Oregon University System

2005 Annual Financial Report

Eastern Oregon University | Oregon Institute of Technology
Oregon State University | Portland State University | Southern Oregon University
University of Oregon | Western Oregon University

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You may view this financial report at
http://www.ous.edu/cont-div/reports/annfinst_fy2005.html

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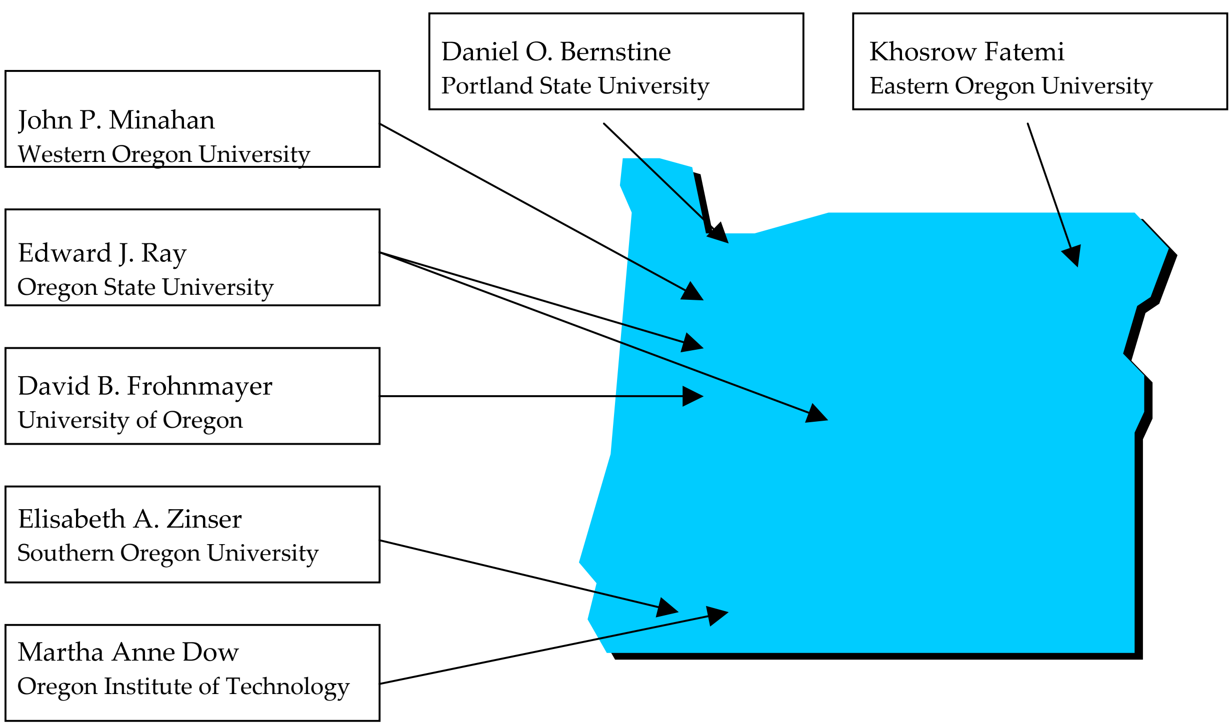


Message from the Chancellor

Oregon is a state where our natural resources have always been tied closely with our economic and civic success. A hundred years ago it was timber, agriculture, shipping, and early innovation in hydroelectric power that helped spur growth and development in the state. Today, we continue to rely heavily on traditional industries as well as "21st Century" industries such as high technology. Yet all of today's engines of economic growth rely on a single, critical "fuel" to keep them sustainable: human capital.

Oregonians themselves are now the most critical, single determiner of economic success in this state. With a decade of experience in the "knowledge economy" and its implications for our local communities, it is clear that improving educational attainment in Oregon is vital for our sustained economic success.

Yet, the challenge remains to find ways to make all Oregonians aware of the changing landscape of the state economy, and how each individual's success is inextricably tied to advancing educational attainment in every community. From the rich wheat fields of eastern Oregon, to the fertile agricultural corridor and silicon "forest" of western Oregon, to the vast cattle ranches and pristine recreational areas of the Klamath Basin, Oregon's success now and in the near future depends on enriching the skills of today's and tomorrow's workforce.

In every state's history, there are windows of opportunity that, if taken, put it on a solid course of economic success for generations. But if missed, the opportunities are taken up by other states, and now, by other countries in our increasingly global and competitive marketplace.

The Oregon University System is poised to seize the opportunities within our reach by meeting the challenges in this new world of commerce and industry, where education and innovation are our most precious commodities.

Oregon's Success Story

Comprised of seven universities and other centers across the state, the Oregon University System is larger, more complex, and more successful than it has ever been in serving the higher education needs of Oregonians. From its first-rate faculty who provide quality learning and research experiences to students, to its offering of almost 350 different academic majors, OUS now prepares more than 16,000 job-ready graduates a year who contribute to the Oregon economy and their local communities.

While there are areas where we continue to push harder for improvement, the Oregon University System is a success story for the state:

- Almost 82,000 students are being educated across Oregon, the highest number in our history. This includes on-campus and distance learning, and 24 university-community college dual enrollment programs throughout the state that provide expanded access and educational options for today's students.

- Graduation and retention rates at our institutions are improving from those of a decade ago. Students are able to stay in college at greater rates, get through faster, and are "job-ready" at graduation, able to meet the employment and economic needs of Oregon.
- OUS faculty bring in nearly $275 million a year in externally funded research contracts, an amount that is approaching the state's annual appropriation to OUS, and a tribute to faculty quality since these grants could go to faculty anywhere in the country, and increasingly, anywhere in the world.
- Oregon's public campuses are helping to transform the state's industries by educating the workforce, and by focusing our world-class research to help the businesses and communities of our state. From traditional industries to emerging ones – including timber, livestock, nurseries, food processing and packaging, to apparel, high technology, nanoscience, and biofuels – OUS is producing innovations and knowledge workers that ensure Oregon's place in the national and global economies in which we now operate.

OUS by the Numbers

Student Enrollment (Headcount) = 80,888 (Fall 2005, 4th week)

Student Diversity = 10,876 or 13.6% students of color (2005 Report)

Degrees Awarded = 16,774 (2004-05; an additional 1,995 certificates were also awarded in 2004-05)

Student Satisfaction = 81.7% (education experience at OUS was excellent or very good, Class of 2003 surveyed in 2004)

Student Persistence = 79.8% (to second year, from 2003-04 to 2004-05)

Student/Faculty Ratio = 27 to 1 (2004-2005, full time faculty)

New Degree Programs Approved = 22 (2004-05)

Dual enrollment programs between Oregon public community colleges and universities = 24 statewide (2004-05)

University Foundations' net worth = $960.6 million (2004-05)

Higher Education Goals Address Economic Needs

This past year was marked by a determined and constant focus by the State Board of Higher Education, the Governor, the Legislature, and the leadership of the Oregon University System on four priority areas that address the state's postsecondary needs: **Access, Affordability, Excellence, and Economic Development**. A student-centered focus guides the work arising from these goals, including initiatives around expanding learning pathways for students, financial assistance and tuition policies, benchmarks and indicators for enhancing quality, economic development partnerships, and initiatives directed at standards alignment that increase student success rates for entering and persisting in college.

Access: Helping students be well prepared for the learning environment of postsecondary education is the first step in ensuring they can reach, stay in, and graduate from college, and contribute to Oregon's economic health. The Board's working group, Excellence in Delivery and Productivity (EDP), worked diligently throughout the year on developing ways to expand advanced placement courses and other college-credit options at high schools across the state. This creates students who are better prepared for college-level work, and reduces the number of credits students must take once in college, thereby saving money and time.

Collaborating with faculty at 2- and 4-year public colleges and universities, the **Oregon Transfer Module** (OTM) was created with unprecedented speed and cooperation among postsecondary sectors. Launched in the fall 2005, this one-year general education module ensures that students do not lose credits when they transfer to another college/university. Expanded community college-university **dual enrollment programs,** which save students money and provide flexible academic options that meet the needs of our diverse students, were also the focus of much effort among the postsecondary sectors throughout 2004-05, and are facilitated by the OTM.

Access also means a barrier-free, continuous education path for students as they move from K-12 into community colleges and universities. This past year marked the reinvigoration of the **Joint Boards of Education**, which brings together the governance boards of K-12 and postsecondary education in Oregon. With a focus on alignment of standards and curriculum, as well as a goal to engage Oregonians in educational planning and funding, the Joint Boards began a comprehensive planning and action agenda for the state. Guided by the Governor and following the direction of the Legislature, the Joint Boards will spend the next few years addressing an aggressive cross-sector agenda that will improve educational quality and outcomes for Oregon students.

Affordability: Oregon continues to face serious affordability issues for postsecondary education, although the significant increase in the state's investment in the Oregon Opportunity Grant and moderating tuition increases have begun to address this. Over the last year, the Board's Access and Affordability Working Group worked with the Governor and education and business leaders to assess and communicate the need for substantial increases in need-based financial aid in Oregon. This work contributed to the Legislature's approval of a 77% increase in **Oregon Opportunity Grant** funding for 2005-2007. This will expand access to Oregon's most needy students, historically those least likely to seek postsecondary education; and will begin to fund part-time students for the first time in fall 2006. Also helping with affordability, the Legislature appropriated $17.5 million to moderate tuition increases proposed in the 2005-2007 budget. With this investment, tuition for OUS undergraduates will increase only 3% each year, a reduction from the 10% increases seen each year of the 2003-2005 biennium.

Excellence: Enhancing quality at our Universities is a primary goal of the OUS. Many system wide and individual campus indicators of quality have been developed and are measured and reported annually. OUS continues to improve on the indicators since the first report in 1999, including receiving high marks from recent graduates on their satisfaction with their education (average quality rating was 4.0 on a 5-point scale, with 5 as "excellent and 1 as "poor"). Graduates report that if they had to begin all over again, 84% would choose the *same* OUS institution, an increase from the 77% in the prior year. Other quality increases in the 2004 report include: freshmen continuing on to their second year; bachelor's degree completion; total degrees awarded; student diversity; research and development support from grants and contracts; engineering and computer science degrees awarded; donations (philanthropy) to campuses; and fall enrollment.

One area that OUS is monitoring closely is faculty salaries, which are below the average of peer institutions. Faculty help the Universities and the state generate knowledge, and they inspire the next generation of leaders, teachers, and contributors in Oregon through teaching and research. Oregon is fortunate to have excellent faculty, but we are at risk of losing some of them in the competitive academic marketplace. The 2003-2005 freeze on faculty salaries has been lifted, and the $1 million provided for faculty recruitment and retention in the 2005-2007 budget will begin a journey to make Oregon more competitive nationally. This is essential to ensure that the faculty of the future is the equal of the excellent faculty of today who serve our students and our state.

Economic Development: The OUS has become a major economic driver in Oregon. From the contributions of our graduates to the state employment and revenue base, to the local economic impacts from our campuses – small cities in themselves – to the commercialization of research, Oregon public universities contribute in tangible and dramatic ways to the state's economic success. Over the last few years, ground-breaking work at the **Oregon Nanoscience and Microtechnologies Institute** (ONAMI) – a collaboration of Oregon State University, Portland State University, University of Oregon and industry partners – and many other research efforts, have directly supported Oregon's economic development needs by turning innovation into products, companies and jobs. With the Legislature's infusion of $7 million in 2005 into ONAMI, combined with a new venture development fund to promote commercialization of university research and business concepts, all seven of our universities are expanding their contributions to the state's economic development.

OUS's **Engineering and Technology Industry Council** (ETIC), a strong public-private partnership for almost ten years, worked hard throughout this past year to ensure a strong pipeline of qualified engineers and computer scientists to meet the demands of Oregon's knowledge economy, and its largest sector, high technology. Its focused efforts on determining geographic and skill shortage areas provide a strong foundation for Oregon-based and new companies to grow their businesses and commitment to the state. While there is still far to go in meeting the state's top level job needs, especially in graduate degree programs, ETIC's work has contributed to more jobs going to highly skilled Oregonians and has decreased the need to import talent from other states and countries.

Throughout the year, the **OSU Agricultural Experiment Station, Extension Service, and Forest Research Laboratory** demonstrated their leadership as primary sources of extending new research and technology to Oregon's natural resource industries. The agriculture and forest industries are responsible for $24.1 billion in annual economic activity, creating 345,000 direct and indirect jobs in the state. Through a recommitment by the state in 2005 to maintain funding for these important economic stimulus programs and support systems, OSU Extension Services will continue its contributions to rural economic development in Oregon's core extraction industries.

Reinvestment in Infrastructure

After many years of stagnation, the OUS received its highest ever levels of state funding for **capital repair and construction** during the 2005 Oregon Legislative Session. The Legislative leadership voted to provide a level of investment that will enable the OUS to make headway on the $600 million in deferred maintenance needs. It also enables the system to preserve current instructional space and research facilities, and maintain quality teaching, learning and research environments that prepare students for the workforce. Over the next several years these projects will support 3,200 construction jobs across the state, while also protecting and stabilizing valuable state assets.

The Oregon University System's rich combination of outstanding academic offerings and world-renowned research, along with student-centered programs and economic development contributions, continue to help Oregonians today, and lay a strong foundation for state, community, and economic success in the future. The many accomplishments of the past year could not have been achieved without the dedication of the Board, and the Chancellor's Office and university staff, who were tireless, selfless and successful in their endeavors on behalf of education in Oregon. Students, the universities and the state were all winners because of the tremendous efforts and energy of this committed, united group of people. Please review the next few pages, in which we proudly share the recent accomplishments of our excellent universities.

Chancellor, Oregon University System

October 2005

Top Accomplishments at Oregon University System Institutions 2004-05

Eastern Oregon University

- Initiated a comprehensive high school outreach program in eastern Oregon, with a goal to create a college-going culture, and increased accessibility and affordability in the area's towns and more remote regions.
- Expanded graduate and undergraduate student opportunities through the launch of new degree programs in business (MBA) and music (BA), and announced plans in July 2005 to open a distance learning center in Hermiston, offering seven bachelor's degree programs and the new MBA program. This will be the 15th regional distance education center operated by EOU.
- Initiated a new Service to Country Scholarship for veterans and those currently serving in the military in November 2004.
- Partnered locally and internationally with: Oregon Dental Services, the City of La Grande and the Oregon Institute of Technology on a new, state-of-the-art dental hygiene school; and continued internationalization efforts by signing exchange agreements with the University of Lodz in Poland and Kainan University in Taiwan.
- Began work on $10.2 million construction project of two new residence halls – the buildings are near completion – and EOU is approaching the highest residence hall enrollment figure in its history, while enrollment projections are at an all time high for the 2005-06 academic year.

Oregon Institute of Technology

- Received approval from the Oregon Legislature and Governor that designated OIT as the host of the Oregon Center for Health Professions. Enrollment in OIT's health professions programs increased by 13 percent in 2004-05, to 1,037 from 917 the year before. A $119,000 Congressionally-directed grant will support the development of the Center; and OIT has launched a capital fundraising campaign to construct the new Center on the main campus to support the graduate demand in these programs.
- Opened new opportunities to obtain associate's and bachelor's degrees in dental hygiene education for students in northeastern Oregon through an innovative partnership involving OIT, Eastern Oregon University and Oregon Dental Services. Four grants (Meyer Memorial Trust, Ford Family Foundation, Oregon Dental Foundation and KMSB) totaling $428,232 provided OIT's Dental Hygiene Clinic with digital radiography, 13 new dental chairs with ultrasonic units, lasers, high tech periodontal equipment and other lab and multimedia equipment.
- The U.S. Bureau of Land Management (BLM), in response to a nationwide shortage of land surveyors, approved a five-year partnership with OIT's Geomatics (formerly Surveying) program that includes annual funding of $150,000 to support faculty, internships, and outreach to Native American tribes throughout the region.
- A new Master of Manufacturing Engineering Technology degree was begun in the fall of 2004 at OIT's locations in Klamath Falls, Portland and on-site at Boeing locations near Seattle.
- Enrollment increased dramatically in OIT's web-based distance education programs – most of them degree completion programs in the health professions and information technology. Unduplicated headcount increased from 365 in fall of 2003 to 626 in spring of 2005.

Oregon State University

- Faculty shattered the previous university record for sponsored research by more than $30 million, attracting $208.9 million in grants and contracts, an increase of 40% in three years. Top grants included: $24.5 million from the Gordon and Betty Moore Foundation and the David and Lucille Packard Foundation for Interdisciplinary Studies of Coastal Oceans for its revolutionary study of the near-shore ocean ecosystem; and the second largest gift in its history, a $21 million bequest from the late Lois Bates Acheson, a 1937 OSU graduate and owner of Black Ball Transports, to benefit OSU's College of Veterinary Medicine.
- Top research discoveries included: forestry faculty member Kaichang Li developed and patented a new group of wood adhesives using the same chemical compounds that mussels use to attach to rocks, entering into a technology transfer agreement bringing these adhesives to market in 2005-06; engineers Annette von Jouanne and Alan Wallace unveiled a plan and prototype buoy designed to harness the energy of ocean waves for a new, clean, sustainable and potentially high-yield power source; and Bob Dziak, a Hatfield Marine Science Center seismologist, was cited by *Discover* magazine for one of the top 100 discoveries of the year for his documentation of seafloor spreading that sucks in seawater instead of expelling magma.
- The university completed a $14-million small animal teaching hospital in the College of Veterinary Medicine, complementing the college's facilities and expertise in large-animal veterinarian training and research.
- OSU's Marjorie Sandor, associate professor of English, won the 2004 National Jewish Book Award for Fiction for, *Portrait of My Mother, Who Posed Nude in Wartime*. English professor and department chair Tracy Daugherty won his third Oregon Book Award, the Ken Kesey Award for the Novel, *Axeman's Jazz*.
- Historic Weatherford Hall reopened in September 2004 as home to the Austin Entrepreneurship Program (AEP). With an enrollment of 300 students, the AEP is one of the largest residential programs in the nation focused on entrepreneurship.

Portland State University

- Grew enrollment for the ninth consecutive year in 2004-05, serving more than 24,000 students, and graduating 4,530 students, the largest class in the University's history; the most ever doctoral degrees, 55, were awarded, including the first Ph.D. in civil and environmental engineering.
- Research expenditures grew for the third consecutive year, up 9% to $35.8 million. Faculty projects included: a $600,000 National Science Foundation grant supporting the Lab 2 Market initiative, which will launch 12 new technologies through licensing agreements or start-up ventures and facilitate commercialization; a $1.7 million NSF grant supporting an interdisciplinary faculty team studying issues related to air quality, energy consumption, and public policy; and $378,000 from the U.S. Department of Education for "Students First: Improving First Generation Student Retention in Higher Education" project.
- PSU faculty and students gained national and international distinction: Jeffery A. Fletcher, a Systems Science doctoral graduate, is one of only 34 recipients of the National Science Foundation's 2004 International Research Fellowship; Dr. Ken Ruoff received the prestigious Jiro Osaragi Prize for Commentary, Japan's Pulitzer Prize equivalent, for the Japanese translation of his book, *The People's Emperor: Democracy and the Japanese Monarchy, 1945–1995*; Dr. Jun Jiao was honored by President Bush with the 2004 Presidential Early Career Award for Scientists and Engineers; three Antarctica glaciers were named for Geology Department researchers, Dr. Andrew Fountain, Dr. Christina Hulbe, and Dr. Thomas Nylen, for their work on global climate change; the late biology professor, Dr. David Boone, received honors for his research on bacterial taxonomy and culture collections by the American Society for

Microbiology; and the Chamber Choir, led by Dr. Bruce Browne, won a gold medal in this year's HARMONIE Festival in Lindenholzhausen, Germany.

- Launched the *Building Our Future* campaign with Walter Cronkite as the speaker at its annual Simon Benson dinner. The campaign has been so successful that PSU increased the goal last year from $90 to $100 million, and is at 98 percent of the goal.
- Further developed the University District including the opening of the Broadway (designated a silver Leadership in Energy and Environmental Design building, LEED), a full-occupancy student housing complex; began construction on the Northwest Engineering, Science, and Technology Center; continued renovation and remodeling of Smith Memorial Student Union, Millar Library, and other buildings.

Southern Oregon University

- The Hannon Library was completed, becoming a larger and more comprehensive learning and research center for students and faculty, and a vital source of knowledge and guidance to information for the communities from Eugene to Chico and beyond. It received the Federal Depository Library of the Year Award by the U.S. Printer for outstanding, innovative public service to the nation.
- Marking the twentieth year of Southern's Medford Campus, the University received approval at all levels and substantial state support for its joint venture with Rogue Community College to create a new higher education center in downtown Medford. Once built, the SOU-RCC Education Building will allow SOU to bring most or all of its current Medford Campus programs and services together to achieve better access for students and expanded partnerships with the education, business and non-profit sectors in this growing urban area.
- Granted an Honorary Doctorate in Arts and Letters to Libby Appel, Artistic Director for the Oregon Shakespeare Festival, internationally revered director and leader in theatre arts, and guide for SOU theatre arts interns at OSF.
- The Office of Indian Affairs granted the University $1.4 million over four years to prepare American Indian teachers in Oregon, with the aim of doubling the current number. It is one of 16 such awards and is slated to become a model for replication nationally.
- The University's Academia Latina program for Latino youth of southern Oregon received the 2004 Creative and Innovative Non-Credit Program Award from the North American Association of Summer Sessions.

