Oregon University System

2007 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
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or

Visit the OUS home page at
http://www.ous.edu

Dedicated to the memory of our colleague and friend

Martha Anne Dow

January 3, 1939 – September 29, 2007

President

Oregon Institute of Technology

1998 to 2007

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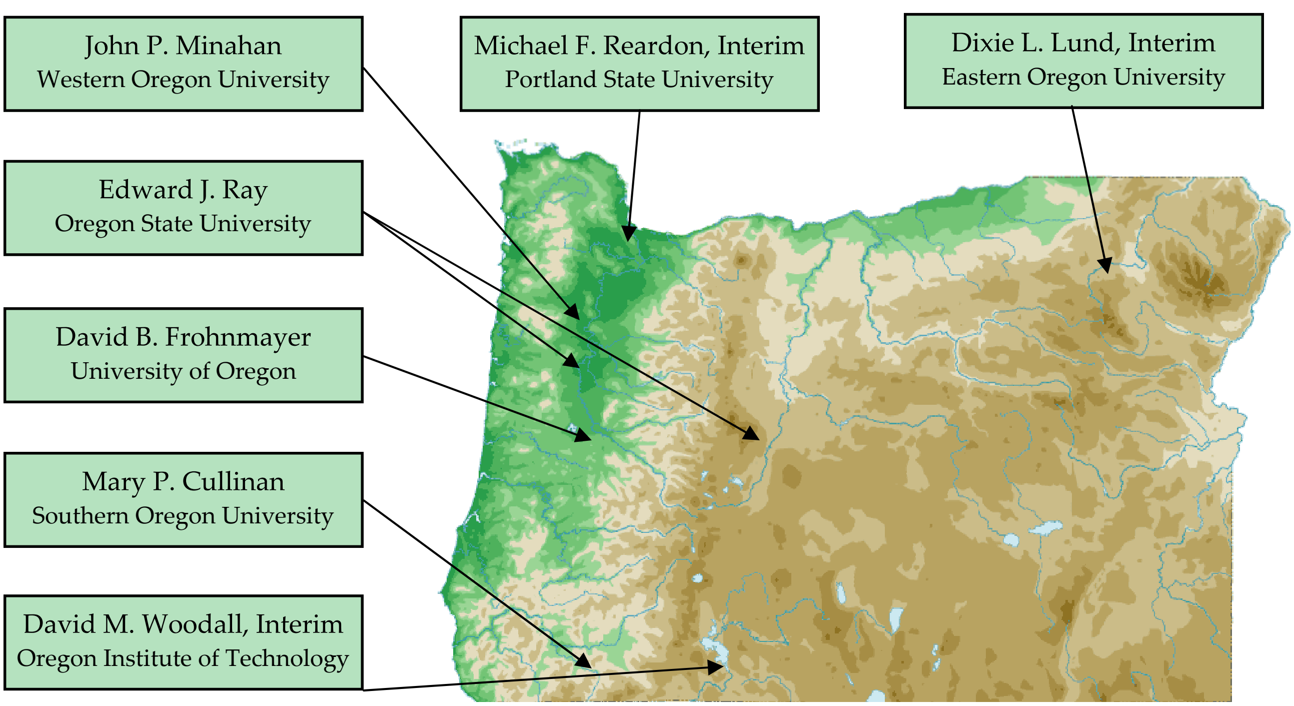


Oregon University System 2007 Annual Financial Report

George Pernsteiner

Message from the Chancellor

2007 was a year of significant accomplishments for the Oregon University System, marking new progress in meeting higher education's greatest challenges in the state.

The accomplishments began with the OUS receiving the largest state funding increase seen in almost 20 years, a total of $870.4 million, an increase of 23% over the 2005-2007 General Fund budget. A total of $561 million was provided for capital construction, repair, and deferred maintenance, an increase of almost 37% over 2005-2007.

This budget signals a major commitment by the Legislature to meet Governor Kulongoski's and the Oregon State Board of Higher Education's ten-year reinvestment plan to improve student access and affordability, high quality learning, innovative research, and programs directed at economic development, workforce shortages and other state priorities for Oregon.

