	121,604
-	-	-	-	32
-	-	18	58	145,800
-	(2,977)	(992)	(138)	(48,637)
-	(2,977)	(974)	(80)	97,195
-	-	-	-	31,397
-	-	-	-	(45,050)
-	-	-	-	(5,481)
-	-	-	-	(306)
-	-	-	-	34
-	-	-	-	41
-	-	-	-	(83)
-	-	-	-	(15)
(136)	-	(1,502)	(398)	(22,117)
-	-	-	-	(8)
-	-	113	-	1,094
-	-	19	6	1,247
(136)	-	(1,370)	(392)	(39,247)
-	-	-	-	(33,524)
-	-	-	-	20,242
-	-	-	-	1,930
-	-	-	-	387
-	-	-	-	(208)
-	-	-	-	(11,173)
1,972	57	(197)	471	168,379
4,427	2,169	5,875	3,575	233,339
-	-	-	-	100
$ 6,399	$ 2,226	$ 5,678	$ 4,046	$ 401,818

(continued on next page)

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012
(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)	$ 69,372	$ 1,348
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	27,105	464
Amortization of Bond/COP Issuance Costs	38	-
Amortization of Bond/COP Premium and Discount	(953)	-
Amortization of Deferred Charges	677	-
Interest Payments Reported as Operating Expense	5,481	-
Bond/COP Issuance Costs Reported as Operating Expense	306	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	8,051	(1,369)
Due from Other Funds	(20)	(1,545)
Inventories	21	21
Prepaid Items	(778)	-
Deferred Charges	(246)	-
Loans Receivable	5	-
Net Contracts, Notes, and Other Receivables	(46)	19
Accounts and Interest Payable	(7,000)	(2,245)
Due to Other Funds	(85)	(38)
Unearned Revenue	17,981	1,267
Compensated Absences Payable	92	222
Claims and Judgments Payable	(4,026)	-
Custodial Liabilities	(1,137)	-
Contracts, Mortgages, and Notes Payable	158	-
Net OPEB Obligation	135	97
Total Adjustments	45,759	(3,107)
Net Cash Provided (Used) by Operating Activities	$ 115,131	$ (1,759)

	Central Services	Legal Services
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	$ 2,232	$ -
Capital Assets Transferred from Governmental Funds	69	-
Capital Leases Entered into During the Year	4,553	80

Banking Services	Audit Services	Forestry Services	Other	Total
$ 1,723	$ 3,483	$ 1,498	$ 667	$ 78,091
125	8	1,254	345	29,301
-	-	-	-	38
-	-	-	-	(953)
-	-	-	-	677
-	-	-	-	5,481
-	-	-	-	306
797	(326)	(577)	(49)	6,527
-	-	-	-	(1,565)
(6)	-	(9)	-	27
-	2	-	-	(776)
-	-	-	-	(246)
-	-	-	-	5
-	-	-	-	(27)
(606)	(196)	(35)	(7)	(10,089)
-	-	-	(3)	(126)
-	-	-	-	19,248
60	53	12	(10)	429
-	-	-	-	(4,026)
-	-	-	-	(1,137)
-	-	-	-	158
15	10	4	-	261
385	(449)	649	276	43,513
$ 2,108	$ 3,034	$ 2,147	$ 943	$ 121,604
$ -	$ -	$ -	$ -	$ 2,232
-	-	-	-	69
-	-	-	-	4,633

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 benefits and deferred compensation 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.

Deferred Compensation Plan Fund

This fund accounts for the activities of the Oregon Savings Growth Plan, an Internal Revenue Code Section 457 deferred compensation plan, offered to employees of the State and administered by the Public Employees Retirement System.

This page intentionally left blank.

Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2012
(In Thousands)

	Pension Trust Funds	
	Public Employees Defined Benefit Pension Plan	**Individual Account Program Defined Contribution Pension Plan**
ASSETS		
Cash and Cash Equivalents	$ 1,649,293	$ 172,678
Investments:		
Fixed Income	13,227,221	1,091,875
Equity	18,561,756	1,469,845
Real Estate	6,216,324	513,143
Private Equity	13,373,159	1,103,922
Alternative Equity	377,224	31,139
Opportunity Portfolio	858,698	70,883
Total Investments	52,614,382	4,280,807
Securities Lending Collateral	2,247,245	186,303
Receivables:		
Employer Contributions	27,673	-
Plan Member Contributions	-	12,106
Interest and Dividends	309,045	25,511
Member Loans	-	-
Investment Sales	1,098,606	90,500
Benefit Recoveries	110,516	-
From Other Funds	1,674	5,724
Total Receivables	1,547,514	133,841
Prepaid Items	6,986	487
Capital Assets (net of $12,467 accumulated depreciation):		
Land	944	-
Buildings, Property, and Equipment	38,638	378
Total Assets	58,105,002	4,774,494
LIABILITIES		
Accounts and Interest Payable	2,072,267	185,581
Obligations Under Securities Lending	2,261,127	187,449
Due to Other Funds	6,308	1,139
Deferred Revenue	299	-
Custodial Liabilities	102,149	8,128
Bonds/COPs Payable	3,072	-
Net OPEB Obligation	357	77
Total Liabilities	4,445,579	382,374
NET ASSETS		
Held in Trust for:		
Pension Benefits	53,659,423	4,392,120
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Total Net Assets	$ 53,659,423	$ 4,392,120

Other Employee Benefit Trust Funds: Other Postemployment Benefits: Retirement Health Insurance Account OPEB Plan	Other Employee Benefit Trust Funds: Other Postemployment Benefits: Retiree Health Insurance Premium Account OPEB Plan	Other Employee Benefit Trust Funds: Deferred Compensation Plan	Total
$ 12,416	$ 448	$ 69,063	$ 1,903,898
65,142	1,050	256,700	14,641,988
87,693	1,413	798,275	20,918,982
30,615	493	-	6,760,575
65,861	1,061	-	14,544,003
1,858	30	-	410,251
4,229	68	-	933,878
255,398	4,115	1,054,975	58,209,677
11,183	189	216	2,445,136
1,474	41	-	29,188
-	-	-	12,106
1,522	25	315	336,418
-	-	9,732	9,732
5,404	87	79	1,194,676
-	-	-	110,516
664	31	120	8,213
9,064	184	10,246	1,700,849
29	-	-	7,502
-	-	-	944
-	-	-	39,016
288,090	4,936	1,134,500	64,307,022
10,156	164	521	2,268,689
11,252	190	216	2,460,234
101	22	184	7,754
-	-	-	299
-	-	-	110,277
-	-	-	3,072
1	1	11	447
21,510	377	932	4,850,772
-	-	-	58,051,543
266,580	4,559	-	271,139
-	-	1,133,568	1,133,568
$ 266,580	$ 4,559	$ 1,133,568	$ 59,456,250

Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2012
(In Thousands)