University of Oregon

- Total FY05 research expenditures reached a record $86.4 million, and the Office of Technology Transfer set a number of records during 2004-05, with 45 invention disclosures, 30 license and option agreements, and 24 U.S. patent applications filed. Research milestones included: received $8 million in federal grants in July 2004, including $3 million for the Brain, Biology and Machine Initiative and $5 million for the Oregon Nanoscience and Microtechnologies Institute (ONAMI); Doctoral candidate Brett Wong published research in November that is the first work to identify histamine receptors as contributing to increased blood flow during heat stress; In May, university biologists on the first-ever manned submersible expedition to a newly discovered undersea volcano near Samoa reported that warm water emanating from the volcano's summit supports a remarkable eel population.
- In October, Peter von Hippel, professor of chemistry, became the third Oregonian to be inducted into the American Philosophical Society.

- The Jordan Schnitzer Museum of Art at the University of Oregon re-opened to the public in January 2005 after a multi-year, $14.2 million transformation of the 70-year old building, listed on the National Register of Historic Places.
- The University of Oregon's $600 million fund-raising campaign, the most ambitious in state history, reached the $300 million mark in January 2005. President Dave Frohnmayer announced a $15 million anonymous gift, the third largest academic gift in the university's history. In July 2005, Lorry Lokey, CEO of Business Wire, gave $2 million to be used for a $15.2 million expansion and renovation of the university's music building, and $4.5 million to help create the University of Oregon School of Journalism and Communication, George S. Turnbull Portland Center.
- In March, Geri Richmond, professor of chemistry, was awarded the American Chemical Society's Award for Encouraging Women into Careers in the Chemical Sciences for 2005, sponsored by The Camille and Henry Dreyfus Foundation.

Western Oregon University

- Following a year of intensive planning, WOU launched the Freshman Academy, a comprehensive set of integrated courses and experiences designed to ease students' transition into college and increase the likelihood of success.
- The Teaching Research Institute at WOU received a $1.2 million award from the U.S Department of Education grant competition "Steppingstones for Technology Innovation." This three-year project addresses the devastating disability – dual sensory impairment (deaf-blindness) in young children.
- WOU is among 50 institutions of higher education nationwide selected to participate in the Lumina Foundation-sponsored Collegiate Learning Assessment (CLA) Longitudinal Study to assess gains in student learning, through the American Association of Colleges for Teacher Education.
- WOU has been invited as one of 30 colleges and universities to participate in Teachers for a New Era, a national initiative to improve the way teachers are educated, through the National Institute for Work and Learning, the Academy for Educational Development.
- Faculty, student, and program recognitions include: Assistant professor of English, Henry Hughes, won the 2004 Oregon Book Award for Poetry for his collection, *Men Holding Eggs;* Spanish professor Eduardo Gonzalez-Viana received a grant to research Peruvian poet Cesar Vallego and write a biographical novel on his life, one of only two in existence; WOU's Rainbow Dance Theatre is one of only two dance companies selected to represent the United States of America at the 2005 World Expo in Nagoya, Japan; five WOU students participated in the NASA Reduced Gravity Student Flight Opportunities Program to test its science experiments at Johnson Space Center in Houston, working alongside Oregon State University's student team on their experiment, "Physics Feasibility Test of a Rotating Fluidized Bed Space Reactor."

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the Oregon University System (OUS) for the years ended June 30, 2005 and 2004. OUS comprises the following four-year public universities: Eastern Oregon University (EOU), Oregon Institute of Technology (OIT), Oregon State University (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO), and Western Oregon University (WOU). OUS institutions perform instruction, conduct research and provide public services. This analysis has been prepared by management and should be read in conjunction with the accompanying financial statements and footnote disclosures.

In the fall of 2004, OUS enrolled a total of 80,066 students on its seven campuses, up .6% from fall 2003. Enrollment increased 15% over the five years from fall 2000 to fall 2004. The 2004 fall student enrollment comprised 81% undergraduates and 19% enrolled in graduate and professional programs. Fall term enrollment by university is as follows:

	Fall Term Student Enrollment				
University	2000	2001	2002	2003	2004
Eastern Oregon University	2,784	2,978	3,418	3,287	3,338
Oregon Institute of Technology	2,842	3,088	3,139	3,236	3,373
Oregon State University	16,777	18,277	19,161	19,347	19,597
Portland State University	19,029	20,185	21,841	23,117	23,486
Southern Oregon University	5,502	5,469	5,478	5,505	5,161
University of Oregon	17,843	19,008	20,044	20,034	20,339
Western Oregon University	4,731	4,878	5,030	5,032	4,772
Total System	69,508	73,883	78,111	79,558	80,066

Enrollment growth has flattened out over the past three years. This can be attributed to increasing tuition and fee rates mainly caused by the decline in state appropriations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial activity of OUS is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These financial statements focus on OUS as a whole and are presented throughout the MD&A in condensed formats.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents OUS assets and liabilities under the accrual basis of accounting at fiscal year end. Generally, assets and liabilities are measured at net realizable value. The term "Net Assets" refers to the difference between total assets and total liabilities, and is an indicator of OUS's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in OUS's financial condition.

The following summarizes OUS assets, liabilities and net assets:

As of June 30,	2005	% Change	2004	% Change	2003
			(In thousands)		
Assets					
Current Assets	$ 545,207	-23%	$ 708,402	58%	$ 449,656
Noncurrent Assets	448,002	6%	422,861	2%	414,574
Capital Assets, Net of Accumulated Depreciation	1,331,109	13%	1,173,317	10%	1,070,602
Total Assets	$ 2,324,318	1%	$ 2,304,580	19%	$ 1,934,832
Liabilities					
Current Liabilities	$ 369,552	-27%	$ 508,893	92%	$ 264,826
Noncurrent Liabilities	884,244	20%	737,879	12%	658,226
Total Liabilities	$ 1,253,796	1%	$ 1,246,772	35%	$ 923,052
Net Assets					
Invested in Capital Assets, Net of Related Debt	$ 450,474	0%	$ 451,824	6%	$ 427,084
Restricted - Nonexpendable	14,682	0%	14,682	0%	14,686
Restricted - Expendable	427,275	3%	416,321	0%	415,575
Unrestricted	178,091	2%	174,981	13%	154,435
Total Net Assets	$ 1,070,522	1%	$ 1,057,808	5%	$ 1,011,780

TOTAL ASSETS

Comparison of fiscal year 2005 to fiscal year 2004

Total Assets increased $19.7 million to $2.3 billion during the fiscal year ended 2005 compared to 2004. Current Assets decreased $163.2 million mainly due to $163.5 million in decreased Collateral from Securities Lending, $21.8 million in decreased cash relating to the timing of payments for certain retirement plans (see "Total Liabilities" discussion below) and debt payment to the State relating to the restructuring of PERS paid January 2005. This was partially offset by $19.9 million in increased Accounts Receivable, Net due mainly to increased grant and contract receivables. Noncurrent Assets increased $25.1 million mainly relating to cash increases of $23.6 million for unexpended construction funding. Capital Assets increased $157.8 million and can be attributed mainly to new construction of buildings. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

Comparison of fiscal year 2004 to fiscal year 2003

Total Assets increased $369.7 million to $2.3 billion during the fiscal year ended 2004 compared to 2003. Current Assets increased $258.7 million mainly due to $195.0 million in increased Collateral from Securities Lending, $64.3 million in increased cash relating to the timing of payments for certain retirement plans (see "Total Liabilities" discussion below) and reductions of budgeted expenditures in reaction to State funding uncertainties, and $10.8 million in increased Accounts Receivable, Net due mainly to increased student tuition and fees receivables, and grant and contract receivables. Capital Assets increased $102.7 million and can be attributed mainly to new construction of buildings. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

TOTAL LIABILITIES

Comparison of fiscal year 2005 to fiscal year 2004

Total Liabilities increased $7.0 million to $1.3 billion during the fiscal year ended 2005 compared to 2004. Current Liabilities decreased $139.3 million mainly due to the $163.5 million decrease in Obligations under Securities Lending. Deposits also decreased $8.5 million mainly relating to fiscal year 2004 delayed payments to the State of Oregon as Oregon Public Employees Retirement Plan (PERS) and Oregon Public

Service Retirement Plan (OPSRP) converted to a new system. Accounts Payable and Accrued Liabilities increased $22.3 million mainly due to construction and contract retainage accruals, and the timing of benefit payments to the State. This was partially offset by the fiscal year 2004 accrual of a debt payment to the State relating to the restructuring of PERS paid January 2005. Noncurrent Liabilities increased $146.4 million mainly due to increases in the debt issued to construct or purchase Capital Assets. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

Comparison of fiscal year 2004 to fiscal year 2003

Total Liabilities increased $323.7 million to $1.2 billion during the fiscal year ended 2004 compared to 2003. Current Liabilities increased $244.1 million mainly due to Obligations under Securities Lending. Accounts Payable and Accrued Liabilities, and Deposits also increased relating to delayed payments to the State of Oregon as Oregon Public Employees Retirement Plan (PERS) and Oregon Public Service Retirement Plan (OPSRP) converted to a new system, and the accrual of a debt payment to the State relating to the restructuring of PERS paid in January 2005. Noncurrent Liabilities increased $79.7 million mainly due to increases in the debt issued to construct or purchase Capital Assets. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

TOTAL NET ASSETS

Comparison of fiscal year 2005 to fiscal year 2004

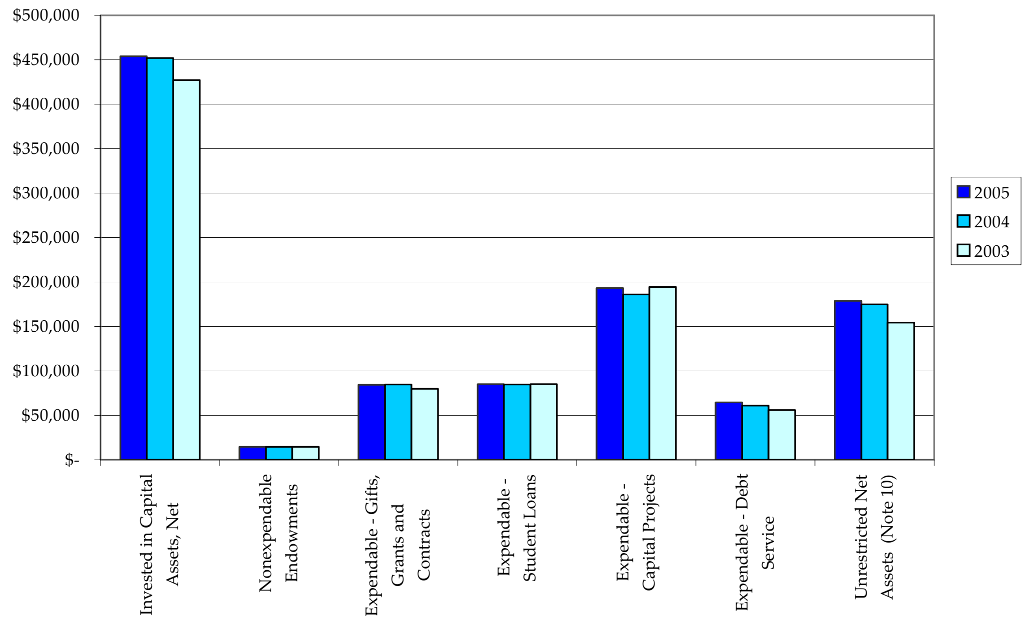
Overall, OUS's financial position improved in fiscal year 2005. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased $12.7 million to $1.1 billion during the fiscal year ended 2005 compared to 2004. In addition, for both fiscal years, current assets are sufficient to meet current obligations.

Comparison of fiscal year 2004 to fiscal year 2003

Overall, OUS's financial position improved in fiscal year 2004. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased $46.0 million to $1.1 billion during the fiscal year ended 2004 compared to 2003. In addition, for both fiscal years, current assets are sufficient to meet current obligations.

The following graph shows the changes by category of net assets between fiscal year 2005, 2004 and 2003:

Net Assets by Category
(In thousands)



Total Net Assets increased $12.7 million for the fiscal year ended June 30, 2005. There was no significant increase in any one activity. The $46.0 million increase in Total Net Assets for the fiscal year ended June 30, 2004, primarily related to new assets net of newly issued debt and increased cash balances due to reductions of budgeted expenditures in reaction to State funding uncertainties. See "Capital Assets and Related Financing Activities," below, for information relating to the net increase in Invested in Capital Assets, Net of Related Debt.

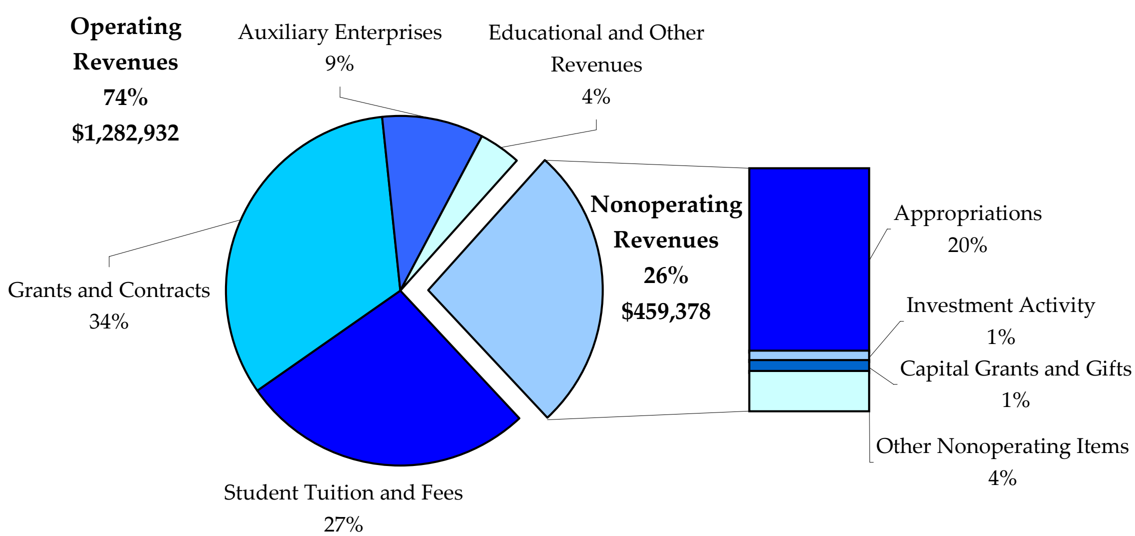
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of OUS revenue and expense activity categorized as operating or nonoperating. Due to the classification of Government Appropriations as nonoperating revenue, OUS shows a loss from operations. State appropriations, although considered nonoperating revenue under GASB 35 standards and reflected in the nonoperating section of the Statement of Revenues, Expenses, and Changes in Net Assets and the noncapital financing section of the Statement of Cash Flows, are used solely for operating purposes. The following summarizes the revenue and expense activity of OUS:

For the Year Ended June 30,	2005	% Change	2004	% Change	2003
			(In thousands)		
Operating Revenues	$ 1,282,932	7%	$ 1,194,430	2%	$ 1,173,785
Operating Expenses	1,691,261	7%	1,582,334	0%	1,575,026
Operating Loss	(408,329)	-5%	(387,904)	3%	(401,241)
Nonoperating Revenues (Expenses)	421,043	-3%	433,932	-4%	451,855
Increase In Net Assets Before Change in Accounting Principle	12,714	-72%	46,028	-9%	50,614
Cumulative Effect of Change in Accounting Principle	-	*	-	*	204,557
Increase In Net Assets After Change in Accounting Principle	12,714	*	46,028	*	255,171
Net Assets at Beginning of Year	1,057,808	*	1,011,780	*	756,609
Net Assets at End of Year	$ 1,070,522	1%	$ 1,057,808	5%	$ 1,011,780

* Not meaningful

2005 Total Revenues (in thousands):



OPERATING REVENUES

Operating revenues increased $88.5 million in fiscal year 2005, or 7% over fiscal year 2004, to $1.3 billion. This variance is due to increases in Student Tuition and Fees and Federal Grants and Contracts. Operating revenues increased $20.6 million in fiscal year 2004, or 2% over fiscal year 2003, to $1.2 billion. This variance is due to increases in Student Tuition and Fees, Auxiliary Enterprises and Educational and Other Revenues.

For the Year Ended June 30,	2005	% Change	2004	% Change	2003
			(In thousands)		
Operating Revenues					
Student Tuition and Fees	$ 476,344	10%	$ 432,363	12%	$ 385,983
Federal, State and Nongovernmental Grants and Contracts	574,054	7%	536,784	-7%	576,519
Auxiliary Enterprises	162,093	1%	159,709	3%	154,536
Educational and Other Revenues	70,441	7%	65,574	16%	56,747
Total Operating Revenues	$ 1,282,932	7%	$ 1,194,430	2%	$ 1,173,785

Comparison of fiscal year 2005 to fiscal year 2004

Student tuition and fees increased $44.0 million in 2005 compared to 2004 due to increased tuition and fee rates that accounted for $35.7 million, decreased fee remissions that accounted for $8.0 million and increased enrollment that accounted for $3.3 million. Offsetting the increases were increased scholarship allowances of $3.7 million due to increased financial aid as a result of higher tuition and fees and lower fee remissions. Student tuition and fees comprise a larger component of OUS revenues than State Appropriations. See "Nonoperating Revenues (Expenses) - Government and Capital Appropriations" in this MD&A for further discussion of the decline in State appropriations. See "Introduction" in this MD&A for further discussion of the increased student enrollment.

Federal, State and Nongovernmental Grants and Contracts increased $37.3 million in 2005 compared to 2004. Federal Student Aid was higher than prior year by $15.9 million due to increased tuition and fees, housing costs, and student enrollment. Research and Development grants increased $13.1 million during fiscal year 2005 when compared to the prior year, mainly due to increased Federal grants received from the Department of Defense, Department of Education, the National Science Foundation, and the Department of Transportation. Other federal grants remained even with the prior year with completed grants being offset with new grant activity. State and Local Grants and Contracts decreased $1.1 million during fiscal year 2005 when compared to the prior year. Nongovernmental Grants and Contracts increased $9.4 million mainly due to the decreased deferral of grant revenues and increased grants from coastal ocean studies foundations and the Ford Foundation, compared to the prior fiscal year.

Auxiliary Enterprise revenue increased $2.4 million compared to the prior year. Housing and Student Center sales increased $5.5 million in 2005 relating to higher rates and student enrollment. This was partially offset by a $1.5 million decline in Intercollegiate Athletics due to lower postseason income for football bowl games, a $1.4 million decline in Health Center revenues due to a change in the revenue recognition method of insurance premiums and all other auxiliary activities decreasing $.2 million

Educational and Other Revenues increased $4.9 million between the two fiscal periods. Income from conferences and workshops increased $1.6 million in 2005. Other revenues increased $1.5 million relating to higher insurance reimbursements for various claims and $1.2 million relating to student housing reimbursements when compared to the prior year.

Comparison of fiscal year 2004 to fiscal year 2003

Student tuition and fees increased $46.4 million in 2004 compared to 2003 due to increased tuition and fee rates that accounted for $48.7 million and increased student enrollment, which accounted for $6.6 million. Offsetting the increases were increased scholarship allowances of $6.2 million due to increased tuition and fees, and fee remissions of $2.7 million relating to the increased rates and increased enrollment. Student tuition and fees comprise a larger component of OUS revenues than State Appropriations. See "Nonoperating Revenues (Expenses) - Government and Capital Appropriations" in this MD&A for further discussion of the decline in State appropriations. See "Introduction" in this MD&A for further discussion of the increased student enrollment.

Federal, State and Nongovernmental Grants and Contracts decreased $39.7 million in 2004 compared to 2003. Federal Student Aid included in operating revenues decreased $48.1 million. The $68.6 million decrease related to the change in the federal student loan program used at PSU was partially offset by student aid revenue of $20.5 million relating to increased tuition and fees and student enrollment. Beginning with the Fall term of 2003, PSU discontinued the Federal Direct Student Loan Program, which is recorded as pass through revenue in Federal Grants and Contracts and offset in Student Aid in Operating Expenses, and started using the Federal Family Education Loan Program, which is paid directly to the student and not reported in operations. Research and Development grants increased $12.4 million mainly due to increased Federal grants received from the Department of Education, the National Institute of Health, the National Science Foundation, and the National Oceanic and Atmospheric Administration. Other federal grants increased $2.3 million and State and Local Grants and Contracts increased $2.8 million during fiscal year 2004 when compared to the prior year. Nongovernmental Grants and Contracts decreased $9.6 million mainly due to the deferral of grant revenues in the current fiscal year.