Budget targets critical areas

For the first time in many years, the budget includes $20.6 million to pay for enrollment increases. Combined with the $6.8 million allocation to reduce student/faculty ratios, the universities can invest in support services that help students stay in school, get the classes, courses and faculty they need to succeed, and graduate faster, and thus at a lower cost. Another student-focused effort funded at $580,000 in the budget is the Rural Access Initiative, which will develop programs to increase the number of rural Oregonians who go to college.

Other OUS priorities funded in the 2007-2009 budget included $9 million to support the regional campuses – Eastern Oregon University, Southern Oregon University, and Western Oregon University – as well as Oregon Institute of Technology and the Cascades Campus of Oregon State University located in Bend, to be used to increase retention and graduation, provide a base amount to support sustainable operations, and provide transition funding needed by some campuses to execute Board approved retrenchment plans. These campuses play a very important educational and community role in the regions they serve. This investment will help them restore student and campus support systems and programs that have been especially hard hit during the last three biennia of cuts to higher education.

With the legislature's investment of $10 million in faculty salary increases, campuses will be better equipped to retain their quality faculty members, and have resources to attract new faculty as retirements and regular turnover produce vacancies in the OUS. Prior to this funding, average OUS faculty salaries have been about 17% lower than the average of peer salaries despite the fact that OUS faculty are among the most productive in the country, ranking 6th overall in federal research and development grants per faculty member. This is a phenomenal record given that Oregon is currently 45th in the nation in terms of state funding per student for postsecondary education. These faculty are key assets of the university system and integral to the academic success of our students. This level of investment was acknowledgement that the state must support faculty with competitive salaries or lose them and their significant economic impact.

Another priority budget investment of $15 million was made in the programs advocated by the Engineering and Technology Industry Council (ETIC), a public private partnership whose initiatives work to increase the number and quality of engineering and computer science graduates, as well as related research initiatives and faculty, to meet the needs of the public, private and nonprofit sectors in Oregon. This investment in ETIC leverages millions from key industries who share our goal of increasing the number of technology and knowledge workers, and helps the state build the highly skilled workforce we need to keep companies here, and bring in new organizations with new jobs and high skill wages for Oregonians.

Oregon's healthcare workforce shortage will be addressed with a budget investment of al-

Progress on Board's Strategic Planning Continued in 2006-07

In late 2006, the Oregon State Board of Higher Education completed a year long process to develop a twenty-year vision and plan for higher education in Oregon. Propelled by the need to prepare students for the global century, and facing the consequences of fifteen years of disinvestment in the Oregon University System (OUS), the Board built a framework of goals, desired outcomes, performance metrics, guiding principles, and strategic priorities for accomplishing the vision by 2025.The planning framework and strategic priorities guided the Board in the development of budget proposals and a broad array of higher education policies, serving as a compass for Board decision making.

In February 2007, a Board standing committee on Strategic Initiatives was established to oversee the implementation of the long-range plan. Then in April 2007, four subcommittees were created to carry out the first steps of the work outlined in the strategic plan: Governance and Financial Sustainability; OUS Portfolio Development; Student Participation and Completion; and Higher Education Service to Portland. The Strategic Initiatives Committee will report its initial findings and suggested actions to the Board in late 2007, with implementation plans to follow.

most $7.4 million in an initiative to increase the number of nurses and healthcare technicians and clinicians. About two-thirds of the funding ($4.6 million) will support Oregon Institute of Technology's medical-related programs and offerings, and one-third ($2.8 million) will support nursing courses through the Consortium for Nursing Education in Oregon.

Every county in Oregon will benefit from the $5 million budget investment in the Statewide Public Services, which are run through Oregon State University and include the Extension Service, the Agricultural Experiment Station, and the Forest Research Laboratory. Programs, services, and outreach through these public services aid traditional Oregon industries, provide a diverse set of education and training programs to Oregonians of all ages, and help solve community issues statewide.

Other funded programs and initiatives in the 2007-2009 budget include $200,000 for the Institute for Natural Resources at OSU; $1.2 million for Oregon Solutions, a program at the Policy Consensus Institute at Portland State University; $750,000 for the Veterinary Diagnostic Lab operated by OSU; $1.4 million for the Integrated Data Transfer System to support better alignment between high school and college, and improve the ease of student transfer; and $2.2 million to support utility cost increases, among other budget allocations.