	Pension Trust Funds	
	Public Employees Defined Benefit Pension Plan	**Individual Account Program Defined Contribution Pension Plan**
ADDITIONS		
Contributions:		
Employer	$ 830,123	$ -
Plan Members	16,535	516,175
Total Contributions	846,658	516,175
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	(786,652)	(37,009)
Interest, Dividends, and Other Investment Income	1,473,399	137,405
Total Investment Income	686,747	100,396
Less Investment Expense	308,262	28,880
Net Investment Income	378,485	71,516
Other Income	2,265	20
Total Additions	1,227,408	587,711
DEDUCTIONS		
Pension Benefits	3,291,792	224,730
Death Benefits	3,918	-
Contributions Refunded	34,020	-
Healthcare Premium Subsidies	-	-
Deferred Compensation Benefits	-	-
Administrative Expenses	33,104	7,698
Total Deductions	3,362,834	232,428
Change in Net Assets Held in Trust For:		
Pension Benefits	(2,135,426)	355,283
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Net Assets - Beginning	55,794,849	4,036,837
Net Assets - Ending	$ 53,659,423	$ 4,392,120

Other Employee Benefit Trust Funds: Other Postemployment Benefits: Retirement Health Insurance Account OPEB Plan	Other Employee Benefit Trust Funds: Other Postemployment Benefits: Retiree Health Insurance Premium Account OPEB Plan	Other Employee Benefit Trust Funds: Deferred Compensation Plan	Total
$ 46,465	$ 3,378	$ -	$ 879,966
-	-	80,633	613,343
46,465	3,378	80,633	1,493,309
(2,520)	(83)	3,265	(822,999)
7,012	125	8,274	1,626,215
4,492	42	11,539	803,216
1,469	25	2,572	341,208
3,023	17	8,967	462,008
-	-	875	3,160
49,488	3,395	90,475	1,958,477
-	-	-	3,516,522
-	-	-	3,918
-	-	-	34,020
29,936	3,886	-	33,822
-	-	61,465	61,465
963	72	418	42,255
30,899	3,958	61,883	3,692,002
-	-	-	(1,780,143)
18,589	(563)	-	18,026
-	-	28,592	28,592
247,991	5,122	1,104,976	61,189,775
$ 266,580	$ 4,559	$ 1,133,568	$ 59,456,250

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, 2012
(In Thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Custodial Assets	$ 1,602,565	$ 1,943,447	$ 1,935,293	$ 1,610,719
Accounts and Interest Receivable	11,063	422	6,335	5,150
Net Contracts, Notes, and Other Receivables	108,661	36,626	52,204	93,083
Receivership Assets	64,097	-	2,526	61,571
Total Assets	$ 1,786,386	$ 1,980,495	$ 1,996,358	$ 1,770,523
LIABILITIES				
Accounts and Interest Payable	$ 40	$ 459,617	$ 459,653	$ 4
Due to Other Governments	5,684	7,308	5,684	7,308
Custodial Liabilities	1,780,662	1,441,024	1,458,475	1,763,211
Total Liabilities	$ 1,786,386	$ 1,907,949	$ 1,923,812	$ 1,770,523

Statistical Section

This page intentionally left blank.

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.

Revenue Capacity

These schedules contain information to help the reader assess the State's most significant revenue source, personal income taxes.

Debt Capacity

These schedules present information concerning the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules provide demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.

Operating Information

These schedules present 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.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

Schedule 1
NET ASSETS BY COMPONENT
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

	2003	2004	2005	2006
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	$ 9,928,983	$ 9,555,705	$ 9,151,443	$ 8,901,594
Restricted	342,793	334,292	904,848	1,021,026
Unrestricted	131,349	(2,158,668)	155,880	1,116,586
Total Governmental Acitivities Net Assets	$ 10,403,125	$ 7,731,329	$ 10,212,171	$ 11,039,206
Business-type Activities				
Invested in Capital Assets, Net of Related Debt	$ 579,928	$ 549,148	$ 562,325	$ 594,247
Restricted	2,453,241	2,233,534	2,550,548	2,857,577
Unrestricted	223,601	527,165	570,121	584,655
Total Business-type Activities Net Assets	$ 3,256,770	$ 3,309,847	$ 3,682,994	$ 4,036,479
Primary Government				
Invested in Capital Assets, Net of Related Debt	$ 10,508,911	$ 10,104,853	$ 9,713,768	$ 9,495,841
Restricted	2,796,034	2,567,826	3,455,396	3,878,603
Unrestricted	354,950	(1,631,503)	726,001	1,701,241
Total Primary Government Net Assets	$ 13,659,895	$ 11,041,176	$ 13,895,165	$ 15,075,685

Schedule 1 (continued)
NET ASSETS BY COMPONENT
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

2007	2008	2009	2010	2011	2012
$ 8,696,793	$ 8,554,126	$ 9,094,498	$ 8,672,407	$ 8,107,685	$ 8,888,097
1,098,817	950,491	1,126,942	1,287,403	2,582,708	3,143,955
1,077,586	954,809	(99,401)	(82,337)	138,387	(840,528)
$ 10,873,196	$ 10,459,426	$ 10,122,039	$ 9,877,473	$ 10,828,780	$ 11,191,524
$ 756,814	$ 807,968	$ 897,150	$ 977,224	$ 1,195,629	$ 1,383,060
2,998,195	3,177,420	2,399,089	556,589	670,672	505,991
640,968	656,919	677,037	2,201,451	2,378,452	2,778,815
$ 4,395,977	$ 4,642,307	$ 3,973,276	$ 3,735,264	$ 4,244,753	$ 4,667,866
$ 9,453,607	$ 9,362,094	$ 9,991,648	$ 9,649,631	$ 9,303,314	$ 10,271,157
4,097,012	4,127,911	3,526,031	1,843,992	3,253,380	3,649,946
1,718,554	1,611,728	577,636	2,119,114	2,516,839	1,938,287
$ 15,269,173	$ 15,101,733	$ 14,095,315	$ 13,612,737	$ 15,073,533	$ 15,859,390