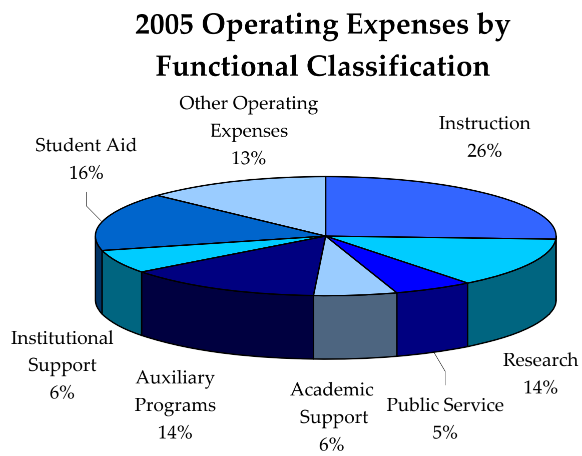
Auxiliary Enterprise revenue increased $5.2 million compared to the prior year. Beginning in fiscal year 2004, $6.6 million in additional PSU housing revenue is recorded in operations. Previously, a non-profit company managed PSU housing. Housing, health services, parking and bookstore sales increased $3.5 million in 2004 relating to higher rates and student enrollment. This was partially offset by the elimination of internal sales activities due to a change in how revenues were recorded for facilities rentals and catering.

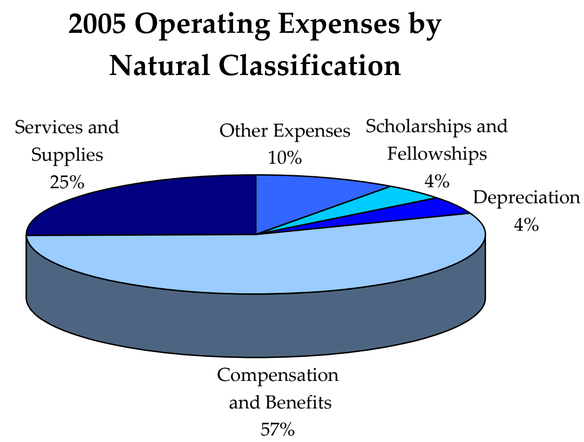
Educational and Other Revenues increased $8.8 million compared to the prior year. This was mainly due to $4.1 million in increased forest operation sales and $2.9 million in increased other governmental grants and contracts.

OPERATING EXPENSES

Operating expenses increased $108.9 million in fiscal year 2005, or 7%, over fiscal year 2004, to $1.7 billion. This change is due to increases in Instruction, Research, Student Aid, Auxiliary Programs, Public Service, Academic Support and Other Operating Expenses. Operating expenses increased $7.3 million in fiscal year 2004, or less than 1%, over fiscal year 2003, to $1.6 billion. This variance is due to increases in Instruction, Research, Auxiliary Programs, Institutional Support and Other Operating Expenses and partially offset by decreases in Student Aid and Public Service Expenses.

For the Year Ended June 30,	2005	% Change	2004	% Change	2003
			(In thousands)		
Operating Expenses					
Instruction	$ 438,191	6%	$ 412,321	3%	$ 401,694
Research	231,202	4%	222,986	8%	206,542
Student Aid	266,761	8%	246,324	-18%	299,317
Auxiliary Programs	237,737	6%	223,761	7%	209,501
Institutional Support	108,209	-1%	109,138	11%	98,528
Public Service	91,948	6%	86,432	-2%	87,865
Academic Support	97,708	9%	89,570	0%	89,294
Other Operating Expenses	219,505	14%	191,802	5%	182,285
Total Operating Expenses	$ 1,691,261	7%	$ 1,582,334	0%	$ 1,575,026





Due to the way in which expenses are incurred by OUS, variances are presented and explained by analyzing changes in the natural classifications of expenses. Each natural classification analysis can be applied to many of the functional expense caption items. Please refer to the tables below to see the relationship between the natural expense variance and the functional expense variance for fiscal year 2005 compared to 2004 and fiscal year 2004 compared to 2003 (in thousands):

Comparison of fiscal year 2005 to fiscal year 2004

Variances relating to:	Instruction	Research	Public Service	Academic Support	Auxiliary Programs	Institutional Support	Student Aid	Other Operating Exp.	Total Operating Exp.
				Expense (Decrease) Increase					
Compensation and Benefits									
Benefit Costs	$ 9,908	$ 2,940	$ 1,356	$ 2,211	$ 2,551	$ 2,590	$ 156	3,214	$ 24,926
Employee Growth	16,416	2,352	1,215	2,219	1,271	(798)	163	7,414	30,252
Student Worker Growth	51	599	(28)	117	829	(33)	(152)	337	1,720
Scholarships and Fellowships									
OUS Student Aid	(488)	18	1,107	78	1,833	38	4,298	24	6,908
Federal Loan Programs	-	-	-	-	-	17	15,518	-	15,535
Services and Supplies	312	2,565	1,896	3,918	4,872	(1,628)	488	12,577	25,000
Depreciation	-	-	-	-	2,735	-	-	5,720	8,455
Other Variances	(329)	(258)	(30)	(405)	(115)	(1,115)	(34)	(1,583)	(3,869)
	$ 25,870	$ 8,216	$ 5,516	$ 8,138	$ 13,976	$ (929)	$ 20,437	$ 27,703	$ 108,927

Compensation and Benefits increased $56.9 million in fiscal year 2005 compared to 2004. This increase can be broken into three main variances. For existing employees, **Benefit Costs** increased $24.9 million and represented a 16% overall rate increase compared to fiscal year 2004. Insurance costs increased 14% and retirement costs increased 19%. **Employee Growth** related to increased teaching positions and positions relating to grants. **Student Worker Growth** of $1.7 million, or 4%, was due to increased work-study opportunities relating to financial aid during fiscal year 2005.

Scholarships and Fellowships increased $22.4 million when comparing fiscal year 2005 and 2004. **Federal Loan Programs** increased $15.5 million and **OUS Student Aid** increased $6.9 million mainly in response to increased tuition and housing rates and enrollment growth.

Services and Supplies increased $25.0 million, or 6%, during fiscal year 2005. Maintenance and repairs increased $16.5 million. OUS has a large amount of deferred maintenance and has been trying to address the most serious risks to capital asset usefulness. There was also activity relating to energy efficiency projects for buildings. Contractor expenses, supplies expenses, professional services, miscellaneous services and supplies, utilities, equipment, rents and leases, and travel all increased during fiscal year 2005. Offsetting the expense increases was a debt payment to the State for $14.0 million accrued in fiscal year 2004 relating to the restructuring of PERS.

Depreciation increased $8.5 million during fiscal year 2005. A change in accounting estimate pertaining to deprecation of research-intensive buildings increased depreciation expense by $3.5 million. See "Note 1.G Organization and Summary of Significant Accounting Policies -- Capital Assets" in the Notes to the Financial Statements for additional information related to this change. The remaining increase was due to increased depreciable capital assets.

Other variances decreased $3.9 million mainly relating to a decline in bad debt expense.

Comparison of fiscal year 2004 to fiscal year 2003

Variances relating to:	Instruction	Research	Public Service	Academic Support	Auxiliary Programs	Institutional Support	Student Aid	Other Operating Exp.	Total Operating Exp.
	Expense (Decrease) Increase								
Compensation and Benefits									
Benefit Costs	$ 3,502	$ 3,202	$ (1,095)	$ (494)	$ 1,370	$ (716)	$ (6)	1,544	$ 7,307
Employee Growth	2,922	4,551	(2,551)	(814)	1,971	947	39	3,116	10,181
ORP Adjustment	1,135	494	188	228	292	259	8	267	2,871
Student Worker Growth	51	599	(28)	117	829	(33)	(152)	668	2,051
Scholarships and Fellowships									
OUS Student Aid	622	(404)	(86)	89	22	(29)	(1,372)	(804)	(1,962)
Federal Loan Programs	-	-	-	-	-	18	(51,682)	-	(51,664)
Services and Supplies	2,724	7,148	2,078	1,426	2,523	12,101	101	6,241	34,342
Depreciation	-	-	-	3	5,757	-	-	(1,749)	4,011
Other Variances	(329)	854	61	(279)	1,496	(1,937)	71	234	171
	$ 10,627	$ 16,444	$ (1,433)	$ 276	$ 14,260	$ 10,610	$ (52,993)	$ 9,517	$ 7,308

Compensation and Benefits increased $23.0 million during the year ended 2004 compared to 2003. This increase can be broken into four main variances. For existing employees, **Benefit Costs** increased $7.3 million and represented a 3% overall rate increase compared to fiscal year 2003. Increased insurance costs of 10% were partially offset by lower retirement costs (see "Note 13. Employee Retirement Plans" for additional information relating to lower retirement costs). **Employee Growth** relating to higher enrollment and increased grants and contracts caused expenses to increase $10.2 million. Most position increases were directly related to teaching and auxiliary programs (enrollment increases), and positions relating to grants. The **Optional Retirement Plan (ORP) adjustment** relates to a correction of the employer contribution percentages contributed beginning with the inception of the plan through October 31, 2003. **Student Worker Growth** of $2.1 million, or 5%, was due to increased work-study opportunities relating to financial aid during fiscal year 2004.

Scholarships and Fellowships decreased $53.6 million when comparing fiscal year 2004 and 2003. **Federal Loan Programs** decreased $51.7 million mainly relating to a change in loan programs at PSU of $68.6 million (See Federal, State and Nongovernmental Grants and Contracts above for more information relating to PSU federal student loans). This was partially offset by increased federal loans for the other universities in response to increased tuition rates and enrollment growth. **OUS Student Aid** decreased $2.0 million relating to OUS's compliance with State legislated limits.

Services and Supplies increased $34.3 million during fiscal year 2004. Maintenance and Repairs increased $14.8 million during 2004 partly related to capital appropriations of $11.5 million. A debt payment to the State for $14.0 million was accrued relating to the restructuring of PERS which caused services and supplies to increase. The international program acquired by UO during fiscal year 2004 increased contracted educational services by $6.3 million.

Depreciation increased $4.0 million during fiscal year 2004 due to increased depreciable capital assets.

NONOPERATING REVENUES (EXPENSES)

The decline in Nonoperating Revenues of $12.9 million during 2005 can be directly tied to the reduction in Government and Capital Appropriations, and increased Interest Expense. This was partially offset by increased Capital Grants and Gifts and Other Nonoperating Items. The decline in Nonoperating Revenues of $17.9 million during 2004 can be directly tied to the reduction in Capital Grants and Gifts, Government and Capital Appropriations, and increased Interest Expense. This was partially offset by increased Investment Activity and Other Nonoperating Items.

For the Year Ended June 30,		2005	% Change		2004	% Change		2003
					(In thousands)			
Nonoperating Revenues (Expenses)								
Government and Capital Appropriations	$	348,249	-4%	$	363,586	-3%	$	374,023
Investment Activity		18,313	0%		18,370	35%		13,634
Interest Expense		(38,335)	15%		(33,302)	8%		(30,731)
Capital Grants and Gifts		20,627	34%		15,377	-52%		32,189
Other Nonoperating Items		72,189	3%		69,901	11%		62,740
Total Nonoperating Revenues, Net	$	421,043	-3%	$	433,932	-4%	$	451,855

Comparison of fiscal year 2005 to fiscal year 2004

Government and Capital Appropriations declined $15.3 million in 2005 relating to the $9.3 million decline in State appropriations that are used to fund operations at OUS. The allocation for debt service increased $2.3 million related to new bond issuances. State Capital Appropriations were $11.5 million for the 2003-2005 biennium. All of the capital appropriations were drawn down in fiscal year 2004. Federal Appropriations increased $3.4 million during fiscal year 2005 when compared to 2004.

Investment Activity remained flat in 2005. See "Note 9. Investment Activity" in the Notes to the Financial Statements for additional information related to investments.

Interest Expense increased by $5.0 million due to a partial year's interest accrual on debt issued in fiscal year 2005 and a full year's interest accrual on debt issued in fiscal year 2004. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts increased $5.3 million in 2005 relating to the timing of the fundraising for construction projects.

Other Nonoperating Items increased $2.3 million in 2005. Gifts increased $6.3 million mainly relating to increased scholarships. This was partially offset by beginning balance adjustments to capital assets of $3.2 million that were not recorded in the prior year and decreased net gains on asset sales of $1.3 million.

Comparison of fiscal year 2004 to fiscal year 2003

Government and Capital Appropriations declined $10.4 million in 2004 relating mainly to the $19.5 million decline in State appropriations that are used to fund operations at OUS. State Capital Appropriations were $11.5 million and $15.9 million for the 2003-2005 biennium and 2001-2003 biennium, respectively. All of the capital appropriations were drawn down in fiscal year 2004 and 2002. Federal Appropriations decreased $3.7 million during fiscal year 2004 when compared to 2003.

Investment Activity rose $4.7 million in 2004 mainly due to investments appreciating $6.6 million during 2004 and appreciating $.8 million during 2003. Partially offsetting this increase was decreased interest income of $1.5 million due to lower interest rates and invested cash in fiscal year 2004.

Interest Expense increased by $2.6 million due to a partial year's interest accrual on debt issued in fiscal year 2004 and a full year's interest accrual on debt issued in fiscal year 2003. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts declined $16.8 million in 2004 relating to the timing of construction projects.

Other Nonoperating Items increased $7.2 million relating mainly to increased gifts of $13.5 million. This was partially offset by decreased net gains on asset sales of $4.2 million.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2003, OUS changed its method of applying the individual asset method to more accurately reflect the composite service life of each asset and its additions and major improvements. Each building can now have additional records relating to additions or improvements with a useful life assigned to the additions or improvements. The cumulative effect of this change in accounting principle and the adjustments as of the beginning of the fiscal year 2003 was an increase in net assets of $204.6 million.

CHANGE IN NET ASSETS

The Increase in Net Assets Before Change in Accounting Principle declined $33.3 million in 2005 compared to 2004 relating to declines in Governmental and Capital Appropriations of $15.3 million and increased Operating Loss of $20.4 million. This was partially offset by increased Capital Grants and Gifts of $5.3 million. The Increase in Net Assets Before Change in Accounting Principle declined $4.6 million in 2004 compared to 2003 relating to declines in Capital Grants and Gifts of $16.8 million, Governmental and Capital Appropriations of $10.4 million, and net gains on asset sales of $4.2 million. This was partially offset by decreased Operating Losses of $13.3 million and increased Gifts of $13.5 million. The Cumulative Effect of Change in Accounting Principle for fiscal year 2003 increased net assets $204.6 million.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about OUS's sources (receipts) and uses (payments) of cash during the fiscal year. This statement classifies sources and uses of cash into four categories. It assists in determining whether an entity has the ability to generate future net cash flows to meet its obligations as they come due, and to determine the need for external financing.

A summary statement of cash flows for the years ended June 30, 2005, 2004 and 2003, is as follows:

For the Year Ended June 30,		2005	% Change		2004	% Change		2003
					(In thousands)			
Net Cash Used by Operating Activities	$	(336,168)	-16%	$	(290,697)	10%	$	(323,199)
Net Cash Provided by Noncapital Financing Activities		417,020	-3%		428,056	0%		427,669
Net Cash Used by Capital and Related Financing Activities		(91,744)	0%		(91,380)	41%		(155,542)
Net Cash Provided by Investing Activities		12,636	-61%		32,131	494%		5,411
Net Increase (Decrease) in Cash and Cash Equivalents		1,744	-98%		78,110	-271%		(45,661)
Cash and Cash Equivalents, Beginning of Year		549,761	17%		471,651	-9%		517,312
Cash and Cash Equivalents, End of Year	$	551,505	0%	$	549,761	17%	$	471,651

Comparison of fiscal year 2005 to fiscal year 2004

Cash Used by Operating Activities increased by $45.5 million in 2005 compared to 2004. This increase in the use of cash was impacted by increased Payments to Suppliers of $48.5 million and increased expenses relating to Payments to Employees for Salaries and Benefits of $67.6 million. Partially offsetting these unfavorable changes were cash increases of $43.5 million in Tuition and Fees, and $23.9 million in Grants and Contracts. See "Statement of Revenues, Expenses and Changes in Net Assets – Operating Revenues," and "Statement of Revenues, Expenses and Changes in Net Assets – Operating Expenses" above for further information relating to these revenue and expense increases and decreases.

Cash Provided by Noncapital Financing Activities decreased by $11.0 million in 2005. This decrease related to the $11.7 million use of cash in the Agency Funds caused by the timing of payments for certain retirement plans. Increased cash from Other Gifts and Private Contracts mostly offset the decreased cash from Governmental Appropriations. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to the revenue increase and decrease.

Cash Used by Capital and Related Financing Activities was the same between the fiscal years. Increased construction and purchase of capital assets caused the OUS cash position to decrease by $65.3 million. Sales of capital assets increased $8.6 million. Capital Appropriations of $11.5 million used during fiscal year 2004 also caused cash to be lower in fiscal year 2005. The timing of debt issuances increased principal and interest payments by $5.4 million during fiscal year 2005. Debt issuances increased $67.8 million during fiscal year 2005 when compared to 2004. Cash increases were also seen in Capital Grants and Gifts of $5.4 million. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to these changes in revenue.

Cash Provided by Investing Activities decreased by $19.5 million in 2005 when compared to 2004. This was mainly due to the change in (Purchases) Sales of Investments of $22.5 million. Fiscal year 2005 reflects investment purchases of $2.0 million. Fiscal year 2004 reflects investment maturities of $20.4 million.

Comparison of fiscal year 2004 to fiscal year 2003

Cash Used by Operating Activities decreased by $32.5 million in 2004 compared to 2003. This decrease in the use of cash was impacted by a $48.1 million increase in Tuition and Fees, a $31.5 million decrease in Payments to Suppliers mainly relating to the change in PSU's financial aid loan program, and a $7.5 million increase in Auxiliary Enterprise Operations. Partially offsetting these favorable changes were decreased Grants and Contracts of $39.1 million relating mainly to the change in student loan programs at PSU and increased expenses relating to Payments to Employees for Salaries and Benefits of $17.4 million. See "Statement of Revenues, Expenses and Changes in Net Assets – Operating Revenues," and

"Statement of Revenues, Expenses and Changes in Net Assets – Operating Expenses" above, for further information relating to these revenue and expense increases and decreases.

Cash Provided by Noncapital Financing Activities increased by $.4 million in 2004. Increased Other Gifts and Private Contracts mostly offset the decrease in Governmental Appropriations. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to the revenue increase and decrease.

Cash Used by Capital and Related Financing Activities declined by $64.2 million in 2004. This can primarily be attributed to debt issuances increasing $59.9 million during fiscal year 2004 when compared to 2003. Decreased construction and purchase of capital assets caused the OUS cash position to increase by $17.0 million. Capital Appropriations of $11.5 million also increased cash during fiscal year 2004. Partially offsetting these cash increases were net decreases in Capital Grants and Gifts of $17.0 million and increased principal and interest payments due to the timing of debt issuances, which used an additional $5.4 million in cash during fiscal year 2004. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above for further information relating to these revenue decreases.

Cash Provided by Investing Activities increased by $26.7 million in 2004 when compared to 2003. This was mainly due to the change in Net (Purchases) Sales of Assets of $27.6 million. Fiscal year 2004 reflects investment maturities of $20.4 million. Fiscal year 2003 reflects investment purchases of $18.3 million offset by investment maturities of $6.0 million and sales of $5.0 million.

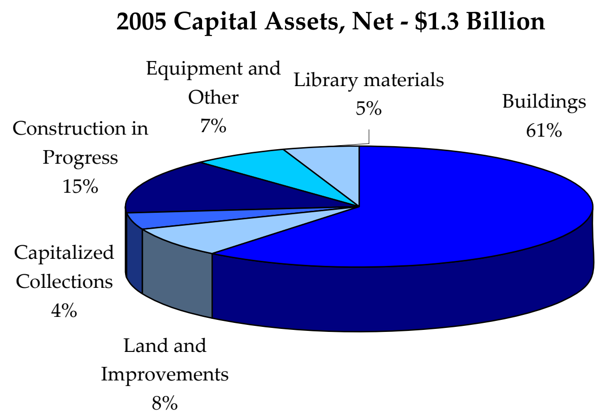
CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

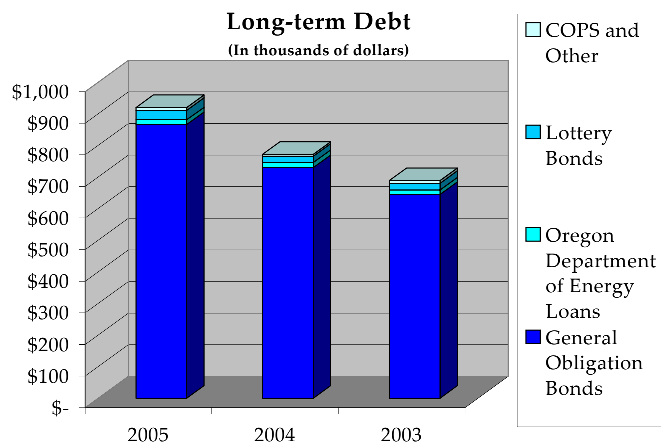
During fiscal years 2005, 2004 and 2003, OUS issued bonds totaling $173 million, $106 million and $46 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. During 2005 and 2004, capital expenditures exceeded debt proceeds as debt proceeds were used from the past three fiscal years, as well as gifts and other funding sources, to pay for construction. See "Note 8. Long-Term Liabilities" in the Notes to the Financial Statements for information on debt issued during fiscal year 2005 and 2004.