Investing in Infrastructure, Rebuilding our Foundation

The 2007-2009 capital budget will directly improve services, academic quality, research experiences and time to graduation for OUS students. The new construction directly addresses healthcare workforce shortages in Oregon, investments in research and innovation capacity, and preserves historical assets such as Lincoln Hall at Portland State University, critical to serving capacity issues and new enrollment.

The systemwide and campus funding provided for deferred maintenance and repair will enable the university system to reduce the current $640 million backlog in deferred maintenance by $60 million (net of current and next biennium), the first time it has been reduced in several decades. Besides meeting critical repair needs, and building and modernizing classrooms and laboratories, the capital investments are estimated to create more than 11,800 construction jobs across the state over the next several years, provide a $1.25 billion economic output of goods and services through the projects, and provide almost $400 million in increased earnings for Oregonians.

Real progress can now be made to address past issues through deferred maintenance fixes, current issues through capital repair funding, and future issues through support of new construction related to research, academic quality and capacity, and Oregon's green energy future. By replacing old, inefficient heating, lighting, wiring and other basic infrastructure, the universities will save money, gain cleaner, more efficient energy, reduce greenhouse gases, and improve the safety and stability of our buildings through seismic upgrades.

The 1,178 public university facilities represent 50% of all state-owned capital assets in Oregon, and have a current replacement value of $3.4 billion. Between 1995 and 2007, the $420 million state investment in OUS facilities has leveraged almost $800 million in private funding for academic, research and other buildings, and almost $940 million in campus-funded auxiliary projects, such as dining halls, dormitories, and physical education facilities.

The $233 million state-funded portion of the 2007-2009 capital budget includes: General Fund ($28 million), Article XI-G bonds ($117.5 million, which must be matched), Lottery bonds ($50 million), and Energy Loans ($37.6 million). Other authorized funding includes Certificates of Participation ($11 million); Article XI-F(1) bonds ($159.5 million), and Other Revenues ($157.1 million), such as donor contributions.

Making College More Affordable for Students and Families

Oregon students will not be priced out of a college education, with average tuition increases staying at 3.4% each year. This maintains the Governor's and the Board of Higher Education's goal since 2005 to keep tuition increases at or below increases in Median Family Income for Oregonians. Combined with increased funding in Oregon Opportunity Grant (OOG), more low- and moderate-income Oregonians will be able to access and afford a college education.

Oregon Opportunity Grant funding was increased to $106 million, an increase of almost 36% over the $78 million appropriated in 2005-2007, and a 240% increase over the $44 million provided in 2003-2005. Called the Shared Responsibility Model, this new version of the state's need-based aid program shares college cost responsibilities between the student, family, federal and state governments to provide a greater level of relief to reduce costs and borrowing for Oregon's neediest students. This increase will allow more eligible full- and part-time resident undergraduate students at public institutions, an estimated additional 4,000 students above the 25,000 served today, to qualify for the OOG, with awards based on the student and family's level of need. The income ceiling was raised from $30,000 to as much as $60,000 (subject to family factors, e.g., the number of dependents), enabling more moderate-income families to quality for grants. This funding is in the Oregon Student Assistance Commission budget.

Investing in Research Supports Industries and Innovation

Investment in emerging industry clusters through the Oregon

Innovation Council (Oregon InC) will be supported by OUS faculty and research institutes; this funding is in the Oregon Economic and Community Development Department, and includes:

- $9 million for the Oregon Nanoscience and Microtechnologies Institute (ONAMI) to support development of licensable technologies, patents, spin-off companies and job creation (previously in the OUS budget);
- $5.2 million for the Oregon Translational Research and Drug Development Institute (ORTRADI), a signature research center in support of drug development in the area of infectious diseases;
- $2.5 million for the BioEconomy and Sustainable Technologies Institute (BEST), a signature research center that will support research seed funding for biofuels/bioproducts research, to leverage external funding and supplemental research support;
- $2.8 million for the Manufacturing Competitiveness Initiative for collaborative public-private projects for value-added manufacturing processes to increase competitiveness; includes 3 faculty members;
- $4.2 million for Ocean Wave Energy for production incentives, development of a commercial scale wave park, and research and development, including staff, consulting and equipment;
- $3.4 million for Food Processing Innovation and Productivity Center, for research, development and training, including staff, consulting and equipment.