Schedule 2
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

	2003	2004	2005	2006
Expenses				
Governmental activities:				
Education	$ 2,915,016	$ 3,485,891	$ 3,204,580	$ 3,622,117
Human Services	4,348,175	4,276,235	4,675,846	4,873,613
Public Safety	842,881	857,643	928,483	1,008,285
Economic and Community Development	328,202	296,497	340,653	311,713
Natural Resources	523,941	488,514	582,788	541,084
Transportation	1,417,844	1,410,741	1,882,649	1,598,419
Consumer and Business Services	278,486	388,336	282,875	394,886
Administration	700,611	2,693,591	622,036	640,561
Legislative	30,717	25,480	31,447	29,602
Judicial	205,874	239,773	249,036	271,714
Interest on Long-term Debt	4,106	164,461	254,840	242,664
Total governmental activities expenses	11,595,853	14,327,162	13,055,233	13,534,658
Business-type activities:				
Housing and Community Services	93,326	88,653	89,583	93,288
Veterans' Loan	73,663	59,106	51,479	49,730
Lottery Operations	505,038	494,628	504,102	525,277
Unemployment Compensation	1,287,629	1,106,005	577,396	535,190
University System	1,605,464	1,617,687	1,729,107	1,858,254
State Hospitals	N/A	N/A	162,651	166,810
Liquor Control	N/A	N/A	237,604	263,725
Other Business-type Activities	411,495	442,676	75,182	76,804
Total business-type activities expenses	3,976,615	3,808,755	3,427,104	3,569,078
Total primary government expenses	$ 15,572,468	$ 18,135,917	$ 16,482,337	$ 17,103,736
Program Revenues				
Governmental activities:				
Charges for Services:				
Human Services	$ 196,489	$ 139,353	$ 221,522	$ 298,666
Public Safety	37,561	138,377	35,107	70,979
Natural Resources	293,441	252,952	270,465	284,857
Transportation	103,888	106,598	129,351	108,552
Consumer and Business Services	130,866	152,899	158,999	202,305
Administration	72,910	94,970	203,275	214,866
Judicial	137,126	78,870	29,522	130,549
Other governmental activities	35,716	41,379	32,442	26,909
Operating Grants and Contributions	4,452,645	4,378,480	4,850,141	4,952,825
Capital Grants and Contributions	3,414	5,869	6,566	14,992
Total governmental activities program revenues	5,464,056	5,389,747	5,937,390	6,305,500

Schedule 2 (continued)
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

2007	2008	2009	2010	2011	2012
$ 3,761,800	$ 4,174,928	$ 4,224,991	$ 4,303,106	$ 3,979,440	$ 4,061,791
4,814,964	5,316,540	6,057,047	6,861,998	7,535,059	8,186,498
1,023,202	1,183,931	1,185,507	1,199,579	1,180,405	1,235,617
335,103	355,133	397,032	455,453	480,196	416,683
580,778	613,329	658,553	593,122	629,222	619,535
1,709,786	2,251,391	2,249,632	1,858,705	1,566,210	1,394,815
340,266	461,015	408,803	463,489	424,534	263,541
467,931	570,903	470,583	474,624	376,821	349,555
36,660	39,142	44,683	33,012	37,801	34,839
286,460	311,828	307,916	308,574	313,886	326,803
265,100	315,530	297,308	299,467	351,713	367,826
13,622,050	15,593,670	16,302,055	16,851,129	16,875,287	17,257,503
98,683	100,706	91,010	84,337	78,194	75,879
53,279	46,652	26,855	19,685	19,365	18,628
564,110	573,203	537,332	518,076	510,401	534,018
546,970	687,363	1,875,259	3,020,372	2,306,502	1,729,355
1,893,227	1,808,424	1,948,793	2,003,668	2,146,867	2,300,493
184,513	203,818	215,576	222,311	248,072	270,793
284,298	307,380	314,563	312,980	325,410	344,540
76,911	75,134	87,977	89,505	269,217	268,659
3,701,991	3,802,680	5,097,365	6,270,934	5,904,028	5,542,365
$ 17,324,041	$ 19,396,350	$ 21,399,420	$ 23,122,063	$ 22,779,315	$ 22,799,868
$ 215,222	$ 230,058	$ 250,524	$ 237,722	$ 289,686	$ 531,658
48,170	67,869	94,613	75,511	80,842	141,432
325,638	300,685	282,380	313,587	285,394	306,336
104,830	153,423	138,400	115,507	138,383	140,219
239,561	258,299	313,602	276,359	270,467	69,000
230,328	282,977	111,537	107,625	115,365	96,006
132,447	136,327	158,736	145,548	185,523	99,052
32,829	32,467	28,662	37,507	38,068	42,502
5,097,007	5,162,489	6,017,307	7,691,076	8,324,841	7,400,703
21,718	27,611	86,563	45,398	97,682	37,134
6,447,750	6,652,205	7,482,324	9,045,840	9,826,251	8,864,042

(continued on next page)

Schedule 2 (continued)
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

	2003	2004	2005	2006
Business-type activities:				
Charges for Services:				
Lottery Operations	853,812	892,672	938,370	1,093,196
Unemployment Compensation	588,003	726,680	783,594	758,350
University System	663,214	735,556	799,122	860,042
Liquor Control	N/A	N/A	313,308	349,454
Other Business-type Activities	526,603	507,666	210,964	192,481
Operating Grants and Contributions	1,196,853	908,594	770,971	803,972
Capital Grants and Contributions	-	-	-	-
Total business-type activities program revenues	3,828,485	3,771,168	3,816,329	4,057,495
Total primary government program revenues	$ 9,292,541	$ 9,160,915	$ 9,753,719	$ 10,362,995
Net (Expense)/Revenue				
Governmental activities	$ (6,131,797)	$ (8,937,415)	$ (7,117,843)	$ (7,229,158)
Business-type activities	(148,130)	(37,587)	389,225	488,417
Total primary government net expense	$ (6,279,927)	$ (8,975,002)	$ (6,728,618)	$ (6,740,741)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Personal Income Taxes	$ 4,073,262	$ 4,294,369	$ 4,746,727	$ 5,404,020
Corporate Income Taxes	220,175	314,510	211,016	443,425
Tobacco Taxes	255,482	252,885	255,035	254,836
Healthcare Provider Taxes	N/A	N/A	N/A	131,371
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	369,614	412,531	503,666	419,786
Motor Fuels Taxes	406,736	406,317	407,729	417,916
Weight Mile Taxes	213,935	224,078	253,419	266,221
Vehicle Registration Taxes	120,711	165,270	204,787	207,581
Workers' Compensation Insurance Taxes	N/A	N/A	N/A	N/A
Employer-Employee Taxes	252,810	249,822	266,688	281,974
Unrestricted Investment Earnings	29,737	11,134	44,662	37,934
Contributions to Permanent Fund	-	4,701	11,453	-
Capital Contributions	1,736	389	407	1,473
Transfers	16,428	(44,272)	31,901	124,307
Total governmental activities	5,960,626	6,291,734	6,937,490	7,990,844
Business-type activities:				
Other Taxes	13,327	13,666	13,964	14,851
Capital Contributions	658	660	700	855
Additions to Permanent Endowments	-	-	-	2,580
Special Items	-	21,868	-	-
Transfers	(16,428)	44,272	(31,901)	(124,307)
Total business-type activities	(2,443)	80,466	(17,237)	(106,021)
Total primary government	$ 5,958,183	$ 6,372,200	$ 6,920,253	$ 7,884,823
Change in Net Assets				
Governmental activities	$ (171,171)	$ (2,645,681)	$ (180,353)	$ 761,686
Business-type activities	(150,573)	42,879	371,988	382,396
Total primary government	$ (321,744)	$ (2,602,802)	$ 191,635	$ 1,144,082