OUS facilities include 1,172 buildings totaling 21.5 million gross square feet (gsf). OUS is committed to a comprehensive program of capital initiatives combined with a comprehensive approach to facility maintenance which includes addressing current maintenance needs and minimizing OUS's deferred maintenance backlog. State, private, borrowed, and internal OUS funding combine to accomplish OUS's capital objectives.

Capital additions totaled $255 million for the fiscal year 2005, $180 million for 2004 and $197 million for 2003. For the seven universities, fiscal year 2005 saw purchased buildings, and new and renovated buildings completed, such as UO Williams Bakery, OSU Veterinary Medicine Small Animal Hospital, UO East Campus Childcare Center, UO Many Nations Longhouse, UO Museum of Art, PSU Helen Gordon Childcare Center Phase II, PSU Smith Center Renovation/Student Health Center, UO Museum of Natural History, UO Heart of Campus Rehabilitation and UO Allen Hall Renovation. Fiscal year 2004 included new and renovated buildings completed, such as OSU Weatherford Hall remodel, UO Lillis Business Center, EOU Regional Ag Health & Life Science Building, OIT College Union addition, SOU Library addition/remodel, WOU Housing Project and PSU Native American Center. Fiscal year 2003 included new and renovated buildings completed, such as the EOU Integrated Services Building, OSU Hinsdale Wave Research Addition, PSU Classroom Building and Renovation, UO Campus Development (phase 2), and WOU Werner College Center (phase 2). Facilities under construction at the end of the fiscal year ended 2005 include projects funded from private gifts, general obligation bonds, State capital appropriations, certificates of participation and internal funds.

Accumulated depreciation at June 30, 2005, increased $59.3 million, which represented $76.0 million in depreciation expense offset by $16.6 million in asset retirements. Depreciation expense increased $8.5 million during 2005 compared to 2004 due to increased depreciable assets and the refining of building componentization for certain research buildings. Accumulated depreciation at June 30, 2004, increased $57.7 million, which represented $67.5 million in depreciation expense offset by $9.8 million in asset retirements. Depreciation expense increased $4.0 million during 2004 compared to 2003 due to increased depreciable assets and the introduction of building componentization for certain research buildings.





ECONOMIC OUTLOOK

The funding for the major activities of OUS comes from a variety of sources: tuition and fees; financial aid programs; state appropriations; federal, foundation and other grants; private and government contracts, and donor gifts. Revenues are also generated through recovery of costs associated with federal grant and contract activities, which serve to offset related administrative and facilities costs at the universities.

A primary objective of the OUS universities is to maintain higher education programs and services that provide for access, affordability, excellence and economic development, reflecting the goals of the State Board of Higher Education. While Oregon has not fully recovered from the economic downturn of the last few biennia, available state revenues for 2005-2007 are forecast to be $1.25 billion higher than in 2003-2005 (State of Oregon September 2005 Revenue Forecast). Unlike in 2003-2005, OUS saw an increase in its state General Fund operating budget appropriations in 2005-2007. Not accounting for inflation, funding over the prior biennium increased $33 million or 4.9 percent in 2005-2007 (with another $30 million in state funding anticipated to be released by the Oregon Legislature for salary and benefit cost increases); this also includes debt service on Article XI-G bonds, and capital construction and repair funding.

The increased funding is seen as a positive sign, yet after accounting for inflation and significant increases in employee benefits and other fixed costs, campuses continue to balance budgets through program and staffing cutbacks. To address the decline in State appropriations – still at a lower level than the 1999-01 biennia despite significant enrollment increases since that time – OUS Board and university leadership worked diligently to keep higher education priorities in the forefront of the State Legislature during the 2005 session. While this netted some positive funding increases and program commitments, state revenues are still inadequate to fund higher education at the levels needed to meet the requirements of

Oregon's knowledge economy and the Board's objectives. See the "Message from the Chancellor" for information relating to the Board's strategic plan, and the associated actions being undertaken to accomplish it.

The Legislature made the largest investment ever in capital construction, repair and deferred maintenance in the 2005-2007 budget, providing $410 million in funding and bonding authority. This included $14.8 million in General Funds, an increase of 29% over 2003-2005 appropriations of $11.5 million, and provided significant increases in bond funding, lottery bonds, and energy loans. This level of investment will enable the OUS to make headway on the $600 million in deferred maintenance needs; will preserve current instructional space and research facilities; maintain quality teaching, learning and research environments that prepare students for the workforce; and create more than 3,200 construction jobs across the state over the next several years while protecting and stabilizing valuable state assets.

Negative impacts have been seen and will likely continue for OUS if State apportionments continue to decline or not increase adequately to cover enrollment growth and fixed costs. Enrollment increases have slowed; yet with the Legislature's provision of additional General Funds in 2005-2007 to limit tuition increases to 3% per year – down from 10% each year of the prior biennium – growth may rebound somewhat in 2005-2007. A substantial increase in state need-based aid in 2005-2007, especially if increases continue in the future, may also expand access and improve retention for lower-income students across the state. There has been clear indications of the need for increased higher education funding from Governor Kulongoski. He has recommended a model that would provide guaranteed funding increases of 10% per biennium, plus inflation, to postsecondary education, providing a level of fiscal predictability and stability not seen in recent biennia.

Fall 2005 enrollment for OUS increased 1.0% to a total of 80,888, up from 80,066 in the same period in 2004. Though this generates a marginal increase in revenues, it increases the difficulty of achieving the primary objective of OUS if the State appropriations do not cover all of the students in the system. This is especially problematic for campuses that have seen significant growth since 2001-03, as they have received no additional funding to cover enrollment increases due to declining state revenues and Legislative directives aimed at protecting the financial stability of the smaller, regional campuses. Should state funding levels, coupled with tuition and fees, become more stable in relation to enrollment, OUS can expect to see increases in operating expenses. However, in the event of declines in state revenues without offsetting tuition and fee increases, the projected increases in enrollment may be further reduced, which may limit operating cost increases.

The budgetary outlook for fiscal year 2006 is generally "steady state" despite a moderate increase in OUS funding. The Education and General portion of OUS state funding is $565.1 million for 2005-07, up from $543.2 million in E&G appropriations for the 2003-05 biennium, an increase of 4%, but still a decrease from 2001-2003 of 11%. In the 2003-05 biennium, the Legislature set upper limits on undergraduate fee remissions, which required campuses to adjust their financial aid awards in the biennium to conform to the limit. Fortunately, this cap was eliminated for 2005-2007, although all remissions above 8% of total tuition revenues must be need-based aid.

Research volume on OUS campuses remains strong at the larger research universities as well as the regional campuses. New funds were provided in the 2005-2007 state budget to spur increases in technology transfer and commercialization activities, and fund the Oregon Nanoscience and Microtechnologies Institute, a multi-campus and industry partnership harnessing Oregon's significant assets in these fields. Recognizing the universities' strength as an economic driver, these investments by the Legislature will help ensure stability and achieve growth in grant and contract revenues, and increased cost recoveries, as well as create new jobs and companies in the state.

OUS campuses have increasingly looked to outside donors for funding significant portions of capital projects, as well as supporting special programs and operations. Improvements in the levels of gift revenues have been made over the past several years. Despite Oregon's current economic condition, there was growth between 2003-04 and 2004-05 in university foundations' net assets, from $856.1 million to $960.6 million, respectively, a 12% increase in one year. Because this was a larger than normal increase, it is uncertain whether we can anticipate continued growth and stability from this revenue source.

The quality of education at OUS is tracked and evaluated based on a performance measurement system mandated by the State Legislature in 1997, and is seen as a national model for accountability. These performance and target-setting reports are one piece of a larger OUS accountability, monitoring, and planning effort, which help to inform policy at both the campus and the Board level. OUS continues to show improvement on most of its key indicators, which include areas such as quality rating by graduates, total degrees awarded, R&D support from grants and contracts, and student diversity.

While the salary freeze for all state employees was lifted for 2005-2007, compensation continues to be an issue relating to the ability of OUS to attract and retain a quality workforce. There are concerns about the ability to offer competitive salaries and benefits in order to ensure retention of top talent and, as a result, ensure the continued quality of OUS educational programs. The experience of the last several years, as well as industry projections, points to continued increases in the costs necessary to maintain the current level of employee benefits. While the Governor and the Legislature acknowledged the need to bring faculty salaries closer to peer university and market rates with $1 million in 2005-2007 for recruitment and retention of faculty, that amount falls far short of what is needed to address this critical state problem.

Public Employees Retirement System (PERS) costs rose by approximately 25% in mid-2005 due to delayed effects of prior years' poor market performance and only partial success of the legislative reform measures before the courts. Through a phased-in rate increase implementation and additional funding through the state's pension obligation bond payment, employer contributions have been moderated, but not controlled. Future liabilities against the retirement system are unlikely in the short or near term to be offset by favorable earnings, though work is in progress to restructure rates through several biennia to prevent further cost increases of unmanageable proportions.

INDEPENDENT AUDITORS' REPORT

Oregon State Board of Higher Education
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the accompanying basic financial statements of Oregon University System (System) as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of Oregon University System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the System's discretely presented component units as described in Note 1. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in those component units described in Note 1, is based solely on the report of 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 basic financial statements are free of material misstatement. 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 Oregon University System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Oregon University System and its discretely presented component units as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005, on our consideration of Oregon University System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MOSS-ADAMS LLP

The Management's Discussion and Analysis on pages 10 through 25 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 68 through 83 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Eugene, Oregon
October 31, 2005

Statements of Net Assets

As of June 30,	University System 2005		University System 2004
	(In thousands)		
ASSETS			
Current Assets			
Cash and Cash Equivalents (Note 2)	$ 276,766		$ 298,609
Short-Term Investments (Note 2)	-		-
Collateral from Securities Lending (Note 2)	97,710		261,175
Accounts Receivable, Net (Note 3)	127,941		108,009
Notes Receivable, Net (Note 4)	22,762		22,640
Inventories	5,977		5,981
Prepaid Expenses	14,051		11,988
Total Current Assets	545,207		708,402
Noncurrent Assets			
Cash and Cash Equivalents (Note 2)	274,739		251,152
Long-Term Investments (Note 2)	71,658		65,940
Notes Receivable, Net (Note 4)	101,605		105,769
Capital Assets, Net of Accumulated Depreciation (Note 5)	1,331,109		1,173,317
Total Noncurrent Assets	1,779,111		1,596,178
Total Assets	**$ 2,324,318**		**$ 2,304,580**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities (Note 6)	$ 112,631		$ 90,304
Deposits	12,705		21,224
Obligations Under Securities Lending (Note 2)	97,710		261,175
Current Portion of Long-Term Liabilities (Note 8)	70,605		67,833
Deferred Revenue	75,901		68,357
Total Current Liabilites	369,552		508,893
Noncurrent Liabilities			
Long-Term Liabilities (Note 8)	884,244		737,879
Total Noncurrent Liabilities	884,244		737,879
Total Liabilities	**$ 1,253,796**		**$ 1,246,772**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 450,474		$ 451,824
Restricted For:			
Nonexpendable Endowments	14,682		14,682
Expendable:			
Gifts, Grants and Contracts	84,378		84,643
Student Loans	85,103		84,678
Capital Projects	193,200		186,058
Debt Service	64,594		60,942
Unrestricted Net Assets (Note 10)	178,091		174,981
Total Net Assets	**$ 1,070,522**		**$ 1,057,808**

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

As of June 30,	Component Units 2005	Component Units 2004
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	$ 56,622	$ 47,909
Contributions, Pledges and Grants Receivable, Net	103,354	86,119
Investments	855,842	787,505
Prepaid or Deferred Expenses, and Other Assets	21,176	5,492
Property and Equipment, Net	54,430	53,024
Real Property (held for sale)	669	801
TOTAL ASSETS	**$ 1,092,093**	**$ 980,850**
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 2,465	$ 3,793
Obligations to Beneficiaries of Split-Interest Agreements	61,838	63,476
Deposits Held in Custody	10,058	9,736
Deferred Revenue	142	121
Long-Term Liabilities	56,980	47,575
TOTAL LIABILITIES	**$ 131,483**	**$ 124,701**
NET ASSETS		
Unrestricted	$ 57,621	$ 56,542
Temporarily Restricted	446,277	412,596
Permanently Restricted	456,712	387,011
TOTAL NET ASSETS	**$ 960,610**	**$ 856,149**

Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30,	University System 2005	University System 2004
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowance of $65,832 and $69,822, respectively)	$ 476,344	$ 432,363
Federal Grants and Contracts	508,940	479,951
State and Local Grants and Contracts	31,360	32,500
Nongovernmental Grants and Contracts	33,754	24,333
Educational Department Sales and Services	54,490	52,631
Auxiliary Enterprise Revenues (Net of Scholarship Allowance of $8,672 and $8,246, respectively)	162,093	159,709
Other Operating Revenues	15,951	12,943
Total Operating Revenues	**1,282,932**	**1,194,430**
OPERATING EXPENSES		
Instruction	438,191	412,321
Research	231,202	222,986
Public Service	91,948	86,432
Academic Support	97,708	89,570
Student Services	61,094	55,919
Auxiliary Programs	237,737	223,761
Operation and Maintenance of Plant	66,913	58,017
Institutional Support	108,209	109,138
Student Aid	266,761	246,324
Other Operating Expenses	91,498	77,866
Total Operating Expenses	**1,691,261**	**1,582,334**
Operating Loss	**(408,329)**	**(387,904)**
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	348,249	352,066
Investment Activity (Note 9)	18,313	18,370
Gain on Sale of Assets, Net	371	1,662
Interest Expense	(38,335)	(33,302)
Other Nonoperating Items	71,125	67,593
Net Nonoperating Revenues	**399,723**	**406,389**
(Loss) Income Before Other Revenues, Expenses, Gains and Losses	**(8,606)**	**18,485**
Capital Appropriations (Note 12)	-	11,520
Capital Grants and Gifts	20,627	15,377
Capital Contributions	693	650
Changes to Permanent Endowments	-	(4)
Total Other Nonoperating Revenues	**21,320**	**27,543**
Increase In Net Assets	**12,714**	**46,028**
NET ASSETS		
Beginning Balance	1,057,808	1,011,780
Ending Balance	**$ 1,070,522**	**$ 1,057,808**

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

For The Year Ended June 30,		Component Units 2005		2004
		(In thousands)		
REVENUES				
Grants, Bequests and Gifts	$	154,204	$	123,154
Interest and Dividends		8,653		6,951
Investment Income, Net		48,497		73,581
Change in Value of Life Income Agreements		4,884		9,541
Other Revenues		8,621		5,866
Total Revenues		**224,859**		**219,093**
EXPENSES				
General and Administrative		19,477		17,606
Development Expenses		5,346		5,554
University Support		88,220		79,346
Other Expenses		7,355		2,325
Total Expenses		**120,398**		**104,831**
Increase In Net Assets		**104,461**		**114,262**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR		**856,149**		**741,887**
NET ASSETS, END OF YEAR	**$**	**960,610**	**$**	**856,149**

Statements of Cash Flows

For the Years Ended June 30,	University System 2005	2004
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 475,636	$ 432,172
Grants and Contracts	566,828	542,884
Sales and Services of Educational Departments	54,597	52,697
Auxiliary Enterprise Operations	162,896	158,549
Student Loan Collections	18,939	16,958
Payments to Employees for Salaries and Benefits	(945,292)	(877,712)
Payments to Suppliers	(585,432)	(536,972)
Student Financial Aid	(75,965)	(69,057)
Student Loan Issuance and Costs	(16,632)	(18,465)
Other Operating Receipts	8,257	8,249
Net Cash Used by Operating Activities	**(336,168)**	**(290,697)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	347,312	351,532
Private Gifts Received for Endowment Purposes	-	(4)
Other Gifts and Private Contracts	73,084	68,241
Net Agency Fund (Payments) Receipts	(3,376)	8,287
Net Cash Provided by Noncapital Financing Activities	**417,020**	**428,056**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	-	11,520
Capital Grants and Gifts	20,627	15,221
Capital Contributions	693	650
Bond Proceeds on Capital Debt	173,366	105,590
Sales of Capital Assets	21,962	13,346
Purchase of Capital Assets	(245,340)	(180,039)
Interest Payments on Capital Debt	(34,216)	(31,426)
Principal Payments on Capital Debt	(28,836)	(26,242)
Net Cash Used by Capital and Related Financing Activities	**(91,744)**	**(91,380)**
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) Sales of Investments	(2,043)	20,433
Interest on Investments and Cash Balances	14,679	11,698
Interest Income from Securities Lending	1,517	1,112
Interest Expense from Securities Lending	(1,517)	(1,112)
Net Cash Provided by Investing Activities	**12,636**	**32,131**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,744**	**78,110**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**549,761**	**471,651**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 551,505**	**$ 549,761**

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

For the Years Ended June 30,	University System 2005	2004
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (408,329)	$ (387,904)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation Expense	75,950	67,495
Changes in Assets and Liabilities		
Accounts Receivable	(18,365)	(10,004)
Notes Receivable	(394)	850
Inventories	3	392
Prepaid Expenses	(2,058)	(1,974)
Accounts Payable and Accrued Liabilities	9,507	23,497
Long-Term Liabilities	496	4,699
Deposits	492	225
Deferred Revenue	6,530	12,027
NET CASH USED BY OPERATING ACTIVITIES	**$ (336,168)**	**$ (290,697)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ 898	$ 104
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	3,671	6,634

The accompanying notes are an integral part of these Financial Statements

STATEMENTS OF FINANCIAL POSITION As of June 30, 2005 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	$ 254	$ 357	$ 39,816
Contributions, Pledges and Grants Receivable, Net		174	27,297
Investments	2,493	15,406	389,329
Prepaid or Deferred Expenses, and Other Assets			1,102
Property and Equipment, Net			8,892
Real Property (held for sale)			
TOTAL ASSETS	**$ 2,747**	**$ 15,937**	**$ 466,436**
LIABILITIES			
Accounts Payable and Accrued Liabilities		$ 95	$ 281
Obligations to Beneficiaries of Split-Interest Agreements		167	22,676
Deposits Held in Custody			
Deferred Revenue			
Long-Term Liabilities			
TOTAL LIABILITIES	**$ -**	**$ 262**	**$ 22,957**
NET ASSETS			
Unrestricted	$ 354	$ 9,389	$ 35,578
Temporarily Restricted	747	2,209	207,608
Permanently Restricted	1,646	4,077	200,293
TOTAL NET ASSETS	**$ 2,747**	**$ 15,675**	**$ 443,479**

STATEMENTS OF ACTIVITIES For the Year Ended June 30, 2005 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
REVENUES			
Grants, Bequests and Gifts	$ 1,052	$ 1,239	$ 51,237
Interest and Dividends	7		8,385
Investment Income, Net	184	1,064	17,284
Change in Value of Life Income Agreements		21	
Other Revenues	55	23	4,108
Total Revenues	**1,298**	**2,347**	**81,014**
EXPENSES			
General and Administrative	183	427	10,344
Development Expenses			
University Support	726	756	40,848
Other Expenses			2,545
Total Expenses	**909**	**1,183**	**53,737**
Increase (Decrease) In Net Assets	**389**	**1,164**	**27,277**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**2,358**	**14,511**	**416,202**
NET ASSETS, END OF YEAR	**$ 2,747**	**$ 15,675**	**$ 443,479**

* As of December 31, 2004

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
$ 1,026	$ 2,581	$ 11,902	$ 58	$ 628	$ 56,622
5,420	189	70,238	36		103,354
30,209	12,831	386,816	7,366	11,392	855,842
6,787	674	12,567	46		21,176
43,624	1,425		484	5	54,430
	669				669
$ 87,066	**$ 18,369**	**$ 481,523**	**$ 7,990**	**$ 12,025**	**$ 1,092,093**
$ 894	$ 253	$ 942			$ 2,465
679	546	36,404	1,366		61,838
		10,058			10,058
	142				142
50,716	650	5,614			56,980
$ 52,289	**$ 1,591**	**$ 53,018**	**$ 1,366**	**$ -**	**$ 131,483**
$ (1,808)	$ 2,524	$ 9,830	$ 419	$ 1,335	$ 57,621
16,071	2,105	204,363	3,152	10,022	446,277
20,514	12,149	214,312	3,053	668	456,712
$ 34,777	**$ 16,778**	**$ 428,505**	**$ 6,624**	**$ 12,025**	**$ 960,610**