Other investments in research included in the OUS 2007-2009 budget included $200,000 in the Institute for Natural Resources at Oregon State University to provide research and policy support to state agencies and other organizations on a variety of natural resource issues, including environmental protection and watershed conservation. The Oregon Climate Change Research Institute at OSU received $180,000 to facilitate research, serve as a climate change information clearinghouse, provide technical assistance, and assess the state of climate change science as it relates to impacts on Oregon.

Addressing Regional Campuses' Challenges

Besides the 2007-2009 budget investments, the OUS regional campuses have each had to work on restructuring their program offerings and realigning administrative and in some cases faculty positions in order to reach a level of budget stability and financial sustainability required to operate effectively. Decades of budget cuts or flat funding have fiscally challenged the four regional campuses, and decreased enrollment levels, to the point where they have been declaring retrenchment or reorganization at the rate of one per year since 2005. Regional universities to some extent have realigned or will restructure their program offerings, reducing lower priority programs and investing more heavily in their recognized "spires of excellence": theatre and performing arts; education and criminal justice; health professions and engineering technologies; and in programs designed to meet the needs of remote and rural communities. The regional universities play an important statewide role in meeting Oregon's need for more teachers, counselors, technology workers, and healthcare practitioners, the latter through alliances with Oregon Health & Science University. Through these budget realignment efforts, each regional institution already has or is expected to increase enrollment, and stabilize its financial base.

Reinvesting in Oregon's Future

While a significant increase, the 2007-2009 OUS budget is the minimum the State Board of Higher Education feels is necessary to begin a multi-biennial reinvestment in its students and universities. Several biennia of disinvestment have had an impact on Oregon students and families in: college access and affordability; academic and support services for students; students' ability to graduate in a reasonable period of time due to course, class and program cuts; the condition of classrooms and labs not meeting students learning and work-readiness needs; the ability to keep Oregon's top achieving students in the state; and our ability to attract and retain enough high quality faculty to both enrich student learning and bring in hundreds of millions of dollars each year through grants and other academic funding.

As the State Board of Higher Education has frequently noted, Oregon cannot make up for decades of disinvestment in a single biennium. However, the Board has developed a 10 year plan to reach greater investment levels that will pay big dividends for Oregon and Oregonians. We urge the Legislature to keep working to make the first of several investments needed to fully leverage the strengths of Oregon's higher education system, and to begin to rebuild areas weakened during the years of recession and low state revenues.

Our thanks go out to the Governor, his staff, and the members of the Legislature for their tireless efforts to support higher education throughout the session, and for working in close partnership with the OUS to ensure integrated priorities between K-12, community colleges, OUS, student need-based aid, economic development, and university research.

Chancellor

Top University Accomplishments July 1, 2006 to June 30, 2007

Eastern Oregon University

- Three professors received Fulbright Scholar Awards: Jill Gibian, associate professor of Spanish; Mark Shadle, professor of English and writing; and Jessica Plattner, assistant professor of art. Tonia St. Germain, assistant professor of gender studies, received an award from the National Endowment for the Humanities.
- A fundraising record was set in 2006, with total revenues received by the EOU Foundation exceeding $3.78 million, more than four times the total received in 2005.
- Eastern Oregon Science Journal wins first place, special merit award from the American Scholastic Press Association, the only student-published, undergraduate scientific research journal in Oregon.
- A new Native American Studies minor was approved, a multidisciplinary program incorporating classes in anthropology, political science, history and business.
- College of Education passed all requirements of state accreditation review by the Teacher Standards and Practices Commission of Oregon, which is conducted every seven years.
- A Memorandum of Understanding is signed with Umpqua Community College, enabling students to enroll in classes through both UCC and EOU.