Schedule 2 (continued)
CHANGES IN NET ASSETS
Last Ten Fiscal Years (In Thousands)
(Accrual basis of accounting)

2007	2008	2009	2010	2011	2012
1,203,821	1,229,486	1,100,228	1,027,735	1,038,805	1,050,315
676,838	638,186	662,346	859,790	1,022,592	1,083,438
887,183	954,039	1,003,897	1,156,843	1,288,143	1,356,609
379,741	406,421	418,559	425,374	443,120	470,421
217,402	213,758	236,151	267,585	431,470	436,945
891,998	664,179	1,064,383	2,238,266	1,986,426	1,621,254
-	-	87,425	108,257	60,081	36,770
4,256,983	4,106,069	4,572,989	6,083,850	6,270,637	6,055,752
$ 10,704,733	$ 10,758,274	$ 12,055,313	$ 15,129,690	$ 16,096,888	$ 14,919,794
$ (7,174,300)	$ (8,941,465)	$ (8,819,731)	$ (7,805,289)	$ (7,049,036)	$ (8,393,461)
554,992	303,389	(524,376)	(187,084)	366,609	513,387
$ (6,619,308)	$ (8,638,076)	$ (9,344,107)	$ (7,992,373)	$ (6,682,427)	$ (7,880,074)
$ 4,486,068	$ 6,102,900	$ 5,182,743	$ 4,958,569	$ 5,597,821	$ 5,901,448
518,260	448,010	253,685	387,639	502,862	440,444
276,419	254,524	250,243	250,135	258,453	249,388
128,199	154,460	143,535	192,077	233,826	423,951
81,068	116,186	77,622	91,845	80,482	102,351
84,455	89,621	88,295	80,790	71,939	72,310
55,463	42,721	46,952	70,291	90,085	94,583
106,101	123,907	140,726	144,931	119,882	156,256
416,792	413,858	399,048	406,179	449,462	492,188
256,000	237,296	210,055	208,573	240,056	260,091
205,205	201,245	185,202	245,699	275,344	281,799
47,745	40,733	36,635	30,065	34,942	53,669
77,504	76,576	71,119	65,977	69,429	71,977
90,210	81,815	17,717	3,193	3,306	11,157
4,192	-	259	288	14	76
2,853	4,482	-	-	-	-
214,557	154,510	157,663	129,016	(62,910)	125,915
7,051,091	8,542,844	7,261,499	7,265,267	7,964,993	8,737,603
15,203	16,086	16,340	16,754	16,204	16,893
3,615	71,716	-	-	-	-
70	-	-	-	-	159
-	-	-	-	-	-
(214,557)	(154,510)	(157,663)	(129,016)	62,910	(125,915)
(195,669)	(66,708)	(141,323)	(112,262)	79,114	(108,863)
$ 6,855,422	$ 8,476,136	$ 7,120,176	$ 7,153,005	$ 8,044,107	$ 8,628,740
$ (123,209)	$ (398,621)	$ (1,558,232)	$ (540,022)	$ 915,957	$ 344,142
359,323	236,681	(665,699)	(299,346)	445,723	404,524
$ 236,114	$ (161,940)	$ (2,223,931)	$ (839,368)	$ 1,361,680	$ 748,666

Schedule 3
FUND BALANCE – GOVERNMENTAL FUNDS
Last Ten Fiscal Years (In Thousands)
(Modified accrual basis of accounting)

	2003	2004	2005
General Fund			
Reserved	$ 83,063	$ 157,183	$ 63,788
Unreserved	19,298	(501,913)	237,769
Total General Fund	$ 102,361	$ (344,730)	$ 301,557
All Other Governmental Funds			
Reserved	$ 760,307	$ 799,074	$ 785,135
Unreserved, reported in:			
Special revenue funds	1,414,757	1,517,921	1,911,255
Capital projects fund	32,073	37,305	64,405
Permanent fund	3,875	5,823	5,749
Total all other governmental funds	$ 2,211,012	$ 2,360,123	$ 2,766,544

Restricted Balances

	2011	2012
General Fund		
Nonspendable	$ 79,891	$ 33,361
Restricted	36,882	109,458
Committed	10,400	61,534
Assigned	7,864	-
Unassigned	109,117	(162,867)
Total General Fund	$ 244,154	$ 41,486
All Other Governmental Funds		
Nonspendable	$ 195,575	$ 82,991
Restricted	3,974,045	3,988,266
Committed	503,597	545,040
Assigned	29,146	37,476
Total all other governmental funds	$ 4,702,363	$ 4,653,773

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)
$ 822,449	$ 183,896	$ 203,918	$ (304,756)	$ (507,344)
$ 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
$ 3,588,544	$ 4,667,060	$ 4,659,079	$ 4,739,977	$ 5,029,288

Schedule 4
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
Last Ten Fiscal Years (In Thousands)
(Modified accrual basis of accounting)

	2003	2004	2005	2006
Revenues				
Taxes	$ 5,836,554	$ 6,303,389	$ 6,817,329	$ 7,839,265
Licenses and Fees	286,619	312,609	369,626	389,766
Federal	4,160,747	4,233,648	4,608,759	4,661,448
Charges for Services	234,459	214,485	223,109	228,606
Fines and Forfeitures	91,349	116,191	68,399	89,559
Rents and Royalties	6,015	7,244	20,226	16,387
Investment Income	98,185	76,594	205,808	253,152
Sales	110,945	111,905	125,399	128,945
Donations and Grants	138,599	12,409	13,447	20,637
Contributions to Permanent Funds	-	4,701	11,453	-
Tobacco Settlement Proceeds	85,255	72,065	73,142	67,145
Foreclosure Settlement Proceeds	N/A	N/A	N/A	N/A
Pension Bond Debt Service Assessments	-	21,579	121,895	119,778
Unclaimed Property Revenue	-	-	-	-
Other	244,775	288,622	275,937	360,081
Total Revenues	11,293,502	11,775,441	12,934,529	14,174,769
Expenditures				
Education	2,900,408	3,484,917	3,203,813	3,620,721
Human Services	4,347,675	4,269,562	4,665,643	4,877,485
Public Safety	783,712	842,487	905,510	984,969
Economic and Community Development	319,732	298,654	341,807	309,614
Natural Resources	508,367	484,410	573,781	538,831
Transportation	1,184,102	1,266,474	1,767,779	1,461,987
Consumer and Business Services	325,140	338,971	362,765	381,576
Administration	652,000	663,545	587,665	626,743
Legislative	29,637	25,181	30,688	29,381
Judicial	204,908	239,157	250,438	270,927
Capital Improvements/Construction	63,726	32,576	83,784	114,088
Debt Service:				
Principal	88,379	85,736	131,004	131,702
Interest	113,765	164,461	266,330	238,247
Other Debt Service	5,610	10,773	4,959	4,823
Total Expenditures	11,527,161	12,206,904	13,175,966	13,591,094
Excess of Revenues Over (Under) Expenditures	(233,659)	(431,463)	(241,437)	583,675
Other Financing Sources (Uses)				
Transfers from Other Funds	1,691,017	1,292,842	1,596,919	1,655,297
Transfers to Other Funds	(1,670,815)	(3,413,477)	(1,474,364)	(1,530,001)
Insurance Recoveries	-	-	-	1,432
Debt Issued	704,710	2,241,043	593,065	586,744
Refunding Debt Issued	60,130	127,577	21,625	29,610
Leases Incurred	107	-	3,939	-
Refunded Debt Payment to Escrow Agent	(62,543)	(144,206)	(130,389)	(38,777)
Total Other Financing Sources (Uses)	722,606	103,779	610,795	704,305
Net Change in Fund Balances	$ 488,947	$ (327,684)	$ 369,358	$ 1,287,980
Debt service as a percentage of noncapital expenditures	1.84%	2.14%	3.17%	2.84%