$ 6,593	$ 3,136	$ 84,539	$ 718	$ 5,690	$ 154,204
	261				8,653
2,031	628	25,809	643	854	48,497
	(59)	4,922			4,884
3,236	379	713	107		8,621
11,860	**4,345**	**115,983**	**1,468**	**6,544**	**224,859**
1,624	703	6,038	158		19,477
				5,346	5,346
7,408	3,891	33,808	783		88,220
4,810					7,355
13,842	**4,594**	**39,846**	**941**	**5,346**	**120,398**
(1,982)	**(249)**	**76,137**	**527**	**1,198**	**104,461**
36,759	**17,027**	**352,368**	**6,097**	**10,827**	**856,149**
$ 34,777	**$ 16,778**	**$ 428,505**	**$ 6,624**	**$ 12,025**	**$ 960,610**

STATEMENTS OF FINANCIAL POSITION As of June 30, 2004 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	$ 163	$ 139	$ 32,263
Contributions, Pledges and Grants Receivable, Net	-	120	29,410
Investments	2,195	14,374	366,455
Prepaid or Deferred Expenses, and Other Assets	-	100	1,141
Property and Equipment, Net	-	-	12,046
Real Property (held for sale)	-	-	-
TOTAL ASSETS	**$ 2,358**	**$ 14,733**	**$ 441,315**
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ -	$ 29	$ 272
Obligations to Beneficiaries of Split-Interest Agreements	-	193	24,841
Deposits Held in Custody	-	-	-
Deferred Revenue	-	-	-
Long-Term Liabilities	-	-	-
TOTAL LIABILITIES	**$ -**	**$ 222**	**$ 25,113**
NET ASSETS			
Unrestricted	$ 185	$ 9,133	$ 33,662
Temporarily Restricted	700	1,659	208,460
Permanently Restricted	1,473	3,719	174,080
TOTAL NET ASSETS	**$ 2,358**	**$ 14,511**	**$ 416,202**

STATEMENTS OF ACTIVITIES For the Year Ended June 30, 2004 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
REVENUES			
Grants, Bequests and Gifts	$ 319	$ 831	$ 52,368
Interest and Dividends	58	-	6,695
Investment Income, Net	298	1,497	34,897
Change in Value of Life Income Agreements	-	60	4,402
Other Revenues	6	27	4,270
Total Revenues	**681**	**2,415**	**102,632**
EXPENSES			
General and Administrative	71	416	8,354
Development Expenses	-	-	-
University Support	956	562	36,337
Other Expenses	-	-	2,127
Total Expenses	**1,027**	**978**	**46,818**
Increase (Decrease) In Net Assets	**(346)**	**1,437**	**55,814**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**2,704**	**13,074**	**360,388**
NET ASSETS, END OF YEAR	**$ 2,358**	**$ 14,511**	**$ 416,202**

* As of December 31, 2003

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
$ 806	$ 2,976	$ 10,483	$ 167	$ 912	$ 47,909
8,069	712	47,782	26	-	86,119
41,443	11,873	334,481	6,779	9,905	787,505
2,314	116	1,773	48	-	5,492
34,946	1,434	4,123	465	10	53,024
-	801	-	-	-	801
$ 87,578	**$ 17,912**	**$ 398,642**	**$ 7,485**	**$ 10,827**	**$ 980,850**
$ 2,645	$ 229	$ 618	$ -	$ -	$ 3,793
599	535	35,920	1,388	-	63,476
-	-	9,736	-	-	9,736
-	121	-	-	-	121
47,575	-	-	-	-	47,575
$ 50,819	**$ 885**	**$ 46,274**	**$ 1,388**	**$ -**	**$ 124,701**
$ 95	$ 2,519	$ 9,507	$ 484	$ 957	$ 56,542
18,176	3,703	168,025	2,671	9,202	412,596
18,488	10,805	174,836	2,942	668	387,011
$ 36,759	**$ 17,027**	**$ 352,368**	**$ 6,097**	**$ 10,827**	**$ 856,149**

$ 8,618	$ 2,740	$ 52,128	$ 558	$ 5,592	$ 123,154
-	198	-	-	-	6,951
3,433	1,846	30,642	871	97	73,581
-	(40)	5,119	-	-	9,541
663	518	246	136	-	5,866
12,714	**5,262**	**88,135**	**1,565**	**5,689**	**219,093**
1,562	692	6,360	151	-	17,606
-	-	-	-	5,554	5,554
7,249	1,159	32,395	688	-	79,346
198	-	-	-	-	2,325
9,009	**1,851**	**38,755**	**839**	**5,554**	**104,831**
3,705	**3,411**	**49,380**	**726**	**135**	**114,262**
33,054	**13,616**	**302,988**	**5,371**	**10,692**	**741,887**
$ 36,759	**$ 17,027**	**$ 352,368**	**$ 6,097**	**$ 10,827**	**$ 856,149**

Index to the Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

A. Reporting Entity

The Oregon State Board of Higher Education (Board), a citizen board appointed by the Governor with confirmation by the Senate, governs the seven state-supported institutions of higher learning (institutions) in Oregon. These institutions are known as the Oregon University System (OUS). The law creating the Board was passed in 1929 by the Oregon Legislature and went into effect July 1, 1931.

The OUS financial reporting entity is reported under the heading of University System on the Basic Financial Statements and includes the accounts of Eastern Oregon University, Oregon Institute of Technology, Oregon State University (OSU), Portland State University, Southern Oregon University, University of Oregon, Western Oregon University and the Chancellor's Office. The operations of most student government or associated student organizations are also included in the reporting entity due to OUS universities' fiduciary responsibilities for these organizations. Organizations that are not financially accountable to OUS universities, such as booster and alumni organizations, are not included in the reporting entity.

OUS is a part of the primary government of the State of Oregon (State) and is included as a proprietary (enterprise) fund in the Comprehensive Annual Financial Report issued by the State.

B. Financial Statement Presentation

OUS financial accounting records are maintained in accordance with generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of OUS assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows; and replaces the fund-group perspective previously required.

OUS implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, effective for the year ended June 30, 2005. GASB No. 40 updates the custodial credit risk disclosure requirements of GASB No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. See "Note 2. Cash and Investments" for additional information about OUS investments.

OUS implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units (No. 39)*, effective for the year ended June 30, 2004. GASB No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*, and provides criteria for determining whether organizations should be reported as component units based on the nature and significance of their relationship with OUS and to clarify reporting requirements of those organizations. OUS includes component units that were selected for inclusion based on criteria established in GASB No. 39. OUS component units include Eastern Oregon University Foundation, Oregon Tech Foundation, Oregon State University Foundation, Portland State University Foundation, Southern Oregon University Foundation, University of Oregon Foundation, Western Oregon University Development Foundation, and Agricultural Research Foundation. These component units are discretely presented on a separate page to emphasize that they are tax-exempt non-profit organizations legally separate from OUS. The component units report under Financial

Accounting Standards Board (FASB) Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which differs from GASB pronouncements. No modifications have been made to the foundations' financial information and care must be taken when assessing the consistency and comparability of the financial presentation between FASB and GASB. See "Note 14. University Foundations" for additional information about OUS institution related foundations.

New Accounting Standards – In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* GASB No. 42 establishes accounting and financial reporting standards for impairment of capital assets and establishes requirements for application of related insurance recoveries. OUS has not completed the process of evaluating the impact that will result from adopting GASB No. 42 and is therefore unable to disclose the impact that adopting GASB No. 42 will have on its financial statements. The requirements of GASB No. 42 are effective for OUS's fiscal year ending June 30, 2006. In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB No. 45 generally requires that OUS account for and report the cost and obligations related to postemployment healthcare and other nonpension benefits (OPEB) and include disclosures regarding its OPEB plans. The requirements of GASB No. 45 are effective for the fiscal year ending June 30, 2008. Currently, OUS does not offer any OPEB to retirees and is not anticipating any material impact, due to the adoption of GASB No. 45, on its financial statements.

In preparing the financial statements, significant interfund transactions and balances between universities have been eliminated. The fiscal year 2004 financial statements reflect certain reclassifications and restatements to conform to the fiscal year 2005 presentation.

C. Basis of Accounting

For financial reporting purposes, OUS is considered a special-purpose government engaged only in business-type activities. Accordingly, the OUS financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred.

OUS has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. OUS has elected to not apply FASB pronouncements issued after the applicable date.

D. Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Cash and cash equivalents include: Cash on hand; cash and investments held by the Oregon State Treasury Short-Term Fund (OSTF); and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

Cash and cash equivalents that are restricted for debt service, capital construction, and agency funds are classified as noncurrent assets in the Statements of Net Assets.

E. Investments

Investments are reported at fair value as determined by market prices. Unrealized gains or losses on investments are reported as investment activity in the Statements of Revenues, Expenses, and Changes in Net Assets.

Investments that are restricted for endowments, debt service, capital construction, and agency funds are classified as noncurrent assets in the Statements of Net Assets.

F. Inventories

Inventories are recorded at the lower of average cost or market and consist primarily of supplies in storerooms and physical plant stores.

G. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. OUS policy is to capitalize equipment with unit costs of $5,000 or more and an estimated useful life of greater than one year. OUS also capitalizes major improvements to buildings that significantly increase the functionality of the building. Repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, 10 to 20 years for infrastructure and land improvements, 10 years for library books and 5 to 11 years for equipment. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

During the fiscal year ended June 30, 2005, OSU revised its estimate of useful lives of building components. The revisions were made to more accurately measure the useful lives of each component of componentized buildings. Previously, all componentized buildings comprised four components with useful lives ranging from 15 to 40 years. OSU componentized buildings now contain 17 components with useful lives ranging from 15 to 50 years. The change had the effect of increasing building depreciation expense and decreasing net assets by approximately $3.5 million.

H. Deferred Revenues

Deferred revenues include amounts received for tuition and fees, and auxiliary enterprise activities that relate to the subsequent fiscal year.

I. Compensated Absences

OUS accrues a liability for vacation leave and other compensated absences that were earned but not used during the current or prior fiscal year for which employees can receive compensation in a future period.

Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists for terminated employees.

J. Net Assets

OUS net assets are classified as follows:

Invested in capital assets, net of related debt

Investment in capital assets represents the total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted net assets – nonexpendable

Nonexpendable restricted net assets consist of endowment funds in which donors have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. The income may either be expended or, depending on the terms of the gift instrument, added to principal.

Restricted net assets – expendable

Restricted expendable net assets include resources in which OUS is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets

Unrestricted net assets are resources that may be used at the discretion of the Board.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the decision whether to apply restricted or unrestricted resources first is a management matter, and the decision is made on a case-by-case basis.

K. Endowments

Oregon Revised Statues (ORS) Section 351.130 gives OUS the authority to use the interest, income, dividends, or profits of endowments. Current Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. Securities may be sold to provide for the income needs; however, the original corpus of endowments may not be invaded. For the years ended June 30, 2005 and 2004, the net amount of appreciation available for authorization for expenditure was $16,184,000 and $14,559,000, respectively.

Nonexpendable Endowments on the Statements of Net Assets of $14,682,000 at June 30, 2005 and 2004, represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

L. Income Taxes

OUS is an agency of the State and is treated as a governmental entity for tax purposes. As such, OUS is generally not subject to federal and state income taxes. However, OUS remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded because, in the opinion of management, there is no significant amount of taxes on such unrelated business income.

M. Revenues and Expenses

OUS has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include (1) student tuition and fees; (2) sales and services of auxiliary enterprises; (3) most federal, state and local grants and contracts; and (4) other operating revenues. Examples of operating expenses include (1) employee salaries, benefits, and related expense; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies and other services; (4) professional fees; and (5) depreciation expenses related to certain capital assets.

Nonoperating revenues have the characteristics of nonexchange transactions. Examples of nonoperating revenues include state appropriations, gifts, and contributions. Nonoperating expenses are defined in GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

N. Scholarship Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprise revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. OUS has two types of scholarship allowances net into tuition and fees. Tuition waivers, provided directly by OUS, amounted to $27,289,000 and $34,933,000 for the fiscal years ended 2005 and 2004, respectively. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and State Need Grants) used for paying student tuition and fees and campus housing were estimated to be $47,215,000 and $43,135,000 for the fiscal years ended 2005 and 2004, respectively.

O. Student Loan Programs

OUS universities use two categories of student loan programs. The Federal Direct Student Loan Program is recorded as pass through revenue in Federal Grants and Contracts and offset in Student Aid in Operating Expenses. The Federal Family Education Loan Program is paid directly to the student and not reported in operations. Federal student loans received by OUS students but not reported in operations were $116,379,000 and $99,629,000 for the fiscal years ended 2005 and 2004, respectively.

P. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the year. Actual results could differ from those estimates.

2. Cash and Investments

A. Cash & Cash Equivalents

Deposits with State Treasury

OUS maintains its cash balances on deposit with the Oregon State Treasury (State Treasury). The State Treasury maintains these and other state funds on a pooled basis, in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool required for use by all state funds. At the fiscal years ended June 30, 2005 and 2004, OUS carrying amounts of cash and cash equivalents were $548,297,000 and $546,699,000, respectively, while the State Treasury balances were $559,141,000 and $553,257,000, respectively. Differences between the OUS carrying amount and the State Treasury balance occur due to timing differences between transfers.

A copy of the OSTF audited annual financial report may be obtained in writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97310-0840.

Custodial Credit Risk - Deposits

OUS cash balances exceed the limits of Federal deposit insurance. Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to OUS.

To reduce custodial credit risk, the State Treasury requires financial institutions holding public funds to participate in a state-wide collateral pool. For funds not covered by Federal deposit insurance, the manager of the state-wide collateral pool issues certificates of participation (COP) to the State Treasury. The financial institution holding those public funds is required to pledge securities with a value of at least 25% of the COP to a separate custodian for the benefit of the State of Oregon. The manager of the state-wide collateral pool ensures that the value of the securities pledged is at least 25% of the COP.

Since OUS cash balances on deposit with the State Treasury are combined with funds from other State agencies, additional information on the State Treasury custodial credit risk exposure applicable to OUS is not available.

Foreign Currency Risk - Deposits

Deposits in foreign currency run the risk of losing value due to fluctuations in foreign exchange rates. State Treasury deposits are in U.S. currency and therefore not exposed to foreign currency risk.

Other Deposits

OUS cash and cash equivalents held by a fiscal agent outside the State Treasury comprised $3,208,000 and $3,062,000 at June 30, 2005 and 2004, respectively. The fiscal agent is the custodian for distributing the OUS bond principal and interest repayments to bondholders. The cash balance with the fiscal agent is subject to Federal deposit insurance for the first $100,000 for each bondholder. At June 30, 2005, no bondholders had balances exceeding $100,000.

B. Investments

OUS funds are invested by the State Treasury. OUS investment policies are governed by statute, the Oregon Investment Council (Council), and the Board. In accordance with ORS, investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury 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 to the Council.

Investments are reported at the fair values reported by the applicable investment trustee. The following schedule presents the fair value of OUS investments at June 30, 2005 (in thousands):

	Fair Value	Concentration Of Credit Risk
Investment Type:		
Money Market Funds	$ 3,072	4%
Corporate Bonds	60	-
Mutual Funds - Domestic Fixed Income	13,309	18%
Guaranteed Investment Contracts	7,107	10%
Fixed Income Investments	23,548	
Mutual Funds - Domestic Equity Securities	40,466	55%
Mutual Funds - International Equity Securities	6,500	9%
Equity Investments	46,966	
Alternative Equities	28	-
Real Estate	3,200	4%
Other Investments	3,228	
Total All Investments	73,742	100%
Less Amounts Recorded As Cash	(2,084)	
Total Investments	$ 71,658	

Of the total investments, $62 million is in pooled endowment investments, $3 million are separately invested endowments, and $8 million are investments of unspent bond proceeds. OUS has an endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Credit Risk

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS investment policy pertaining to credit risk requires fixed income securities to have an average credit quality of A or better and limits below investment grade bonds to no more than 15% of the bond portfolio. At June 30, 2005, OUS fixed income investments (in thousands) had the following credit quality ratings:

OUS	Fair Value	AAA	AA	A	BBB	Aaa	Unrated
Investment Type:							
Money Market Funds	$ 3,072	$ 3,072					
Corporate Bonds	60					$ 60	
Mutual Funds - Domestic Fixed Income	13,309	9,317	$ 399	$ 266	$ 1,996		$ 1,331
Guaranteed Investment Contracts	7,107						7,107
Total Fixed Income Investments	$ 23,548	$ 12,389	$ 399	$ 266	$ 1,996	$ 60	$ 8,438

Custodial Credit Risk-Investments

Custodial credit risk refers to OUS investments that are held by others and not registered in OUS's or the State Treasury's name. This risk typically occurs in repurchase agreements where one transfers cash to a broker-dealer in exchange for securities, but the securities are held by a separate trustee in the name of the broker-dealer. Custodial credit risk does not apply to OUS investments because they do not participate in repurchase agreements.

Concentration of Credit Risk

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. OUS policy for reducing this risk in fixed income securities is that, with exception of US Government and Agency issues, no more than 10% of the bond portfolio, at market value, will be invested in securities of a single issuer or five percent of the individual issue. For equity securities, not more than five percent of the market value of any investment fund will be invested in any single issue, property, or security, with exception of U.S. Government-issued securities, and no investment in any single issue, security, or property shall be greater than five percent of the total value of the issue, security, or property. No investments representing five percent or more of total investments were held at June 30, 2005.

Interest Rate Risk

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. OUS does not have a specific policy pertaining to interest rate risk other than to limit fixed income investments to 20% - 30% of total investments. OUS has the following investments in corporate bonds and mutual funds fixed income:

		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Investment Type:					
Money Market Funds	$ 3,072	$ 3,072			
Corporate Bonds	60			$ 60	
Mutual Funds - Domestic Fixed	13,309	13,309			
Guaranteed Investment Contracts	7,107		$ 4,263		$ 2,844
Total Investments	$ 23,548	$ 16,381	$ 4,263	$ 60	$ 2,844

Foreign Currency Risk

Foreign currency risk is the risk of investments losing value due to fluctuations in foreign exchange rates. OUS has $6,500,000 in mutual funds that are primarily invested in international equities. However, OUS does not directly invest in foreign currency investments and is therefore not subject to foreign currency risk.

C. Securities Lending

In accordance with the State investment policies, the State Treasury participates in securities lending transactions. The securities lending balances relating to investment securities owned by OUS and OUS funds deposited into the Oregon Short-Term Fund (OSTF) are shown on the following tables (in thousands) and illustrate that the State Treasury had no credit risk exposure to borrowers related to securities on loan:

	June 30, 2005	June 30, 2004
OUS Securities on loan:		
Fair Value	$ 675	$ 629
Collateral held by OUS:		
Fair Value	692	642
Reported Value	693	647
Securities on loan by OSTF:		
Fair Value	95,041	254,870
Cash Collateral held by OSTF:		
Fair Value	96,748	260,550
Reported Value	97,017	260,528

The State Treasury has authorized its custodian to act as its agent in the lending of the OUS and OSTF's securities pursuant to a form of loan agreement, in accordance with OSTF investment policies. There have been no significant violations of the provisions of securities lending agreements.

The State Treasury's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to not less than 102% of the market value of the loaned security. The State Treasury did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State Treasury is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for OUS securities on loan in the OSTF held by the Custodian. At June 30, 2005, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit (TCD), and corporate notes. The funds' rules provides that broker/dealers meet certain qualifications and that investments are delivered to and held by a third party custodian, which holds the funds securities in the State of Oregon's name. The TCDs, comprising approximately one percent of total OSTF investments, are exposed to custodial credit risk. The TCDs are collateralized by securities pledged by the bank equal to 25% of the COP provided by the bank.

The cash collateral of OSTF securities on loan was invested in a short-term investment fund (STIF) maintained by the custodial agent, into U.S. agency securities, and corporate notes. The investments were held by a third-party custodian in the State of Oregon's name. The STIF is not rated by a nationally recognized statistical rating organization, although the STIF's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

The State Treasury and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with the cash collateral generally do not match the maturities of the securities loans.