Oregon Institute of Technology

- OIT completed the accreditation process with the Northwest Commission on Colleges and Universities and the Accreditation Board for Engineering and Technology, highly praising the work going on at the university, with ABET extending accreditation for the full six years possible.
- A Strategic Planning Congress was held in March 2007 to establish the framework for OIT 2017, a new strategic plan outlining four overarching concepts and drafted to align with the Oregon University System strategic plan.
- OIT was named 10th on the *U.S. News & World Report* list of Top Baccalaureate Colleges in the West, and ranked fourth on the Top Public Baccalaureate Colleges in the West.
- The university began offering a variety of new programs and was approved for several others by the Oregon State Board of Higher Education during the academic year: Applied Mathematics, Biology, Embedded Systems Engineering Technology, Health Informatics (an option within Information Technology), and Polysomnography.
- The first wing of the Martha Anne Dow Center for Health Professions was completed and outfitted with state-of-the-industry medical imaging equipment, possible, in part, by a long-term partnership established between Toshiba America Medical Systems and OIT. Part of the agreement finds OIT the only educational site using computerized simulators for magnetic resonance imaging and computed tomography within the United States. The Prescription for Oregon capital campaign associated with the building has raised more than $12 million from private donations and pledges, marking OIT's first capital campaign.

Oregon State University

- Scientists at OSU earned more than $206 million in research contracts and grants in 2006-07, while licensing income from technology transfer efforts brought in nearly $2.5 million, a significant increase from last year's total of $2.13 million.
- OSU hired Cyril Clarke as dean of the College of Veterinary Medicine and Diana Sloan as campus executive officer of the Cascades campus in Bend. OSU-Cascades awarded its 1,000th degree -- a milestone for the young campus -- while the OSU College of Veterinary Medicine graduated its first class to complete all four years of instruction at OSU.
- OSU's Kelley Engineering Center and Weatherford Hall earned coveted recognition as eco-friendly facilities from the Leadership in Energy and Environmental Design Green Building Rating System.
- Donors contributed more than $76.9 million in new commitments in fiscal year 2006-07 through the OSU Foundation to support students, faculty, programs, and facilities at Oregon State University, growing the University's composite endowment to $434 million.
- OSU Athletics experienced another banner year, bringing home the NCAA National Baseball Championship for the second year in a row and seeing Head Coach Pat Casey named once again, Coach of the Year. Forty-seven percent of all the student-athletes at OSU have at least a 3.00 cumulative GPA or better following spring term.

Portland State University

- PSU enrolled its largest student body ever, continuing an 11-year growth trend. It also graduated its largest class, reflecting the twelfth consecutive increase in degrees conferred.
- The University secured a significant capital construction package in the 2007-2009 budget, funding the Academic and Student Recreation Center, and future renovations on Lincoln Hall, and the Science Teaching and Research Center.
- The Center for Electron Microscopy and Nanofabrication was opened, a collaborative endeavor which enables critical nanotechnology research throughout Oregon.
- PSU named former NFL coach Jerry Glanville to head

its football program and selected Torre Chisholm as its athletic director, signaling its strong support for athletics as a part of the collegiate student experience.

- PSU received two significant recognitions for its civic engagement: the Carnegie Foundation for the Advancement of Teaching selected PSU for its new elective community engagement classification; and it was named the Western regional winner of the C. Peter Magrath/W.K. Kellogg Foundation Engagement Award, conferred by the National Association of State Universities and Land Grant Colleges.

Southern Oregon University

- SOU developed a three-year retrenchment plan to balance the budget based upon current enrollment. In the process, the campus community was extensively engaged in restructuring to position SOU for academic excellence, strong student services and enrollment growth.
- The SOU Division of Student Affairs created an integrated enrollment services center which offers one-stop service for students, greatly strengthening its student recruitment and retention effort.
- SOU students led a successful campaign to adopt a campus Green Tag Program, making it the first campus in the state to offset one hundred percent of its energy use. SOU also created a campus Sustainability Council to work towards the goal of making SOU a leader in sustainability.
- Southern's School of Education received a grant of $1.43 million from the U.S. Department of Education to collaborate with 13 school districts in three southwestern Oregon counties to dramatically improve instruction for Limited English Proficient (LEP) children in the region.
- SOU Geology major Elizabeth M. Carrington received the prestigious Barry M. Goldwater Scholarship. Elizabeth was selected from a nationwide pool of 1,081 mathematics, science, and engineering students nominated from 436 institutions. The award is a testament to the quality of SOU's academic programs, the students they attract and the individual mentorship that SOU professors provide.