Schedule 4 (continued)
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
Last Ten Fiscal Years (In Thousands)
(Modified accrual basis of accounting)

2007	2008	2009	2010	2011	2012
$ 6,783,293	$ 8,259,483	$ 7,004,715	$ 7,123,205	$ 7,952,882	$ 8,570,880
407,044	438,508	450,855	486,159	515,591	470,480
4,670,353	4,973,781	6,044,251	7,413,272	7,971,721	7,251,929
249,069	307,778	269,196	275,885	289,562	372,361
101,714	100,175	87,915	88,718	81,049	137,354
15,092	18,185	15,779	14,428	14,930	15,645
438,158	168,314	(95,131)	198,153	270,265	51,831
127,808	125,282	107,427	106,400	97,178	91,906
33,525	36,940	71,339	24,552	57,757	24,135
4,192	-	259	288	14	76
70,281	90,297	98,078	82,327	77,426	78,940
N/A	N/A	N/A	N/A	N/A	25,253
120,139	121,035	4,509	6,216	5,608	5,681
-	-	-	13,716	50,827	15,308
328,888	354,518	345,339	298,061	342,268	440,679
13,349,556	14,994,296	14,404,531	16,131,380	17,727,078	17,552,458
3,762,869	4,174,922	4,224,170	4,304,099	3,978,423	4,062,244
4,825,597	5,347,990	6,120,267	7,031,421	7,716,623	8,268,743
1,016,728	1,175,881	1,170,452	1,177,382	1,158,601	1,219,852
333,064	354,396	397,936	456,169	483,292	416,395
603,695	629,624	658,484	600,470	656,626	623,461
1,656,189	1,636,160	1,709,819	1,898,077	1,956,722	1,569,039
424,068	466,917	480,212	446,994	463,899	281,556
436,933	526,691	417,348	435,164	399,918	343,256
35,711	37,456	39,977	32,036	36,058	33,289
288,445	311,716	317,665	310,468	317,297	336,099
123,885	78,195	90,695	121,440	127,409	129,337
136,294	179,171	229,599	264,679	300,823	331,581
259,986	306,488	288,892	315,650	354,718	350,874
5,588	2,320	8,162	9,248	4,961	6,817
13,909,052	15,227,927	16,153,678	17,403,297	17,955,370	17,972,543
(559,496)	(233,631)	(1,749,147)	(1,271,917)	(228,292)	(420,085)
2,212,181	2,215,963	2,407,080	2,450,401	2,813,236	2,361,835
(1,997,976)	(2,058,113)	(2,216,338)	(2,277,548)	(2,607,036)	(2,232,819)
3,718	4,046	5,002	2,476	3,140	676
786,524	99,721	1,166,080	1,058,693	425,955	265,197
200,745	14,310	33,997	106,354	112,876	502,389
-	134	17	558	18	-
(210,383)	(15,036)	(35,261)	(182,531)	(129,074)	(574,833)
994,809	261,025	1,360,577	1,158,403	619,115	322,445
$ 435,313	$ 27,394	$ (388,570)	$ (113,514)	$ 390,823	$ (97,640)
3.03%	3.24%	3.27%	3.55%	3.85%	3.95%

Schedule 5
PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(In Thousands)

	2002	2003	2004	2005
Farm earnings	$ 829,111	$ 1,133,222	$ 1,266,992	$ 1,251,155
Forestry, fishing, and related activities	1,268,658	1,312,549	1,331,352	1,285,359
Mining	108,317	110,338	129,145	149,690
Utilities	493,940	499,151	544,222	493,631
Construction	5,519,066	5,420,905	5,735,371	6,300,773
Manufacturing	11,477,755	11,692,933	12,444,768	12,995,354
Wholesale trade	4,684,768	4,932,924	5,369,704	5,727,877
Retail trade	6,012,167	6,143,951	6,427,161	6,720,002
Transportation and warehousing	2,699,411	2,794,115	3,032,861	3,237,643
Information	2,152,139	2,232,758	2,347,099	2,361,907
Finance and insurance	3,910,658	4,203,121	4,207,548	4,549,970
Real estate, rental, and leasing	1,786,438	1,798,816	1,797,189	1,914,613
Professional, scientific, and technical	5,062,805	5,032,742	5,451,694	5,844,322
Management of companies	1,988,387	2,082,404	2,192,056	2,388,593
Administrative & waste mgmt. services	2,803,570	2,856,657	2,960,600	3,272,372
Educational services	765,148	825,098	940,048	970,480
Health care and social assistance	7,885,861	8,546,013	9,193,333	9,663,907
Arts, entertainment, and recreation	728,496	707,968	703,050	704,638
Accommodation and food services	2,449,514	2,592,964	2,771,718	2,923,274
Other services	3,080,209	3,128,763	3,331,909	3,638,057
Federal government, civilian	2,208,127	2,318,754	2,483,111	2,556,461
Military	344,069	465,924	495,087	562,473
State government	3,166,059	3,350,143	4,075,149	2,937,564
Local government	9,190,074	9,747,125	8,167,816	8,789,153
Other[1]	24,075,056	24,557,572	25,574,851	26,394,808
Total personal income	$ 104,689,803	$ 108,486,910	$ 112,973,834	$ 117,634,076
Overall effective tax rate[2]	5.5%	5.6%	5.7%	5.7%

[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 2011 will not be available until May 2013.

Source: US Department of Commerce, Bureau of Economic Analysis and the Oregon Department of Revenue.