3. Accounts Receivable

Accounts Receivable comprised the following (in thousands):

	June 30, 2005	June 30, 2004
Student Tuition and Fees	$ 62,418	$ 56,738
Auxiliary Enterprises and Other Operating Activities	11,783	11,264
Federal	13,814	9,663
State, and Private Gifts and Contracts	39,088	31,146
Other	9,533	7,135
	136,636	115,946
Less: Allowance for Doubtful Accounts	(8,695)	(7,937)
Accounts Receivable, Net	$ 127,941	$ 108,009

4. Notes Receivable

Notes Receivable comprised the following (in thousands):

	June 30, 2005			June 30, 2004		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional Student Loans	$ 7,223	$ -	$ 7,223	$ 7,319	$ -	$ 7,319
Federal Student Loans	13,123	61,447	74,570	13,369	61,046	74,415
Amounts Due from OHSU for Bond Indebtedness (See Note 8.G.)	6,018	40,158	46,176	5,553	44,723	50,276
	26,364	101,605	127,969	26,241	105,769	132,010
Less: Allowance for Doubtful Accounts	(3,602)	-	(3,602)	(3,601)	-	(3,601)
Notes Receivable, Net	$ 22,762	$ 101,605	$ 124,367	$ 22,640	$ 105,769	$ 128,409

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2005 and 2004. The program is funded through annual capital contributions from the federal government, an OUS match, and interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

Federal Perkins loans deemed uncollectible are assigned to the U.S. Department of Education for collection. OUS has provided an allowance for uncollectible loans, which in management's opinion will absorb loans that will ultimately be written off.

5. Capital Assets

The following schedules reflect the changes in capital assets (in thousands):

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets, non-depreciable:				
Land	$ 51,860	$ 37,411		$ 89,271
Capitalized Collections	58,230	962	$ (337)	58,855
Construction in Progress	128,994	180,933	(116,516)	193,411
Total capital assets, non-depreciable	239,084	219,306	(116,853)	341,537
Capital assets, depreciable				
Equipment	256,500	24,586	(18,887)	262,199
Library Materials	272,407	11,900	(2,360)	281,947
Buildings	1,258,952	107,414	(11,439)	1,354,927
Land Improvements	25,013	1,286	(3,786)	22,513
Improvements Other Than Buildings	13,533	3,379	(352)	16,560
Infrastructure	47,053	3,272	(354)	49,971
Total capital assets, depreciable	1,873,458	151,837	(37,178)	1,988,117
Less accumulated depreciation for:				
Equipment	(182,977)	(19,751)	15,401	(187,327)
Library Materials	(201,173)	(13,305)	1,539	(212,939)
Buildings	(504,814)	(38,830)	(15)	(543,659)
Land Improvements	(10,853)	(965)	(56)	(11,874)
Improvements Other than Buildings	(8,031)	(942)	(88)	(9,061)
Infrastructure	(31,377)	(2,157)	(151)	(33,685)
Total accumulated depreciation	(939,225)	(75,950)	16,630	(998,545)
Total capital assets, net	$ 1,173,317	$ 295,193	$ (137,401)	$ 1,331,109
Capital Assets Summary				
Capital assets, nondepreciable	$ 239,084	$ 219,306	$ (116,853)	$ 341,537
Capital assets, depreciable	1,873,458	151,837	(37,178)	1,988,117
Total cost of capital assets	2,112,542	371,143	(154,031)	2,329,654
Less accumulated depreciation	(939,225)	(75,950)	16,630	(998,545)
Capital Assets, net	$ 1,173,317	$ 295,193	$ (137,401)	$ 1,331,109

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Capital assets, non-depreciable:				
Land	$ 46,045	$ 5,948	$ (133)	$ 51,860
Capitalized Collections	58,882	1,598	(2,250)	58,230
Construction in Progress	229,589	130,696	(231,291)	128,994
Total capital assets, non-depreciable	334,516	138,242	(233,674)	239,084
Capital assets, depreciable				
Equipment	243,217	26,925	(13,642)	256,500
Library Materials	259,482	14,271	(1,346)	272,407
Buildings	1,043,138	218,067	(2,253)	1,258,952
Land Improvements	17,019	8,021	(27)	25,013
Improvements Other Than Buildings	9,454	4,080	(1)	13,533
Infrastructure	45,326	1,727	-	47,053
Total capital assets, depreciable	1,617,636	273,091	(17,269)	1,873,458
Less accumulated depreciation for:				
Equipment	(173,538)	(19,270)	9,831	(182,977)
Library Materials	(188,463)	(12,913)	203	(201,173)
Buildings	(474,306)	(31,184)	676	(504,814)
Land Improvements	(9,893)	(977)	17	(10,853)
Improvements Other than Buildings	(7,110)	(921)	-	(8,031)
Infrastructure	(28,240)	(2,230)	(907)	(31,377)
Total accumulated depreciation	(881,550)	(67,495)	9,820	(939,225)
Total capital assets, net	$ 1,070,602	$ 343,838	$ (241,123)	$ 1,173,317
Capital Assets Summary				
Capital assets, nondepreciable	$ 334,516	$ 138,242	$ (233,674)	$ 239,084
Capital assets, depreciable	1,617,636	273,091	(17,269)	1,873,458
Total cost of capital assets	1,952,152	411,333	(250,943)	2,112,542
Less accumulated depreciation	(881,550)	(67,495)	9,820	(939,225)
Capital Assets, net	$ 1,070,602	$ 343,838	$ (241,123)	$ 1,173,317

6. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities comprised the following (in thousands):

	June 30, 2005	June 30, 2004
Services and Supplies	$ 79,915	$ 58,497
Accrued Interest	10,097	7,707
Salaries and Wages	7,924	7,736
Payroll Related Expenses	3,635	9,278
Contract Retainage Payable	7,831	4,008
Matured Bonds, COPs and Interest Payable	3,208	3,062
Financial Aid	21	16
	$ 112,631	$ 90,304

7. Operating Lease Receivables and Payables

A. Receivables

OUS receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was $4,869,000 and $4,656,000 for the years ended June 30, 2005 and 2004, respectively. The value of assets leased, net of depreciation, was $37,177,000 and $26,569,000 for the years ended June 30, 2005 and 2004, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2005 were (in thousands):

For the year ending June 30,	
2006	$ 4,167
2007	3,173
2008	2,651
2009	2,576
20010	2,266
2011-2015	7,178
2016-2020	2,620
2021-2025	2,548
2026-2030	2,261
2031-2035	551
2036-2040	551
2041-2045	364
2046-2050	143
Total Minimum Operating Lease Payments	$ 31,049

B. Payables

OUS leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were $1,622,000 and $2,833,000 for the years ended

June 30, 2005 and 2004, respectively. Minimum future lease payments on operating leases at June 30, 2005 were (in thousands):

For the year ending June 30,	
2006	$ 1,301
2007	886
2008	679
2009	253
2010	114
2011-2015	241
2016-2020	42
2021-2025	39
2026-2030	39
2031-2035	39
2036-2040	39
2041-2045	39
2046-2050	39
Total Minimum Operating Lease Payments	$ 3,750

8. Long-Term Liabilities

Long-term liability activity was as follows (in thousands):

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	$ 562,507	$ 176,569	$ (60,290)	$ 678,786	$ 27,447
General Obligation Bonds XI-G	167,893	39,017	(19,265)	187,645	6,317
Oregon Department of Energy Loans	16,082	7	(1,448)	14,641	1,552
Certificates of Participation	6,000	5,020	(1,955)	9,065	2,636
Lottery Bonds	20,342	11,049	(1,136)	30,255	1,514
Arbitrage	158		(28)	130	-
Other Notes Payable	30		(20)	10	5
Total Long-Term Debt	773,012	231,662	(84,142)	920,532	39,471
Other Noncurrent Liabilities					
Capital Leases	500	898	(704)	694	244
Compensated Absences	31,492	33,109	(31,492)	33,109	30,679
Early Retirement Liability	708		(194)	514	211
Total Other Noncurrent Liabilities	32,700	34,007	(32,390)	34,317	31,134
	$ 805,712	$ 265,669	$ (116,532)	$ 954,849	$ 70,605

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	$ 484,981	$ 179,019	$ (101,493)	$ 562,507	$ 25,667
General Obligation Bonds XI-G	160,500	34,182	(26,789)	167,893	6,418
Oregon Department of Energy Loans	13,851	3,544	(1,313)	16,082	1,442
Certificates of Participation	9,131	-	(3,131)	6,000	1,950
Lottery Bonds	20,990	3,985	(4,633)	20,342	1,137
Arbitrage	408	-	(250)	158	7
Other Notes Payable	51	-	(21)	30	20
Total Long-Term Debt	689,912	220,730	(137,630)	773,012	36,641
Other Noncurrent Liabilities					
Capital Leases	817	104	(421)	500	223
Compensated Absences	31,150	31,492	(31,150)	31,492	30,645
Early Retirement Liability	2,561	-	(1,853)	708	324
Total Other Noncurrent Liabilities	34,528	31,596	(33,424)	32,700	31,192
	$ 724,440	$ 252,326	$ (171,054)	$ 805,712	$ 67,833

A. General Obligation Bonds XI-F(1)

The Oregon Constitution authorizes OUS to issue Article XI-F(1) State of Oregon General Obligation Bonds. Article XI-F(1) bond issuances are used to finance the construction of self-liquidating and self-supporting projects with debt service generated by these projects. XI-F(1) bonds require the establishment and maintenance of sinking funds and those funds are included in Noncurrent Cash and Cash Equivalents.

XI-F(1) bonds, with effective yields ranging from 1.12 percent to 7.5 percent, are due serially through 2036.

During the fiscal year ended June 30, 2005, OUS issued bonded indebtedness as follows:

> XI-F(1) Bond Series 2005 A, $137,175,000, effective rate of 4.55 percent for capital construction and refunding due serially through 2036.
>
> XI-F(1) Bond Series 2005 C, $27,400,000, effective rate of 5.47 percent for property acquisition due serially through 2036.

During the fiscal year ended June 30, 2004, OUS issued bonded indebtedness as follows:

> XI-F(1) Bonds Series 2004 A, $63,465,000, effective rate of 4.39 percent for capital construction due serially through 2033.
>
> XI-F(1) Bonds Series 2004 B, $25,000,000, effective rate of 4.51 percent for capital construction due serially through 2033.
>
> XI-F(1) Bonds Series 2004 D, $80,355,000, effective rate of 4.0 percent for refunding of bonds.

The scheduled maturities of the general obligation bonds are as follows (in thousands):

For the Year Ending June 30,	Principal	Interest	Total
2006	$ 20,987	$ 30,604	$ 51,591
2007	22,890	31,953	54,843
2008	22,699	31,796	54,495
2009	20,502	32,062	52,564
2010	20,042	31,529	51,571
2011-2015	104,485	144,884	249,369
2016-2020	112,555	113,558	226,113
2021-2025	117,646	61,710	179,356
2026-2030	107,960	29,715	137,675
2031-2035	59,970	8,196	68,166
2036	7,035	181	7,216
	616,771	516,188	1,132,959
Add: Accreted Interest Payable	53,931	(53,931)	-
Add: Unamortized Bond Premiums	20,621		20,621
Less: Deferred Gain on Refunding	(12,537)		(12,537)
	$ 678,786	$ 462,257	$ 1,141,043

B. General Obligation Bonds XI-G

The Oregon Constitution authorizes OUS to issue Article XI-G State of Oregon General Obligation Bonds. Article XI-G bond issuances are used to finance designated educational buildings and facilities with debt service funded by State legislative appropriation. XI-G bonds require the establishment and maintenance of sinking funds and those funds are included in Noncurrent Cash and Cash Equivalents.

XI-G bonds, with effective yields ranging from 1.11 percent to 7.0 percent, are due serially through 2036.

During the fiscal year ended June 30, 2005, OUS issued bonded indebtedness as follows:

> XI-G Bonds Series 2005 B, $27,785,000, effective rate of 4.1 percent for capital construction and refunding due serially through 2036.
>
> XI-G Bonds Series 2005 D, $10,000,000, effective rate of 5.47 percent for capital construction due serially through 2036.

During the fiscal year ended June 30, 2004, OUS issued bonded indebtedness as follows:

> XI-G Bonds Series 2004 C, $12,515,000, effective rate of 4.49 percent for academic modernization and repair due serially through 2033.
>
> XI-G Bonds Series 2004 E, $20,765,000, effective rate of 4.38 percent for refunding of bonds.

The scheduled maturities of the general obligation bonds are as follows (in thousands):

For the Year Ending June 30,	Principal	Interest	Total
2006	$ 4,998	$ 7,783	$ 12,781
2007	5,693	8,208	13,901
2008	5,429	8,231	13,660
2009	5,128	8,309	13,437
2010	4,690	8,302	12,992
2011-2015	23,591	41,919	65,510
2016-2020	28,006	35,986	63,992
2021-2025	37,032	19,529	56,561
2026-2030	38,270	10,005	48,275
2031-2035	20,860	2,415	23,275
2036	1,465	36	1,501
	175,162	150,723	325,885
Add: Accreted Interest Payable	15,278	(15,278)	-
Add: Unamortized Bond Premiums	670		670
Less: Deferred Gain on Refunding	(3,465)		(3,465)
	$ 187,645	$ 135,445	$ 323,090

C. Oregon Department of Energy Loans

OUS has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at OUS institutions. OUS makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 2.0 percent to 7.5 percent, are due through 2020.

The scheduled maturities of the SELP loans are as follows (in thousands):

For the Year Ending June 30,	Principal	Interest	Total
2006	$ 1,552	$ 802	$ 2,354
2007	1,588	713	2,301
2008	1,497	622	2,119
2009	1,370	538	1,908
2010	1,170	462	1,632
2011-2015	4,445	1,318	5,763
2016-2020	3,019	495	3,514
	$ 14,641	$ 4,950	$ 19,591

D. Certificates of Participation

Certificates of Participation (COPs) are issued to finance certain equipment and computer software. OUS makes monthly lease payments (principal and interest) to a trustee in accordance with the lease-purchase agreements. The trustee, in turn, makes the debt service payments to

COPs holders. COPs, with effective yields ranging from 1.5 percent to 5.0 percent, are due through fiscal year 2011.

During the fiscal year ended June 30, 2005, OUS issued COPs as follows:

Series 2005 A, $4,860,000, effective rate of 3.27 percent for technology projects due serially through 2010.

During the fiscal year ended June 30, 2004, OUS issued COPs as follows:

No issuances during fiscal year 2004.

The scheduled maturities of the COPs are as follows (in thousands):

For the Year Ending June 30,	Principal	Interest	Total
2006	$ 2,591	$ 316	$ 2,907
2007	2,069	228	2,297
2008	2,142	158	2,300
2009	1,005	91	1,096
2010	1,050	45	1,095
	8,857	838	9,695
Add: Unamortized Premium	208	-	208
	$ 9,065	$ 838	$ 9,903

E. Lottery Bonds

Lottery Bonds are special obligations of the State, secured and payable from net revenues of the Oregon State Lottery. Lottery Bonds are issued pursuant to ORS Chapters 286.560 to 286.580 and 348.716, and under the authority of ORS Chapter 942. Lottery Bonds, with effective yields ranging from 1.4 percent to 5.3 percent, are due through fiscal year 2025.

In fiscal year 2005, Lottery Bond Series 2005 B was issued with net proceeds of $11,095,000 and an effective interest rate of 5.22 percent. The proceeds were used for capital construction.

In fiscal year 2004, Lottery Bond Series 2004 A was issued with net proceeds of $4,023,000 and an effective interest rate of 3.43 percent. The proceeds were used for refunding of existing bonds.

The scheduled maturities of the lottery bonds are as follows (in thousands):

For the Year Ending June 30,	Principal	Interest	Total
2006	$ 1,455	$ 1,385	$ 2,840
2007	1,526	1,308	2,834
2008	1,579	1,259	2,838
2009	1,626	1,208	2,834
2010	1,687	1,149	2,836
2011-2015	9,708	4,466	14,174
2016-2020	8,077	1,981	10,058
2021-2025	3,844	620	4,464
	29,502	13,376	42,878
Less: Deferred Loss on Refunding	(479)	-	(479)
Add: Unamortized Premium	1,232	-	1,232
	$ 30,255	$ 13,376	$ 43,631

F. Arbitrage Rebate Liability

The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. The total arbitrage rebate liability as of June 30, 2005 and 2004 was $130,000 and $158,000, respectively.

G. Debt Related to Oregon Health & Science University

Prior to 1996, Oregon Health & Science University (OHSU) was part of OUS. Pursuant to an act of the Oregon Legislature (the 1995 Act), OHSU became an independent public corporation. Consequently, OHSU is no longer included in the OUS financial statements.

The new public corporation was given ownership of all personal property related to OHSU, and assumed liability for all outstanding indebtedness that OUS had incurred for the benefit of OHSU.

A receivable from OHSU has been recorded for OUS debt that was incurred for the benefit of OHSU (See Note 4). At June 30, 2005 and 2004, long-term debt of OUS that relates to OHSU was $46,176,000 and $50,276,000, respectively.

H. Defeased Debt

During the year ended June 30, 2005, OUS issued $35,320,000 of XI-F(1) bonds with an average interest rate of 4.55 percent to refund $35,180,000 in XI-F(1) bonds with an average interest rate of 5.36 percent. The net proceeds of the XI-F(1) bonds were $37,150,000 (after bond premium of $2,073,000 and payment of $243,000 in underwriting fees, insurance, and other issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $2,887,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 25 years by $2,029,000 and resulted in an economic gain of $1,554,000.

During the year ended June 30, 2005, OUS issued $13,890,000 of XI-G bonds with an average interest rate of 4.1 percent to refund $13,190,000 in XI-G bonds with an average interest rate of 4.84 percent. The net proceeds of the XI-G bonds were $13,662,000 (after bond discount of $143,000 and payment of $85,000 in underwriting fees, insurance, and other issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $726,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 23 years by $609,000 and resulted in an economic gain of $523,000.

During the year ended June 30, 2004, OUS issued $80,355,000 of XI-F(1) bonds with an average interest rate of 4.0 percent to refund $79,280,000 in XI-F(1) bonds with an average interest rate of 5.39 percent. The net proceeds of the XI-F(1) bonds were $88,445,000 (after bond premium of $8,683,000 and payment of $593,000 in underwriting fees, insurance, and other issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $9,985,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 24 years by $3,796,000 and resulted in an economic gain of $3,072,000.

During the year ended June 30, 2004, OUS issued $20,765,000 of XI-G bonds with an average interest rate of 4.38 percent to refund $19,425,000 in XI-G bonds with an average interest rate of 5.67 percent. The net proceeds of the XI-G bonds were $21,786,000 (after bond premium of $1,177,000 and payment of $156,000 in underwriting fees, insurance, and other issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $2,707,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 24 years by $1,356,000 and resulted in an economic gain of $1,093,000.

In prior years, OUS and OHSU defeased various bond issues by placing funds in an irrevocable trust to provide for all future debt service payments of the defeased bonds. Funds placed in the trust are risk free. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the financial statements.

The total amount of the defeased debt outstanding but removed from the financial statements amounted to $175,100,000 at June 30, 2005 and $167,847,000 at June 30, 2004 of which $335,000 and $11,030,000, respectively, related to OHSU.

I. Capital Leases

OUS has acquired assets under capital lease agreements. The cost of OUS assets held under capital leases totaled $1,514,000 and $708,000 as of June 30, 2005 and 2004, respectively. Accumulated depreciation of leased equipment totaled $559,000 and $143,000 for June 30, 2005 and 2004, respectively.

The lease purchase (capital lease) contracts expire through fiscal year 2010. The capital leases are recorded at the present value of the minimum future lease payments at the inception date. Interest rates on capitalized leases vary from 1.2 percent to 8 percent.

Minimum future lease payments under capital leases are (in thousands):

For the Year Ending June 30,	
2006	$ 282
2007	281
2008	127
2009	70
2010	1
Total Minimum Lease Payments	761
Less: Amount Representing Interest	(67)
Present Value of Minimum Lease Payments	$ 694

J. Early Retirement Liability

During 1996 and 1997, OUS offered early retirement incentives to eligible faculty and staff. Since 1998, SOU has offered a tenure relinquishment and early retirement program to tenured faculty at least 55 years of age.

Early retirement liabilities comprised $211,000 and $324,000 in Current Portion of Long-Term Liabilities and $303,000 and $384,000 in Long-Term Liabilities as of June 30, 2005 and 2004, respectively.

9. Investment Activity

Investment Activity detail is as follows (in thousands):

	June 30, 2005	June 30, 2004
Interest Income	$ 8,094	$ 6,518
Net Appreciation of Investments	3,671	6,634
Royalties Income	5,453	5,072
Endowment Income	2,343	2,358
Trust Income Distribution	(2,338)	(2,353)
Gain on Sale of Investment	920	-
Dividend Income	3	3
Rent Income	163	134
Other	4	4
	$ 18,313	$ 18,370

For the years ended June 30, 2005 and 2004, the fair value of endowment investments appreciated by $3,671,000 and $6,766,000, respectively.