University of Oregon

- The University of Oregon is entering the final year of Campaign Oregon, the largest capital campaign of its kind in the state's history. To date the effort has raised $543 million and is on track to achieving its goals.
- 2006 graduate Andrew Shipley was one of 32 Americans to be named a Rhodes Scholar.
- The first UNESCO chair in the United States that is dedicated to peaceful conversations was established.
- The School of Journalism and Communications began a new master's program in strategic communications in Portland.
- A new residence hall that features classrooms, a performance hall and spacious student rooms along with green design features opened.

Western Oregon University

- WOU's Health and Physical Education Division received a $68,000 contract from the Oregon Department of Education to partner with the Healthy Kids Learn Better team to develop, coordinate, implement and evaluate a national demonstration program for establishing a coordinated school health approach to addressing the needs of students with asthma.
- Spanish professor Eduardo Gonzalez-Viana, Ph.D., received the International Latino Award for the Best Novel 2007: "El Corrido de Dante" (Dante's Ballad), published by Arte Público, University of Houston.
- Katherine M. Schmidt, Ph.D., assistant professor of English and director of WOU's Writing Center, and four undergraduate student writing tutors presented findings from their research on making the writing tutor more effective in serving the writing needs of deaf students at the 2007 Pacific Northwest Writing Centers Association meetings in Bellingham, Washington.
- Tom Kelly, health and physical education professor, worked with four student interns to plan and host physical activity demonstration and participation areas at the Oregon State Fair, which received publicity in newspapers and on TV.
- Associate professor of criminal justice, William ("Bud") Brown, Ph.D., completed a survey that identified 2,000 homeless individuals in urban and rural areas of Polk and Marion counties, a first step in providing a basis to evaluate services to this population.

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, 2007 and 2006. 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.

OUS enrolled a total of 71,328 full time equivalent (FTE) students on its seven campuses during fiscal year 2007, down slightly from the previous year. FTE enrollment by university is shown below.

	FTE Student Enrollment				
University	2003	2004	2005	2006	2007
EOU	2,640	2,565	2,558	2,609	2,460
OIT	2,463	2,499	2,486	2,377	2,319
OSU	18,608	18,698	18,749	18,821	18,875
PSU	17,491	17,965	18,204	18,719	18,927
SOU	4,648	4,659	4,418	4,249	4,174
UO	20,334	20,481	20,862	20,695	20,421
WOU	4,497	4,417	4,277	4,202	4,152
Total System	70,681	71,284	71,554	71,672	71,328

Overview of the Financial Statements

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

Statements of Net Assets

The Statements of Net Assets present 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,	2007	2006	2005
		(In millions)	
Current Assets	$ 714.3	$ 516.2	$ 539.3
Noncurrent Assets	532.6	425.1	453.9
Capital Assets, Net	1,421.2	1,381.8	1,331.1
Total Assets	$ 2,668.1	$ 2,323.1	$ 2,324.3
Current Liabilities	$ 520.9	$ 318.8	$ 369.6
Noncurrent Liabilities	1,011.4	925.0	884.2
Total Liabilities	$ 1,532.3	$ 1,243.8	$ 1,253.8
Invested in Capital Assets, Net of Related Debt	$ 592.0	$ 583.5	$ 598.7
Restricted - Nonexpendable	17.3	17.3	14.7
Restricted - Expendable	344.3	309.7	279.0
Unrestricted	182.2	168.8	178.1
Total Net Assets	$ 1,135.8	$ 1,079.3	$ 1,070.5

Total Assets

Comparison of fiscal year 2007 to fiscal year 2006

Total Assets increased $345.0 million to $2.7 billion during the fiscal year ended 2007 compared to 2006. Current Assets increased $198.1 million mainly due to $172.3 million in increased Collateral from Securities Lending, $22.2 million in increased cash relating, mainly, to the instructional funds and $6.0 million in increased Accounts Receivable, Net due mainly to increased state and private gifts and contracts. Noncurrent Assets increased $107.5 million mainly relating to cash increases of $90.7 million for debt proceeds used to construct capital assets. Capital Assets increased $39.4 million which 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 2006 to fiscal year 2005