Schedule 5 (continued)
PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(In Thousands)

2006	2007	2008	2009	2010	2011
$ 1,395,741	$ 1,446,619	$ 1,375,036	$ 1,188,508	$ 1,115,322	$ 1,391,999
1,325,672	1,320,397	1,246,841	1,123,369	1,143,585	1,239,068
176,688	175,259	165,723	124,723	132,555	144,649
578,150	559,584	677,471	633,345	660,296	677,391
7,136,634	7,323,047	7,131,220	5,823,652	5,527,414	5,803,832
13,581,233	13,820,953	13,741,368	11,868,490	12,456,514	13,474,754
6,117,489	6,510,830	6,612,042	6,111,538	6,292,238	6,694,773
7,117,110	7,273,389	6,949,585	6,548,363	6,751,057	6,981,792
3,398,816	3,513,825	3,376,741	3,118,254	3,158,658	3,274,254
2,574,771	2,810,477	3,041,128	2,853,708	2,784,036	2,910,141
4,937,162	4,981,382	4,724,846	4,660,332	4,793,715	4,928,467
1,905,530	1,621,759	2,016,156	1,656,710	1,743,205	1,762,206
6,445,319	6,823,824	7,316,821	6,698,676	6,986,165	7,533,792
2,648,253	2,934,364	2,997,451	2,802,557	2,800,886	2,944,122
3,571,935	3,666,746	3,665,385	3,374,967	3,433,222	3,630,944
1,064,265	1,082,558	1,171,632	1,251,772	1,286,471	1,378,475
10,423,447	11,101,613	11,984,158	12,189,093	12,765,449	13,269,156
753,178	836,956	815,200	774,922	826,327	828,696
3,093,413	3,337,472	3,305,918	3,129,232	3,261,617	3,433,988
3,880,457	3,989,333	3,801,586	3,708,457	3,822,542	3,958,863
2,637,867	2,725,309	2,833,010	2,899,660	3,004,232	3,015,504
536,067	549,063	591,889	680,292	665,739	638,476
3,067,642	3,257,357	3,532,196	3,702,611	3,776,013	3,874,484
9,062,157	9,530,473	10,102,496	10,235,272	10,441,472	10,582,348
29,974,094	32,628,679	37,800,083	36,748,688	38,191,923	40,927,454
$ 127,403,090	$ 133,821,268	$ 140,975,982	$ 133,907,191	$ 137,820,653	$ 145,299,628
5.7%	5.7%	5.5%	5.5%	5.6%	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]
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	5.6%
2011	11.0%	250,000	500,000	N/A

[1] The overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). The overall effective tax rate for 2011 will not be available until May 2013.

[2] The increases in the top tax rate and applicable taxable income level beginning in 2009 are the result of 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 percent.

Source: Oregon Department of Revenue

Schedule 7
PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
Calendar Years 2001 and 2010
(Dollars In Thousands)

2001

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$500,001 and higher	4,373	0.27%	$ 409,445	10.67%
$100,001–$500,000	106,985	6.59%	1,153,348	30.07%
$80,001–$100,000	77,596	4.78%	411,066	10.72%
$60,001–$80,000	146,659	9.03%	561,289	14.63%
$40,001–$60,000	243,168	14.97%	612,345	15.96%
$20,001–$40,000	399,951	24.63%	522,342	13.62%
$10,001–$20,000	284,985	17.55%	133,414	3.48%
$10,000 and lower	360,096	22.18%	32,421	0.85%
Total	1,623,813	100.00%	$ 3,835,670	100.00%

2010

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$500,001 and higher	6,506	0.36%	$ 717,992	14.36%
$100,001–$500,000	191,924	10.71%	1,959,288	39.19%
$80,001–$100,000	112,812	6.30%	529,502	10.59%
$60,001–$80,000	172,125	9.61%	587,536	11.75%
$40,001–$60,000	252,099	14.07%	578,935	11.58%
$20,001–$40,000	409,650	22.86%	481,931	9.64%
$10,001–$20,000	291,852	16.29%	118,970	2.38%
$10,000 and lower	354,712	19.80%	25,219	0.51%
Total	1,791,680	100.00%	$ 4,999,373	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 2010 is the most current year available.

Schedule 8
OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(Dollars In Thousands)

	2003	2004	2005	2006
Governmental Activities				
General Obligation Bonds	$ 163,231	$ 2,347,854	$ 2,336,014	$ 2,321,899
Revenue Bonds	807,478	763,110	1,093,936	1,458,648
Certificates of Participation	779,105	783,180	895,231	1,090,086
General Appropriation Bonds	469,960	466,214	440,372	413,026
Capital Leases	79	47	3,954	3,464
Business-type Activities				
General Obligation Bonds	2,149,557	2,016,631	2,009,091	1,991,627
Revenue Bonds	1,574,960	1,667,734	1,783,305	1,694,009
Certificates of Participation	25,475	18,288	20,633	22,916
Capital Leases	897	527	711	490
Total Primary Government	$ 5,970,742	$ 8,063,585	$ 8,583,247	$ 8,996,165
Percentage of Personal Income [1]	5.50%	7.14%	7.30%	7.06%
Per Capita [1]	$ 1.68	$ 2.26	$ 2.38	$ 2.45

[1] Ratios are calculated using personal income and population data found in Schedule 13.

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.

Schedule 8 (continued)
OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(Dollars In Thousands)

2007	2008	2009	2010	2011	2012
$ 2,334,620	$ 2,325,539	$ 2,361,621	$ 2,333,486	$ 2,656,983	$ 2,977,322
2,098,181	2,040,137	2,770,290	3,326,393	3,344,929	3,234,362
1,090,193	1,081,694	1,283,559	1,496,727	1,295,323	982,314
383,655	351,958	296,002	235,916	171,624	102,779
2,949	2,480	1,899	13,250	9,638	8,489
2,065,472	2,271,016	2,335,703	2,265,774	2,422,682	2,290,038
1,672,267	1,761,874	1,669,920	1,645,617	1,584,235	1,450,979
31,589	31,320	97,097	120,933	111,319	99,766
335	164	137	697	615	556
$ 9,679,261	$ 9,866,182	$ 10,816,228	$ 11,438,793	$ 11,597,348	$ 11,146,605
7.23%	7.00%	8.08%	8.30%	7.98%	7.39%
$ 2.60	$ 2.62	$ 2.84	$ 2.98	$ 3.00	$ 2.87

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
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	3.51%	1.23
2010	4,599,260	3.34%	1.20
2011	5,079,665	3.50%	1.31
2012	5,267,360	3.49%	1.36

[1] Ratios are calculated using personal income and population data found in Schedule 13.

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.

This page intentionally left blank.

Schedule 10
LEGAL DEBT MARGIN CALCULATION
For Fiscal Year 2012

	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	Article XI-E	0.19%	-
Higher Education	Article XI-F(1) & XI-G	1.50%	-
Pollution Control [2]	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

[1] Percentages listed are of Real Market Value (RMV) of all taxable real property in the State, based on the January 1, 2011 RMV of $434,429,247,553.

[2] Issuance of Pollution Control bonds is limited by statute to $260 million at any one time.

[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.

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 estimated net lottery proceeds and changes in estimated debt service on proposed new bonds. Therefore, lottery revenue bonds are not included in this schedule.