10. Unrestricted Net Assets

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2005	June 30, 2004
Budgeted Operating Funds	$ 102,548	$ 107,509
Designated Operating Funds	12,764	9,710
Service Department Funds	6,108	5,672
Housing Funds	16,848	14,496
Intercollegiate Athletics Funds	(792)	(214)
Other Auxiliary Funds and Other Funds	37,387	34,320
Unrestricted Endowment Funds	3,228	3,488
	$ 178,091	$ 174,981

11. Operating Expenses by Natural Classification

The Statements of Revenues, Expenses and Changes in Net Assets reports operating expenses by their functional classification. The following displays operating expenses by natural classification (in thousands):

	June 30, 2005	June 30, 2004
Compensation and Benefits	$ 941,011	$ 884,113
Services and Supplies	422,858	397,858
Scholarships and Fellowships	75,965	69,057
Depreciation	75,950	67,495
Other Expenses	175,477	163,811
	$ 1,691,261	$ 1,582,334

12. Government Appropriations

Government appropriations comprised the following (in thousands):

	June 30, 2005			
	General Operations	Debt Service	Capital Construction	Total
State General Fund Appropriations	$ 312,294	$ 13,894	$ -	$ 326,188
Lottery Appropriations	2,178	2,750		4,928
Dispute Resolution	624			624
Harvest Tax	2,813			2,813
Total State Appropriations	317,909	16,644	-	334,553
Federal Appropriations	8,862			8,862
County Appropriations	4,834			4,834
	$ 331,605	$ 16,644	$ -	$ 348,249

	June 30, 2004			
	General Operations	Debt Service	Capital Construction	Total
State General Fund Appropriations	$ 321,211	$ 12,512	$ 11,520	$ 345,243
Lottery Appropriations	1,770	1,860	-	3,630
Dispute Resolution	1,347	-	-	1,347
Harvest Tax	2,837	-	-	2,837
Total State Appropriations	327,165	14,372	11,520	353,057
Federal Appropriations	5,420	-	-	5,420
County Appropriations	5,109	-	-	5,109
	$ 337,694	$ 14,372	$ 11,520	$ 363,586

Appropriations specific to capital construction are reported separately from appropriations for general operations and debt service on the Statements of Revenues, Expenses and Changes in Net Assets.

13. Employee Retirement Plans

OUS offers various retirement plans to qualified employees as described below.

Oregon Public Employees Retirement Plan/Oregon Public Service Retirement Plan

The **State of Oregon Public Employees Retirement System** (PERS) is a single pension plan that features both a cost-sharing multi-employer defined benefit plan and an agency multiple-employer pension plan administered by the Public Employees Retirement Board (Retirement Board) under the guidelines of ORS. An employee is considered vested and eligible for retirement benefits if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment.

The 1995 Oregon Legislature enacted a law creating two tiers of PERS benefits. Employees hired into an eligible position prior to January 1, 1996 are enrolled in Tier One, while employees hired into an eligible position on or after January 1, 1996 are enrolled in Tier Two.

Tier One members are eligible for retirement with unreduced benefits at age 58 or at any age with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

Tier Two members are eligible for retirement with unreduced benefits at age 60 or at any age with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 60 with less than 30 years of service.

PERS contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee's contribution has been assumed and paid by the employer at the 6 percent rate set by law. The employer contribution rate from July 1, 2003 through October 31, 2003 was 11.79%. The employer contribution rate from November 1, 2003 through the year ended June 30, 2004 and for the fiscal year ended June 30, 2005, was 4.71%. See below for the employer contribution for PERS for the year ended June 30, 2005 and 2004.

An actuarial valuation of PERS is performed every two years to determine the level of employer contributions. The most recently completed valuation was performed as of December 31, 2003. The valuation included projected salary increases at 4.0 percent in 2003.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. It is adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The pension benefit obligation at December 31, 2003, for PERS as a whole, determined through an actuarial valuation performed as of that date, was $44.6 billion. PERS' net assets available for benefits on that date (valued at market) were $42.9 billion. Information for OUS as a stand-alone entity is not available.

The ten-year historical trend information showing the progress made in accumulating sufficient assets to pay benefits when due is presented in the separately issued PERS Component Unit Financial Report for the year ended June 30, 2005. The PERS defined benefit retirement plan is reported in a pension trust fund of the State. 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 Fiscal Services Division, PERS, 11410 SW 68th Parkway, Tigard, OR, 97223, by linking on the internet at http://oregon.gov/PERS/RELATED/section/financial_reports/financials.shtml, or by calling 1-888-320-7377 or 1-503-598-7377 (in Portland Metro area).

The Retirement Bond Debt Service Assessment was authorized by the State of Oregon Legislature in 2003 to sell general obligation bonds in the amount of $2 billion to pay a PERS unfunded actuarial liability. This action reduced the PERS contribution rate for PERS covered employers in November 2003.

The Oregon Department of Administrative Services is coordinating the debt service assessments to PERS employers to cover the bond debt service payments. PERS employers are assessed a percentage of PERS-subject payroll to fund the payments. The assessment rate will be adjusted biennially over the life of the twenty-four year debt repayment schedule.

The **Oregon Public Service Retirement Plan** (OPSRP) is a single pension plan that features both a defined benefit plan and a defined contribution plan administered by the Public Employees Retirement Board (Retirement Board) under the guidelines of ORS. An employee is considered vested and eligible for retirement benefits if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment.

The 2003 Oregon Legislature enacted a law creating OPSRP. Employees hired into eligible positions after August 29, 2003 are enrolled as well as PERS members who have a break in service.

OPSRP members are eligible for retirement with unreduced benefits at age 65 or age 58 with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. The employee's contribution rate is 6 percent and is paid by the employer. The employer contribution rate for the years ended June 30, 2005 and 2004 was 8.04 percent. See below for OUS employer contributions to OPSRP for the years ending June 30, 2005 and 2004.

PERS members as of August 29, 2003 who maintain employment without a break in service will have their employee contribution (paid by the employer) deposited to the defined contribution portion of the OPSRP and their employer contribution credited to the OPSRP defined benefit portion of the ORSRP. They will continue to retain their existing PERS accounts and other benefits associated with PERS membership.

The payroll assessment for the pension obligation bond began May 2004 at a rate of 7.39%. OUS was charged a total of $4,380,000 for the May and June 2004 payrolls. Payroll assessments for the fiscal year ended June 30, 2005 were $24,421,000. OUS employer contributions to PERS and OPSRP for the year ending June 30, 2005 and 2004 were $17,317,000 and $23,310,000, respectively, equal to the required contributions for that year.

Optional Retirement Plan

The 1995 Oregon Legislature enacted legislation that authorized OUS to offer a defined contribution retirement plan as an alternative to PERS. The Board appointed a Retirement Plan Committee to administer the Optional Retirement Plan (ORP) and established trustees to manage plan assets placed with mutual funds and insurance companies. Beginning April 1, 1996, the ORP was made available to OUS unclassified faculty and staff who are eligible for PERS membership. Employees choosing the ORP may invest the employee and employer contributions in one of four different investment companies.

The ORP consists of three tiers. Membership under ORP Tier One and Tier Two is determined using the same criteria as PERS. The third tier is determined by membership under the OPSRP. Under the ORP Tier One, Tier Two and OPSRP Equivalent, the employee's contribution rate is 6 percent and is paid by the employer. The employer contribution rates for the ORP are as follows (in thousands):

	2005	July 1- December 31, 2003	January 1- June 30, 2004
ORP Tier One	11.31%	11.31%	11.31%
ORP Tier Two	11.31%	11.71%	11.31%
OPSRP Equivalent	8.04%		8.04%

Teacher's Insurance and Annuity Association/College Retirement Equities Fund

Eligible unclassified employees may participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) retirement program, a defined contribution plan, on all salary in excess of $4,800 per calendar year. Employee contributions are directed to PERS on the first $4,800. The employer contribution to TIAA-CREF is an amount sufficient to provide an annuity pension equal to the employee's contributions. To participate in this retirement option, employees must have been hired on or before September 9, 1995.

Federal Civil Service Retirement

Some Extension Service employees at Oregon State University hold federal appointments. Prior to December 31, 1986, federal appointees were required to participate in the Federal Civil Service Retirement System (CSRS), a defined benefit plan. CSRS employees are subject to the Hospital Insurance portion of the Federal Insurance Contributions Act (FICA), CSRS employee deduction of 7.0 percent, and employer contribution of 8.51 percent, and are also eligible for optional membership in PERS.

The Federal Employees Retirement System (FERS) was created beginning January 1, 1987. Employees hired after December 31, 1983 were automatically converted to FERS. Other federal employees not covered by FERS had a one-time option to transfer to FERS up to December 31, 1987. New FERS employees contribute 0.8 percent with an employer contribution rate of 10.7 percent, which changed to 11.2 percent effective October 1, 2004. FERS employees are not eligible for membership in PERS and they contribute at the full FICA rate. They also participate in a Thrift Savings Plan (TSP) with an automatic employer contribution of 1 percent. Employees may also contribute to this plan at variable rates up to 12 percent, in which case the employer contributes at a variable rate up to 5 percent. CSRS employees are also eligible for participation in the Thrift Savings Plan but without employer contributions.

OUS total payroll for the year ended June 30, 2005 was $706,896,000, of which $515,192,000 was subject to retirement contributions. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2005			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
PERS/OPSRP	$ 17,317	3.36%	$ 21,093	4.10%
ORP	16,578	3.22%	8,891	1.73%
TIAA-CREF	220	0.04%	220	0.04%
Federal	509	0.10%	227	0.04%
FERS - TSP	129	0.03%	332	0.06%
	$ 34,753	6.75%	$ 30,763	5.97%

Of the employee share, the employer paid $20,932,000 of PERS/OPSRP, $8,845,000 of ORP, and $220,000 of TIAA-CREF during the fiscal year ended June 30, 2005. The federal contributions of $227,000 represent FERS and CSRS employees, and the $332,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched one to five percent by the employer in fiscal year 2005.

OUS total payroll for the year ended June 30, 2004 was $695,010,000, of which $490,603,000 was subject to retirement benefits. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2004			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
PERS/OPSRP	$ 23,310	4.75%	$ 22,670	4.62%
ORP	12,665	2.58%	8,351	1.70%
TIAA-CREF	234	0.05%	236	0.05%
Federal	535	0.11%	258	0.05%
FERS - TSP	142	0.03%	341	0.07%
	$ 36,886	7.52%	$ 31,856	6.49%

Of the employee share, the employer paid $20,559,000 of PERS/OPSRP, $8,308,000 of ORP, and $236,000 of TIAA-CREF during the fiscal year ended June 30, 2004. The federal contributions of $258,000 represent FERS and CSRS employees, and the $341,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched one to five percent by the employer in fiscal year 2004.

14. University Foundations

Under policies approved by the Board, individual university foundations may be established to provide assistance in fundraising, public outreach and other support for the missions of OUS universities. Each foundation is a legally separate, tax-exempt entity with an independent governing board. Although OUS universities do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that each foundation holds and invests are restricted to the activities of OUS universities by the donors. Because these restricted resources held by each foundation can only be used by, or for the benefit of, the universities, the foundations are considered component units of OUS and are discretely presented in the OUS financial statements.

During the years ended June 30, 2005 and 2004, gifts of $80,407,000 and $73,063,000, respectively, were transferred from university foundations to OUS universities. Complete financial statements for the foundations may be obtained by writing to the following:

Eastern Oregon University Foundation, One University Blvd., La Grande, OR 97850

Oregon Tech Foundation, 3201 Campus Drive, Klamath Falls, OR 97601-8801

Oregon State University Foundation, 850 SW 35th Street, PO Box 1438, Corvallis, OR 97339-1438

Portland State University Foundation, 1600 SW Fourth Avenue, Suite 850, Portland, OR 97201

Southern Oregon University Foundation, 1250 Siskiyou Boulevard, Ashland, OR 97520-5043

University of Oregon Foundation, 202 Agate Hall, University of Oregon, Eugene, OR 97403

Western Oregon University Development Foundation, 345 North Monmouth Avenue, The Cottage, Monmouth, OR 97361

Agriculture Research Foundation, Strand Agricultural Hall - Suite 100, Oregon State University, Corvallis, OR 97331-2219

15. Funds Held in Trust by Others

Funds held in trust by others, for which OUS is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2005 and 2004, was $5,492,000 and $4,352,000, respectively.

16. Risk Financing

As a state agency, OUS participates in the state insurance fund managed by the State of Oregon Risk Management Division of the Department of Administrative Services (Division). By participating, OUS transfers the following risks to the state insurance fund:

Direct physical loss or damage to OUS property

Tort liability claims brought against OUS, its officers, employees or agents

Workers' compensation

Employee dishonesty

The fund is backed by commercial policies, an excess property policy with a limit of $400 million, and a blanket commercial excess bond with a limit of $20 million. The Division purchases commercial insurance for specific insurance needs not covered by the fund. The amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

OUS is charged an assessment to cover the Division's cost of servicing claims and payments, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and Division expenses.

In addition, OUS purchases various commercial insurance policies to cover the deductible amounts of intercollegiate athletics insurance provided through the National Collegiate Athletics Association and the National Association of Intercollegiate Athletics, and to provide coverage for special events and student liability.

17. Commitments and Contingent Liabilities

Outstanding commitments on partially completed construction contracts totaled approximately $521,318,000 and $395,914,000 at June 30, 2005 and 2004, respectively. These commitments will be primarily funded from gifts and grants, bond proceeds, and other OUS funds.

OUS is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Management is of the opinion that the outcome of such matters will not have a material effect on the financial statements.

OUS participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor for expenditures disallowed under terms of the grant. Management believes that disallowances, if any, will not have a material effect on the financial statements.

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to ORS. OUS reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are budgeted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to OUS cannot be reasonably determined at June 30, 2005.

CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 4,044	$ 9,110	$ 105,040
Short-Term Investments	-	-	(5)
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	3,271	2,684	41,757
Notes Receivable, Net	128	509	4,183
Inventories	319	397	1,515
Prepaid Expenses	144	74	2,795
Total Current Assets	7,906	12,774	155,285
Noncurrent Assets			
Cash and Cash Equivalents	6,937	614	42,986
Long-Term Investments	-	-	3,205
Notes Receivable, Net	1,358	2,952	23,094
Due From Other OUS Funds and Entities	1,389	110	13,384
Capital Assets, Net of Accumulated Depreciation	55,997	19,420	476,196
Total Noncurrent Assets	65,681	23,096	558,865
TOTAL ASSETS	**$ 73,587**	**$ 35,870**	**$ 714,150**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 2,816	$ 1,420	$ 36,306
Deposits	496	302	2,350
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	931	882	15,275
Deferred Revenue	483	815	24,479
Total Current Liabilities	4,726	3,419	78,410
Noncurrent Liabilities			
Long-Term Liabilities	40,238	13,752	228,843
Due to Other OUS Funds and Entities	755	140	901
Total Noncurrent Liabilities	40,993	13,892	229,744
TOTAL LIABILITIES	**$ 45,719**	**$ 17,311**	**$ 308,154**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 15,663	$ 5,525	$ 248,221
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	257	793	22,996
Student Loans	1,808	4,197	33,494
Capital Projects	4,716	1,051	31,786
Debt Service	9	29	935
Unrestricted Net Assets	4,861	6,964	64,382
TOTAL NET ASSETS	**$ 27,868**	**$ 18,559**	**$ 405,996**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 31,216	$ 14,929	$ 84,885	$ 15,169	$ 12,373		$ 276,766
-	-	5	-	-		0
-	-	-	-	97,710		97,710
35,432	3,340	30,949	6,424	4,084		127,941
1,132	473	9,912	405	6,020		22,762
404	648	1,592	1,102	-		5,977
1,109	445	2,178	56	7,250		14,051
69,293	19,835	129,521	23,156	127,437		545,207
14,936	2,448	47,246	1,665	157,907		274,739
-	-	55	-	68,398		71,658
7,988	3,763	18,872	3,420	40,158		101,605
8,226	512	12,482	15	814	$ (36,932)	-
231,983	73,726	416,909	49,731	7,147		1,331,109
263,133	80,449	495,564	54,831	274,424	(36,932)	1,779,111
$ 332,426	**$ 100,284**	**$ 625,085**	**$ 77,987**	**$ 401,861**	**$ (36,932)**	**$ 2,324,318**
$ 13,681	$ 3,293	$ 21,593	$ 3,201	$ 30,321		$ 112,631
2,012	609	3,855	528	2,553		12,705
-	-	-	-	97,710		97,710
4,911	1,346	7,992	933	38,335		70,605
17,708	2,163	26,223	3,127	903		75,901
38,312	7,411	59,663	7,789	169,822		369,552
170,199	43,995	198,240	38,959	150,018	-	884,244
6,863	405	2,461	-	25,407	(36,932)	-
177,062	44,400	200,701	38,959	175,425	(36,932)	884,244
$ 215,374	**$ 51,811**	**$ 260,364**	**$ 46,748**	**$ 345,247**	**$ (36,932)**	**$ 1,253,796**
$ 61,637	$ 29,927	$ 206,499	$ 10,845	$ (127,843)		$ 450,474
1,284	255	7,290	2	1,115		14,682
1,915	823	18,789	840	37,092	873	84,378
10,048	4,819	25,282	5,300	155		85,103
9,670	4,337	57,358	3,313	74,954	6,015	193,200
230	96	485	60	62,750		64,594
32,268	8,216	49,018	10,879	8,391	(6,888)	178,091
$ 117,052	**$ 48,473**	**$ 364,721**	**$ 31,239**	**$ 56,614**	**$ -**	**$ 1,070,522**