Total Assets remained at $2.3 billion during the fiscal year ended 2006 compared to 2005. Current Assets decreased $23.1 million mainly due to $29.2 million in decreased Collateral from Securities Lending, $14.6 million in decreased cash relating, mainly, to the spend down of reserves in the funds used for instruction. This was partially offset by $22.5 million in increased Accounts Receivable, Net due mainly to increased student tuition and fees receivables. Noncurrent Assets decreased $28.8 million mainly relating to cash decreases of $27.9 million for debt proceeds used to construct capital assets. Capital Assets increased $50.7 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 2007 to fiscal year 2006

Total Liabilities increased $288.5 million to $1.5 billion during the fiscal year ended 2007 compared to 2006. Current Liabilities increased $202.1 million mainly due to a $172.3 million increase in Obligations under Securities Lending. Accounts Payable and Accrued Liabilities also increased $23.1 million mainly relating to the timing of construction payments for current construction projects. Noncurrent Liabilities increased $86.4 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 2006 to fiscal year 2005

Total Liabilities decreased $10.0 million to $1.2 billion during the fiscal year ended 2006 compared to 2005. Current Liabilities decreased $50.8 million mainly due to a $29.2 million decrease in Obligations under Securities Lending. Accounts Payable and Accrued Liabilities also decreased $37.2 million mainly relating to the timing of construction payments and lower contract retainage accruals. Noncurrent Liabilities increased $40.8 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

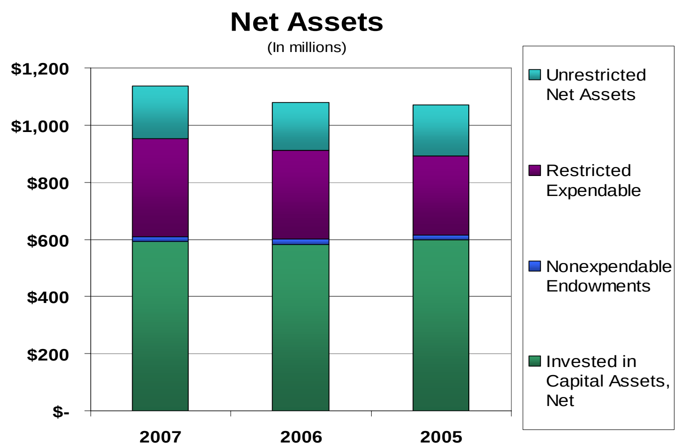
Comparison of fiscal year 2007 to fiscal year 2006

OUS's overall financial position improved in fiscal year 2007. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased $56.5 million to $1.1 billion during the fiscal year ended 2007 compared to 2006. In addition, for both fiscal years, current assets are sufficient to meet current obligations.

Comparison of fiscal year 2006 to fiscal year 2005

OUS's overall financial position remained the same in fiscal year 2006. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased $8.8 million to $1.1 billion during the fiscal year ended 2006 compared to 2005. 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 2007, 2006 and 2005.