Schedule 10 (continued)
LEGAL DEBT MARGIN CALCULATION
For Fiscal Year 2012

Legal Debt Limit	Amount Outstanding	Legal Debt Margin
$ 50,000	$ -	$ 50,000
4,344,292,476	-	4,344,292,476
34,754,339,804	312,033,882	34,442,305,922
6,516,438,713	-	6,516,438,713
814,554,839	-	814,554,839
6,516,438,713	1,678,235,969	4,838,202,744
260,000,000	38,283,296	221,716,704
6,516,438,713	-	6,516,438,713
2,172,146,238	124,376,690	2,047,769,548
2,172,146,238	248,059,867	1,924,086,371
2,172,146,238	-	2,172,146,238
203,175,000	148,823,275	54,351,725
868,858,495	18,382,674	850,475,821
868,858,495	11,194,101	857,664,394
4,344,292,476	1,984,285,000	2,360,007,476
4,344,292,476	703,685,320	3,640,607,156
$ 76,868,468,914	$ 5,267,360,074	$ 71,601,108,840

$ 200,000,000	$ -	$ 200,000,000
3,240,000,000	2,781,093,591	458,906,409
2,500,000,000	1,267,533,812	1,232,466,188
10,000,000	-	10,000,000
$ 5,950,000,000	$ 4,048,627,403	$ 1,901,372,597

Schedule 11
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(Dollars In Thousands)

	2003	2004	2005	2006
General Obligation Bonds				
Debt limit	$ 45,244,118	$ 52,440,336	$ 56,691,300	$ 60,648,799
Total debt applicable to limit	2,312,788	4,364,485	4,345,105	4,313,526
Legal debt margin	$ 42,931,330	$ 48,075,851	$ 52,346,195	$ 56,335,273
Total debt applicable to the limit as a percentage of debt limit	5.11%	8.32%	7.66%	7.11%
Revenue Bonds				
Debt limit	$ 3,110,000	$ 4,838,000	$ 4,838,000	$ 4,938,000
Total debt applicable to limit	1,790,178	1,877,507	2,326,329	2,472,294
Legal debt margin	$ 1,319,822	$ 2,960,493	$ 2,511,671	$ 2,465,706
Total debt applicable to the limit as a percentage of debt limit	57.56%	38.81%	48.08%	50.07%

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)

2007	2008	2009	2010	2011	2012
$ 72,505,925	$ 83,591,921	$ 87,606,697	$ 83,182,525	$ 81,105,231	$ 76,868,469
4,400,092	4,596,555	4,697,324	4,599,259	5,079,665	5,267,360
$ 68,105,833	$ 78,995,366	$ 82,909,373	$ 78,583,266	$ 76,025,566	$ 71,601,109
6.07%	5.50%	5.36%	5.53%	6.26%	6.85%
$ 4,938,000	$ 5,110,000	$ 5,950,000	$ 5,950,000	$ 5,950,000	$ 5,950,000
3,051,456	3,086,639	3,728,117	4,229,615	4,196,478	4,048,627
$ 1,886,544	$ 2,023,361	$ 2,221,883	$ 1,720,385	$ 1,753,522	$ 1,901,373
61.80%	60.40%	62.66%	71.09%	70.53%	68.04%

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 Principal	Interest	Total	Coverage
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
2012	1,068,050	539,942	528,108	77,635	57,150	134,785	3.92

Source: Oregon State Lottery financial statements and the Oregon Department of Administrative Services, Chief Financial Office.

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 Principal	Interest	Total	Coverage
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
2012	566,923	52,070	98,173	150,243	3.77

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
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	140,975,982	37,407	6.5%
2009	3,808,600	133,907,191	35,159	11.1%
2010	3,838,332	137,820,653	35,906	10.7%
2011	3,871,859	145,299,628	37,527	9.5%
2012	3,883,100	150,900,000	38,861	8.7%

[1] Personal income presented in thousands.

Source: Population and personal income figures for 2003 through 2011 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.

Population and personal income estimates for 2012 were provided by the Oregon Office of Economic Analysis.

Schedule 14
EMPLOYMENT BY INDUSTRY
Calendar Year 2011 and Nine Years Prior

	2002		2011	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Farm employment	69,440	3.36%	69,012	3.11%
Forestry, fishing, and related activities	30,433	1.47%	28,731	1.29%
Mining	3,074	0.15%	5,371	0.24%
Utilities	5,336	0.26%	4,753	0.21%
Construction	115,273	5.58%	103,577	4.66%
Manufacturing	212,297	10.28%	181,874	8.19%
Wholesale trade	80,422	3.90%	81,906	3.69%
Retail trade	231,534	11.21%	230,165	10.36%
Transportation and warehousing	63,036	3.05%	62,956	2.83%
Information	41,203	2.00%	39,548	1.78%
Finance and insurance	80,782	3.91%	93,747	4.22%
Real estate, rental, and leasing	76,481	3.71%	104,442	4.70%
Professional and technical services	111,219	5.39%	135,856	6.11%
Management of companies	26,761	1.30%	31,520	1.42%
Administrative and waste services	109,845	5.32%	115,218	5.19%
Educational services	36,835	1.78%	55,534	2.50%
Health care and social assistance	199,018	9.64%	256,708	11.55%
Arts, entertainment, and recreation	42,868	2.08%	53,558	2.41%
Accommodation and food services	140,902	6.82%	157,452	7.09%
Other services	108,739	5.27%	115,152	5.18%
Federal government, civilian	29,009	1.40%	28,837	1.30%
Military	13,151	0.64%	12,391	0.56%
State government	62,022	3.00%	73,219	3.30%
Local government	175,100	8.48%	180,275	8.11%
Total employment	2,064,780	100.00%	2,221,802	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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Education	12,402	12,691	12,691	12,411	12,411	13,117	13,117	13,394	13,394	13,485
Human Services	8,983	9,281	9,281	9,200	9,200	9,753	9,753	11,145	11,145	11,478
Public Safety	8,265	7,810	7,810	8,187	8,187	9,021	9,021	9,069	9,069	8,562
Economic and Community Services	1,940	1,846	1,846	1,753	1,753	1,650	1,650	1,991	1,991	2,358
Natural Resources	4,272	4,163	4,163	4,272	4,272	4,367	4,367	4,332	4,332	4,304
Transportation	4,742	4,602	4,602	4,579	4,579	4,535	4,535	4,554	4,554	4,532
Consumer and Business Services	1,589	1,559	1,559	1,550	1,550	1,593	1,593	1,592	1,592	1,454
Administration	2,736	2,817	2,817	2,879	2,879	2,958	2,958	2,882	2,882	2,809
Legislative Branch	418	394	394	393	393	404	404	381	381	427
Judicial Branch	1,865	1,896	1,896	1,907	1,907	1,975	1,975	1,766	1,766	1,818
Total FTE Positions	47,212	47,059	47,059	47,131	47,131	49,373	49,373	51,106	51,106	51,227

Source: Department of Administrative Services, Chief Financial Office.