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For The Year Ended June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 12,967	$ 11,380	$ 125,553
Federal Grants and Contracts	6,180	6,801	205,806
State and Local Grants and Contracts	756	347	8,273
Nongovernmental Grants and Contracts	704	207	17,562
Educational Department Sales and Services	217	236	29,009
Auxiliary Enterprise Revenues, Net	4,191	4,677	47,433
Other Operating Revenues	714	164	3,940
Total Operating Revenues	**25,729**	**23,812**	**437,576**
OPERATING EXPENSES			
Instruction	13,128	15,701	127,807
Research	232	28	149,684
Public Service	1,792	2,396	43,701
Academic Support	3,087	2,616	31,235
Student Services	2,270	2,447	15,624
Auxiliary Programs	6,489	6,766	73,160
Operation and Maintenance of Plant	2,878	2,094	21,239
Institutional Support	4,132	4,076	33,707
Student Aid	2,049	2,461	89,343
Other Operating Expenses	2,364	1,980	42,778
Total Operating Expenses	**38,421**	**40,565**	**628,278**
Operating Loss	**(12,692)**	**(16,753)**	**(190,702)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	12,524	15,116	144,266
Investment Activity	102	101	4,603
Gain on Sale of Assets, Net	-	3	227
Interest Expense	(285)	(268)	(2,682)
Other Nonoperating Items	309	1,385	33,598
Net Nonoperating Revenues	**12,650**	**16,337**	**180,012**
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	**(42)**	**(416)**	**(10,690)**
Capital Appropriations	-	-	1,790
Capital Grants and Gifts	(685)	-	8,829
Capital Contributions	13	42	258
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,470	1,948	9,246
Total Other Nonoperating Revenues	**1,798**	**1,990**	**20,123**
Increase (Decrease) In Net Assets	**1,756**	**1,574**	**9,433**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**26,112**	**16,985**	**396,563**
NET ASSETS, END OF YEAR	**$ 27,868**	**$ 18,559**	**$ 405,996**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 111,671	$ 23,102	$ 172,027	$ 19,476	$ 168		$ 476,344
44,734	30,599	179,929	33,388	4,239	$ (2,736)	508,940
5,886	1,656	7,995	3,579	2,868		31,360
8,305	993	5,559	357	67		33,754
5,789	2,881	14,274	2,213	(129)		54,490
21,905	12,247	60,189	11,185	1,013	(747)	162,093
1,947	426	6,068	381	2,311	-	15,951
200,237	**71,904**	**446,041**	**70,579**	**10,537**	**(3,483)**	**1,282,932**
103,932	22,919	130,581	20,501	3,622		438,191
21,787	556	52,906	7,056	443	(1,490)	231,202
10,578	2,985	25,368	648	4,480		91,948
21,415	5,511	28,392	5,182	270		97,708
9,797	3,230	24,161	3,443	122		61,094
35,904	15,309	85,662	14,325	869	(747)	237,737
15,922	3,940	17,611	3,142	87		66,913
14,784	4,061	31,520	4,187	11,742		108,209
14,817	27,604	105,377	25,104	6		266,761
11,671	4,394	23,128	6,285	144	(1,246)	91,498
260,607	**90,509**	**524,706**	**89,873**	**21,785**	**(3,483)**	**1,691,261**
(60,370)	**(18,605)**	**(78,665)**	**(19,294)**	**(11,248)**	**-**	**(408,329)**
57,925	14,729	60,982	14,540	28,167		348,249
595	178	5,563	187	6,984		18,313
59	42	20	19	1		371
(1,791)	(272)	(2,967)	(592)	(29,478)		(38,335)
7,271	2,701	26,712	(55)	(796)		71,125
64,059	**17,378**	**90,310**	**14,099**	**4,878**	**-**	**399,723**
3,689	**(1,227)**	**11,645**	**(5,195)**	**(6,370)**	**-**	**(8,606)**
-	-	-	-	(1,790)		-
2,443	6,526	3,514	-	-		20,627
93	28	238	21	-		693
-	-	-	-	-		-
5,218	1,964	10,116	1,820	(32,782)		-
7,754	**8,518**	**13,868**	**1,841**	**(34,572)**	**-**	**21,320**
11,443	**7,291**	**25,513**	**(3,354)**	**(40,942)**	**-**	**12,714**
105,609	**41,182**	**339,208**	**34,593**	**97,556**		**1,057,808**
$ 117,052	**$ 48,473**	**$ 364,721**	**$ 31,239**	**$ 56,614**	**$ -**	**$ 1,070,522**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 12,528	$ 11,012	$ 124,242
Grants and Contracts	7,073	6,939	232,109
Sales and Services of Educational Departments	219	236	29,014
Auxiliary Enterprise Operations	4,213	4,614	46,990
Student Loan Collections	257	766	7,327
Payments to Employees for Salaries and Benefits	(24,453)	(27,408)	(348,920)
Payments to Suppliers	(7,891)	(9,587)	(218,504)
Student Financial Aid	(2,165)	(2,387)	(24,187)
Student Loan Issuance and Costs	(97)	(722)	(7,086)
Other Operating Receipts	642	38	3,202
Net Cash Used by Operating Activities	**(9,674)**	**(16,499)**	**(155,813)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	12,524	15,116	144,266
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	175	1,367	33,679
Net Agency Fund Receipts (Payments)	(75)	(167)	(3,040)
Net Transfers to (from) Other Funds and OUS Universities	2,470	1,948	9,246
Net Cash Provided (Used) by Noncapital Financing Activities	**15,094**	**18,264**	**184,151**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	1,790
Capital Grants and Gifts	(685)	-	8,829
Capital Contributions	13	42	258
Bond Proceeds on Capital Debt	10,386	83	70,802
Sales of Capital Assets	298	26	11,179
Purchase of Capital Assets	(9,077)	(1,177)	(127,028)
Interest Payments on Capital Debt	(285)	(268)	(2,682)
Principal Payments on Capital Debt	(2,414)	(1,625)	(12,947)
Net Cash Used by Capital and Related Financing Activities	**(1,764)**	**(2,919)**	**(49,799)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	102	101	4,603
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	**102**	**101**	**4,603**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**3,758**	**(1,053)**	**(16,858)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**7,223**	**10,777**	**164,884**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 10,981**	**$ 9,724**	**$ 148,026**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 110,793	$ 23,200	$ 174,019	$ 19,383	$ 459		$ 475,636
55,896	33,004	191,248	36,560	6,735	$ (2,736)	566,828
5,760	2,882	14,186	2,226	74		54,597
22,223	12,212	61,666	10,971	754	(747)	162,896
2,147	998	6,342	1,101	1		18,939
(168,392)	(41,430)	(284,546)	(39,935)	(10,208)		(945,292)
(65,495)	(42,834)	(201,935)	(42,629)	(40)	3,483	(585,432)
(16,480)	(4,381)	(20,110)	(4,713)	(1,542)		(75,965)
(1,595)	(882)	(5,518)	(865)	133		(16,632)
(976)	871	2,028	189	2,263		8,257
(56,119)	**(16,360)**	**(62,620)**	**(17,712)**	**(1,371)**	**-**	**(336,168)**
57,925	14,729	60,982	14,540	27,230		347,312
-	-	-	-	-		-
7,648	2,189	28,046	13	(33)		73,084
(2,709)	(503)	(1,777)	(335)	5,230		(3,376)
5,218	1,964	10,116	1,820	(32,782)		-
68,082	**18,379**	**97,367**	**16,038**	**(355)**	**-**	**417,020**
-	-	-	-	(1,790)		-
2,443	6,526	3,514	-	-		20,627
93	28	238	21	-		693
20,100	6,058	41,225	1,000	23,712		173,366
3,967	476	5,782	234	-		21,962
(43,677)	(15,598)	(50,040)	(6,207)	7,464		(245,340)
(1,791)	(272)	(2,967)	(592)	(25,359)		(34,216)
(11,876)	(3,180)	(3,563)	(3,104)	9,873		(28,836)
(30,741)	**(5,962)**	**(5,811)**	**(8,648)**	**13,900**	**-**	**(91,744)**
-	-	14	2	(2,059)		(2,043)
595	178	5,563	187	3,350		14,679
-	-	-	-	1,517		1,517
-	-	-	-	(1,517)		(1,517)
595	**178**	**5,577**	**189**	**1,291**	**-**	**12,636**
(18,183)	**(3,765)**	**34,513**	**(10,133)**	**13,465**	**-**	**1,744**
64,335	**21,142**	**97,618**	**26,967**	**156,815**		**549,761**
$ 46,152	**$ 17,377**	**$ 132,131**	**$ 16,834**	**$ 170,280**	**$ -**	**$ 551,505**

CONSOLIDATING STATEMENT OF CASH FLOWS - Continued

For the Year Ended June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating Loss	$ (12,692)	$ (16,753)	$ (190,702)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	2,520	1,880	29,795
Changes in Assets and Liabilities			
Accounts Receivable	(920)	(518)	(6,634)
Notes Receivable	123	(82)	(776)
Inventories	3	(37)	(39)
Prepaid Expenses	35	(45)	(786)
Accounts Payable and Accrued Liabilities	1,313	(682)	7,942
Long-Term Liabilities	46	(37)	417
Deposits	(4)	(5)	22
Deferred Revenue	(98)	(220)	4,948
NET CASH USED BY OPERATING ACTIVITIES	**$ (9,674)**	**$ (16,499)**	**$ (155,813)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ -	$ -	$ -
Change in Fair Value of Investments Recognized as a Component of Investment Activity	-	-	-

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ (60,370)	$ (18,605)	$ (78,665)	$ (19,294)	$ (11,248)		$ (408,329)
12,076	2,917	23,387	3,112	263		75,950
(6,601)	342	(2,095)	(1,348)	(591)		(18,365)
237	(68)	175	(3)	-		(394)
(14)	74	94	(77)	(1)		3
655	(211)	(1,116)	139	(729)		(2,058)
(3,003)	(814)	(5,467)	(578)	10,796		9,507
330	(176)	70	45	(199)		496
145	(11)	344	1	-		492
426	192	653	291	338		6,530
$ (56,119)	**$ (16,360)**	**$ (62,620)**	**$ (17,712)**	**$ (1,371)**	**$ -**	**$ (336,168)**
$ -	$ -	$ 898	$ -	$ -	$ -	$ 898
-	-	-	-	3,671	-	3,671

CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 5,805	$ 9,278	$ 113,133
Short-Term Investments	-	-	-
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	2,183	2,192	35,246
Notes Receivable, Net	138	497	4,069
Inventories	322	360	1,476
Prepaid Expenses	178	29	2,005
Total Current Assets	8,626	12,356	155,929
Noncurrent Assets			
Cash and Cash Equivalents	1,418	1,499	51,751
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,470	2,882	22,438
Due From Other OUS Funds and Entities	852	110	12,938
Capital Assets, Net of Accumulated Depreciation	49,807	20,128	390,107
Total Noncurrent Assets	53,547	24,619	480,434
TOTAL ASSETS	**$ 62,173**	**$ 36,975**	**$ 636,363**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 1,784	$ 2,208	$ 29,236
Deposits	643	487	5,371
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,858	1,692	22,366
Deferred Revenue	345	1,049	19,629
Total Current Liabilities	4,630	5,436	76,602
Noncurrent Liabilities			
Long-Term Liabilities	31,213	14,414	162,743
Due to Other OUS Funds and Entities	218	140	455
Total Noncurrent Liabilities	31,431	14,554	163,198
TOTAL LIABILITIES	**$ 36,061**	**$ 19,990**	**$ 239,800**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 17,233	$ 4,692	$ 219,571
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	489	852	26,552
Student Loans	1,745	4,113	33,438
Capital Projects	1,472	1,523	50,502
Debt Service	14	18	372
Unrestricted Net Assets	4,605	5,787	61,946
TOTAL NET ASSETS	**$ 26,112**	**$ 16,985**	**$ 396,563**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 44,070	$ 15,198	$ 73,446	$ 22,044	$ 15,635		$ 298,609
-	-	-	-	-		-
-	-	-	-	261,175		261,175
27,946	3,759	29,132	5,001	2,550		108,009
1,160	466	10,347	407	5,556		22,640
390	721	1,686	1,026	-		5,981
1,765	235	1,062	194	6,520		11,988
75,331	20,379	115,673	28,672	291,436		708,402
20,265	5,944	24,172	4,923	141,180		251,152
-	-	74	-	62,666		65,940
8,196	3,702	18,940	3,419	44,722		105,769
2,027	535	12,648	38	835	(29,983)	-
202,775	60,973	394,394	46,957	8,176		1,173,317
233,263	71,154	450,228	55,337	257,579	(29,983)	1,596,178
$ 308,594	**$ 91,533**	**$ 565,901**	**$ 84,009**	**$ 549,015**	**$ (29,983)**	**$ 2,304,580**
$ 17,080	$ 4,386	$ 15,775	$ 3,933	$ 15,902		$ 90,304
4,729	1,109	5,575	869	2,441		21,224
-	-	-	-	261,175		261,175
10,007	2,971	14,737	2,698	11,504		67,833
16,315	2,066	25,662	2,759	532		68,357
48,131	10,532	61,749	10,259	291,554		508,893
154,167	39,389	162,546	39,102	134,305	-	737,879
687	430	2,398	55	25,600	(29,983)	-
154,854	39,819	164,944	39,157	159,905	(29,983)	737,879
$ 202,985	**$ 50,351**	**$ 226,693**	**$ 49,416**	**$ 451,459**	**$ (29,983)**	**$ 1,246,772**
$ 42,513	$ 20,063	$ 223,980	$ 5,968	$ (82,196)		$ 451,824
1,284	255	7,290	2	1,115		14,682
2,911	968	17,520	511	34,421	419	84,643
9,941	4,825	25,306	5,165	145		84,678
17,574	7,782	32,099	7,830	68,127	(851)	186,058
82	66	(89)	27	60,452		60,942
31,304	7,223	33,102	15,090	15,492	432	174,981
$ 105,609	**$ 41,182**	**$ 339,208**	**$ 34,593**	**$ 97,556**	**$ -**	**$ 1,057,808**

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For The Year Ended June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 12,080	$ 9,418	$ 114,305
Federal Grants and Contracts	7,412	5,949	190,389
State and Local Grants and Contracts	774	1,304	8,191
Nongovernmental Grants and Contracts	27	4	9,868
Educational Department Sales and Services	221	189	27,258
Auxiliary Enterprise Revenues, Net	4,099	4,744	45,241
Other Operating Revenues	414	218	3,335
Total Operating Revenues	**25,027**	**21,826**	**398,587**
OPERATING EXPENSES			
Instruction	12,296	13,994	119,891
Research	253	137	145,238
Public Service	1,860	1,951	43,303
Academic Support	2,946	2,369	28,870
Student Services	2,054	2,332	13,894
Auxiliary Programs	6,378	6,567	68,146
Operation and Maintenance of Plant	2,856	2,322	18,043
Institutional Support	3,896	4,336	26,110
Student Aid	2,196	2,905	76,320
Other Operating Expenses	1,826	3,122	28,694
Total Operating Expenses	**36,561**	**40,035**	**568,509**
Operating Loss	**(11,534)**	**(18,209)**	**(169,922)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	12,549	15,013	143,468
Investment Activity	89	59	3,924
Gain on Sale of Assets, Net	-	1,274	110
Interest Expense	(968)	(505)	(4,117)
Other Nonoperating Items	368	1,158	31,056
Net Nonoperating Revenues	**12,038**	**16,999**	**174,441**
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	**504**	**(1,210)**	**4,519**
Capital Appropriations	400	443	3,880
Capital Grants and Gifts	500	-	7,267
Capital Contributions	82	42	259
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,182	603	607
Total Other Nonoperating Revenues	**3,164**	**1,088**	**12,013**
Increase (Decrease) In Net Assets	**3,668**	**(122)**	**16,532**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**22,444**	**17,107**	**380,031**
NET ASSETS, END OF YEAR	**$ 26,112**	**$ 16,985**	**$ 396,563**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 102,308	$ 21,846	$ 152,015	$ 19,683	$ 708		$ 432,363
46,387	29,577	166,519	31,579	4,283	$ (2,144)	479,951
4,287	1,543	6,622	2,954	6,825		32,500
8,067	794	5,212	310	51		24,333
5,130	2,120	14,885	2,549	279		52,631
19,551	14,087	61,140	10,802	45		159,709
1,020	502	4,924	352	2,178	-	12,943
186,750	**70,469**	**411,317**	**68,229**	**14,369**	**(2,144)**	**1,194,430**
93,906	20,710	127,216	19,324	4,984		412,321
18,440	575	52,993	6,921	(466)	(1,105)	222,986
11,521	3,369	22,918	589	921		86,432
19,660	5,753	25,187	4,696	89		89,570
8,810	3,233	22,527	3,150	(81)		55,919
27,909	16,872	85,081	13,532	(724)		223,761
11,660	3,567	16,999	2,656	(86)		58,017
15,757	5,232	31,445	4,883	17,479		109,138
17,989	25,756	97,209	23,955	(6)		246,324
10,830	5,458	24,666	2,822	1,487	(1,039)	77,866
236,482	**90,525**	**506,241**	**82,528**	**23,597**	**(2,144)**	**1,582,334**
(49,732)	**(20,056)**	**(94,924)**	**(14,299)**	**(9,228)**	**-**	**(387,904)**
57,588	14,603	62,265	14,797	31,783		352,066
481	131	5,552	118	8,016		18,370
226	25	25	2	-		1,662
(5,201)	(1,098)	(6,515)	(1,332)	(13,566)		(33,302)
8,100	1,404	26,238	(727)	(4)		67,593
61,194	**15,065**	**87,565**	**12,858**	**26,229**	**-**	**406,389**
11,462	**(4,991)**	**(7,359)**	**(1,441)**	**17,001**	**-**	**18,485**
2,000	650	3,370	580	197		11,520
911	153	6,546	-	-		15,377
-	27	218	22	-		650
1	-	(5)	-	-		(4)
(368)	192	(745)	701	(3,172)		-
2,544	**1,022**	**9,384**	**1,303**	**(2,975)**	**-**	**27,543**
14,006	**(3,969)**	**2,025**	**(138)**	**14,026**	**-**	**46,028**
91,603	**45,151**	**337,183**	**34,731**	**83,530**		**1,011,780**
$ 105,609	**$ 41,182**	**$ 339,208**	**$ 34,593**	**$ 97,556**	**$ -**	**$ 1,057,808**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 11,884	$ 9,619	$ 114,341
Grants and Contracts	8,525	6,620	214,454
Sales and Services of Educational Departments	213	195	27,305
Auxiliary Enterprise Operations	4,123	4,663	45,299
Student Loan Collections	207	568	5,907
Payments to Employees for Salaries and Benefits	(22,623)	(24,813)	(323,883)
Payments to Suppliers	(10,339)	(10,236)	(185,247)
Student Financial Aid	(2,345)	(2,794)	(20,546)
Student Loan Issuance and Costs	(295)	(631)	(5,986)
Other Operating Receipts	378	75	2,144
Net Cash Used by Operating Activities	**(10,272)**	**(16,734)**	**(126,212)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	12,949	15,456	147,348
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	236	1,555	31,935
Net Agency Fund Receipts (Payments)	295	256	3,208
Net Transfers to (from) Other Funds and OUS Universities	783	(319)	31,233
Net Cash Provided (Used) by Noncapital Financing Activities	**14,263**	**16,948**	**213,724**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	-
Capital Grants and Gifts	500	-	7,267
Capital Contributions	82	42	260
Bond Proceeds on Capital Debt	-	-	-
Sales of Capital Assets	1,153	1,627	6,384
Purchase of Capital Assets	(10,033)	(5,071)	(63,513)
Interest Payments on Capital Debt	(70)	28	518
Principal Payments on Capital Debt	64	33	545
Net Cash (Used) Provided by Capital and Related Financing Activities	**(8,304)**	**(3,341)**	**(48,539)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchases) Sales of Investments	-	-	-
Interest on Investments and Cash Balances	89	60	3,924
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided by Investing Activities	**89**	**60**	**3,924**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,224)**	**(3,067)**	**42,897**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**11,447**	**13,844**	**121,987**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 7,223**	**$ 10,777**	**$ 164,884**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 100,487	$ 21,827	$ 153,819	$ 19,464	$ 731		$ 432,172
57,468	32,082	180,124	34,431	11,324	$ (2,144)	542,884
5,143	2,123	14,900	2,539	279		52,697
18,321	14,028	61,598	10,726	(209)		158,549
2,203	816	6,436	821	-		16,958
(152,000)	(39,487)	(268,313)	(36,894)	(9,699)		(877,712)
(51,038)	(41,536)	(195,036)	(36,888)	(8,796)	2,144	(536,972)
(15,293)	(4,278)	(18,333)	(4,009)	(1,459)		(69,057)
(3,413)	(847)	(6,488)	(805)	-		(18,465)
173	(395)	3,550	145	2,179		8,249
(37,949)	**(15,667)**	**(67,743)**	**(10,470)**	**(5,650)**	**-**	**(290,697)**
59,588	15,253	65,635	15,377	19,926		351,532
1	-	(5)	-	-		(4)
5,433	1,984	26,648	17	433		68,241
3,626	606	3,215	510	(3,429)		8,287
25,365	754	4,110	(482)	(61,444)		-
94,013	**18,597**	**99,603**	**15,422**	**(44,514)**	**-**	**428,056**
-	-	-	-	11,520		11,520
912	153	6,389	-	-		15,221
-	27	218	21	-		650
-	-	85	-	105,505		105,590
2,750	(520)	1,331	148	473		13,346
(51,437)	(15,387)	(31,546)	(2,527)	(525)		(180,039)
(743)	(26)	517	63	(31,713)		(31,426)
2,413	38	390	163	(29,888)		(26,242)
(46,105)	**(15,715)**	**(22,616)**	**(2,132)**	**55,372**	**-**	**(91,380)**
-	-	4	-	20,429		20,433
481	131	5,552	118	1,343		11,698
-	-	-	-	1,112		1,112
-	-	-	-	(1,112)		(1,112)
481	**131**	**5,556**	**118**	**21,772**	**-**	**32,131**
10,440	**(12,654)**	**14,800**	**2,938**	**26,980**	**-**	**78,110**
53,895	**33,796**	**82,818**	**24,029**	**129,835**		**471,651**
$ 64,335	**$ 21,142**	**$ 97,618**	**$ 26,967**	**$ 156,815**	**$ -**	**$ 549,761**

CONSOLIDATING STATEMENT OF CASH FLOWS - Continued

For the Year Ended June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating Loss	$ (11,534)	$ (18,209)	$ (169,922)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	1,798	1,875	25,156
Changes in Assets and Liabilities			
Accounts Receivable	215	(720)	(942)
Notes Receivable	(91)	(48)	83
Inventories	48	(36)	288
Prepaid Expenses	(64)	(6)	(866)
Accounts Payable and Accrued Liabilities	(614)	147	13,372
Long-Term Liabilities	53	68	241
Deposits	8	(1)	(7)
Deferred Revenue	(91)	196	6,385
NET CASH USED BY OPERATING ACTIVITIES	**$ (10,272)**	**$ (16,734)**	**$ (126,212)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ 94	$ -	$ -
Change in Fair Value of Investments Recognized as a Component of Investment Income	-	-	-

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ (49,732)	$ (20,056)	$ (94,924)	$ (14,299)	$ (9,228)		$ (387,904)
10,759	2,775	22,054	2,484	594		67,495
(4,803)	(706)	(1,792)	(1,289)	33		(10,004)
120	(74)	497	363	-		850
(10)	53	2	47	-		392
(890)	(24)	7	13	(144)		(1,974)
6,647	1,807	445	2,074	(381)		23,497
45	478	238	3	3,573		4,699
200	(9)	35	(1)	-		225
(285)	89	5,695	135	(97)		12,027
$ (37,949)	**$ (15,667)**	**$ (67,743)**	**$ (10,470)**	**$ (5,650)**	**$ -**	**$ (290,697)**
$ 10	$ -	$ -	$ -	$ -	$ -	$ 104
-	-	-	-	6,634	-	6,634

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

Oregon State Board of Higher Education
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the basic financial statements of the Oregon University System as of and for the year ended June 30, 2005, and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oregon University System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Oregon University System in a separate letter dated October 31, 2005.

This report is intended solely for the information and use of the Oregon State Board of Higher Education, Oregon Secretary of State Audits Division, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Eugene, Oregon
October 31, 2005