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

	2003	2004	2005
Governmental Activities			
Education			
Number of PreK-12 students	554,071	551,407	552,320
Number of FTE community college students	100,023	93,221	92,054
Special education school campuses	2	2	2
Human Services			
Number of individuals eligible for Oregon Health Plan	380,646	359,325	374,751
Average number of basic TANF individuals	41,272	40,598	42,119
Public Safety			
Number of sworn state police officers	699	610	582
Prison inmate population	12,000	12,776	12,875
Number of correctional facilities	12	12	13
Economic and Community Development			
Community development grants provided (in dollars)	12,340,280	13,319,246	11,454,006
Number of technical assistance grants provided	3	6	6
Natural Resources			
Forest acres burned	9,346	5,941	11,588
State park day use visitors (in millions)	38.4	42.4	40.6
Acreage of state parks	95,313	99,030	101,010
Miles of forest roads	3,059	3,082	3,123
Transportation			
Licensed drivers (in millions)	2.8	2.9	3.0
Vehicle miles traveled on state highway system (in billions)	20.8	20.8	20.7
State highway system miles	7,448	7,441	7,426
Number of state owned bridges	2,664	2,670	2,664
Consumer and Business Services			
Number of employers covered by workers' compensation	85,310	86,115	87,150
Historic premiums written for all insurance lines (in billions)	13.7	14.4	15.0
Average bank and credit union assets (in billions)	37.4	37.7	35.4
Construction employment (in thousands)	77.0	82.7	90.8
Administration			
Number of tax returns filed	1,611,785	1,653,203	1,697,166
Percent of returns filed electronically	34.7%	45.3%	50.7%
Uniform rent square footage	1,690,606	1,796,482	1,796,482
Leased office space square footage	3,522,641	3,522,641	3,522,641
Number of motor pool vehicles	3,682	3,605	3,689
Legislative			
Number of bills introduced	2,769	-	2,957
Number of bills becoming law	817	-	844
Length of legislative session (in days)	227	-	208
Capital building	1	1	1
Judicial			
Cases filed in circuit courts	655,574	607,539	611,946
Number of circuit court judges	168	169	169

Sources: Various state agencies

Note: Figures for 2011 and 2012 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

2006	2007	2008	2009	2010	2011	2012
559,215	562,828	566,067	564,064	561,698	561,331	560,951
91,401	91,456	94,587	105,149	121,815	124,988	117,653
2	2	2	2	1	1	1
381,343	365,940	386,662	426,578	495,872	590,406	619,994
40,527	39,096	41,243	48,321	54,994	61,768	70,881
607	557	646	604	660	773	610
13,229	13,497	13,553	13,925	14,021	14,026	14,186
13	13	14	14	14	14	14
17,040,564	9,607,717	10,704,034	2,791,056	15,065,341	8,093,200	12,496,300
8	3	6	5	4	4	5
11,458	54,104	7,860	7,000	6,065	2,272	17,447
40.1	41.4	40.3	40.1	41.2	40.0	40.4
97,340	97,447	97,446	100,379	103,474	105,684	108,613
3,155	3,202	3,225	3,255	3,305	3,377	3,400
3.0	3.1	3.1	3.1	3.0	3.0	N/A
20.7	20.6	19.5	19.8	19.7	19.4	N/A
7,420	7,416	7,415	7,422	7,415	7,403	N/A
2,676	2,666	2,671	2,681	2,693	2,703	2,709
89,685	91,551	92,058	90,400	93,800	99,800	N/A
16.2	17.4	17.9	17.7	17.2	17.5	N/A
46.0	58.7	40.7	42.0	40.5	39.1	N/A
100.9	104.2	94.7	73.9	67.7	68.6	N/A
1,755,568	1,835,095	1,805,843	1,768,397	1,791,680	N/A	N/A
56.0%	60.0%	63.0%	67.0%	75.0%	N/A	N/A
1,810,942	1,896,185	1,904,531	1,953,760	1,953,760	1,954,332	1,954,332
3,784,762	4,372,625	4,425,500	4,532,405	4,676,051	5,104,986	4,518,791
3,814	3,922	3,922	4,247	4,247	4,183	3,993
-	2,744	87	2,613	195	3,021	275
-	909	54	914	105	732	112
1	171	19	169	25	150	34
1	1	1	1	1	1	1
602,896	605,753	610,334	599,605	565,397	552,601	N/A
173	173	173	173	173	173	173

Schedule 16 (continued)
OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION
Last Ten Fiscal Years

	2003	2004	2005
Business-Type Activities			
Housing and Community Services			
Number of low income single family home loans closed	1,014	1,051	1,447
Number of affordable rental units produced	978	1,062	719
Veterans' Loan			
Number of outstanding loans	13,788	10,176	8,013
Percent of delinquent loans	0.54%	0.39%	0.21%
Lottery Operations			
Number of retailers	3,368	3,421	3,484
Number of video terminals	9,434	10,194	10,438
Unemployment Compensation			
Number of claims paid	5,025,707	2,903,857	2,209,165
Amount of claims paid (in millions)	1,277.8	718.1	558.0
University System			
Total headcount enrollment	79,558	80,066	80,888
Degrees awarded	15,274	16,349	16,694
Number of university campuses	7	7	7
State Hospitals			
Number of mental health patient days served	282,675	295,183	304,731
Number of state owned hospital beds	833	810	834
Liquor Control			
Number of state retail outlets	237	239	241
Number of cases sold	1,889,240	2,014,098	2,108,035
Other Business-type Activities			
Number of residents in Oregon Veterans' Home	104	120	132
Number of state owned parking spaces	4,700	4,507	4,507

Schedule 16 (continued)
OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION
Last Ten Fiscal Years

2006	2007	2008	2009	2010	2011	2012
1,149	1,195	1,850	836	171	383	520
608	522	1,003	421	-	144	239
6,612	5,672	4,883	4,069	3,404	2,850	2,408
0.32%	0.25%	0.10%	0.47%	0.73%	1.54%	1.45%
3,579	3,691	3,785	3,855	3,916	3,901	3,907
11,125	11,831	12,205	12,365	12,344	12,202	12,175
1,923,182	2,050,678	3,275,097	8,422,488	8,762,507	6,764,818	N/A
503.4	569.4	954.9	2,688.4	2,704.1	1,953	N/A
81,002	82,249	86,546	91,580	96,960	100,316	101,393
16,979	17,116	16,897	16,944	17,920	18,694	20,209
7	7	7	7	7	7	7
284,265	282,993	284,640	268,052	247,104	232,892	226,104
781	790	788	756	709	719	771
243	241	242	240	243	247	249
2,295,797	2,431,531	2,551,732	2,572,865	2,573,935	2,676,106	2,791,591
135	140	140	138	144	140	140
4,507	4,656	4,665	4,568	4,545	4,544	4,484

This page intentionally left blank.