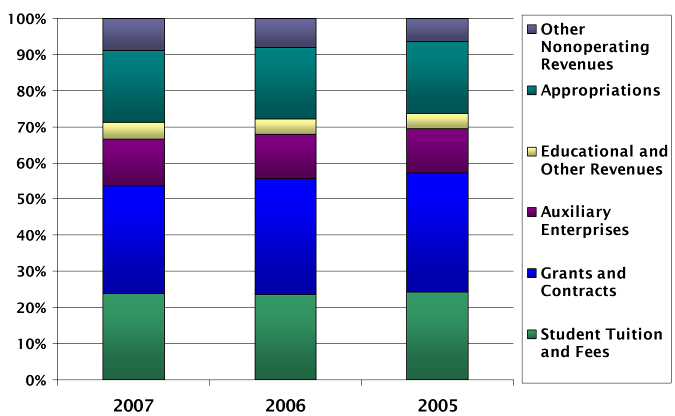


Total Net Assets increased $56.5 million, or 5.2%, for the fiscal year ended June 30, 2007. Net Assets restricted for Debt Service increased $14.7 million due to higher debt balances and interest rate increases. Net Assets restricted for Capital Projects increased $12.6 million relating to unspent debt proceeds for current construction projects. Unrestricted Net Assets increased $13.4 million due mainly to the instructional funds where there was a favorable change in estimate for summer session revenue recognition and an aggregation of many smaller increases. Total Net Assets increased $8.8 million, or less than 1%, for the fiscal year ended June 30, 2006. Though Net Assets increased overall, Unrestricted Net Assets declined $9.3 million due mainly to the spend down of reserves in the funds used for instruction.

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Net Assets present 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 Statements of Revenues, Expenses, and Changes in Net Assets and the noncapital financing section of the Statements 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,	2007	2006	2005
		(In millions)	
Operating Revenues	$ 1,399.9	$ 1,350.9	$ 1,286.9
Operating Expenses	1,863.8	1,814.8	1,695.2
Operating Loss	(463.9)	(463.9)	(408.3)
Nonoperating Revenues, Net of Expenses	479.6	425.3	393.8
Other Revenues	40.8	47.4	27.2
Increase In Net Assets	56.5	8.8	12.7
Net Assets, Beginning of Year	1,079.3	1,070.5	1,057.8
Net Assets, End of Year	$ 1,135.8	$ 1,079.3	$ 1,070.5



Operating Revenues

Operating revenues increased $49.0 million in fiscal year 2007, or 4% over fiscal year 2006, to $1.4 billion. This variance is due to increases in Student Tuition and Fees and Auxiliary Enterprise Revenues. Operating revenues increased $64.0 million in fiscal year 2006, or 5% over fiscal year 2005, to $1.3 billion. This variance is due to increases in Student Tuition and Fees and Federal Grants and Contracts.

For the Year Ended June 30,	2007	2006	2005
		(In millions)	
Student Tuition and Fees	$ 469.9	$ 440.2	$ 423.6
Grants and Contracts	587.3	599.3	576.7
Auxiliary Enterprises	253.9	231.2	214.8
Educational and Other	88.8	80.2	71.8
Total Operating Revenues	$1,399.9	$1,350.9	$1,286.9

Comparison of fiscal year 2007 to fiscal year 2006

Student tuition and fees increased $29.7 million in 2007 compared to 2006 due to increased tuition and fee rates that accounted for $30.2 million and summer session revenue relating to a change in recognition method of $4.3 million. Offsetting the increases were increased fee remissions that accounted for $3.9 million.

Federal, State and Nongovernmental Grants and Contracts decreased $12.0 million, or 2%, in 2007 compared to 2006. This was mainly related to Federal grants declining by $18.1 million during fiscal year 2007 when compared to the prior year. Federal Research and Development grants declined $11.1 million due mainly to the completion of a Reseach and Technology Development grant and lower amounts awarded for Technology Transfer, Research in Special Education, Geosciences, and Cooperative Forestry Assistance. Other grants declined $5.9 million mainly relating to lower award amounts for Education and Human Resources and the completion of a Small Business grant. Nongovernmental grants increased $5.4 million mainly relating to an increase in Nano Technology grants and an aggregation of new and increased amounts awarded for other grants.

Auxiliary Enterprise revenue increased $22.7 million compared to the prior year. Revenue growth of $7.8 million occurred in Intercollegiate Athletics relating to higher sponsorship income, increased ticket gate receipts, post-season football income and TV revenue sharing. Higher Housing and Student Center revenues of $8.5 million in 2007 related mainly to facilities rental income, new housing facilities, higher rates and student occupancy. Other Auxiliary Enterprise revenue increased $6.4 million due to an aggregation of many small increases across auxiliary activities.

Educational and Other Revenues increased $8.6 million between the two fiscal periods. Educational services increased $1.2 million mainly due to an aggregation of small increases. Other revenues increased $7.4 million mainly relating to the receipt of Asbestos litigation settlement funds.

Comparison of fiscal year 2006 to fiscal year 2005

Student tuition and fees increased $16.6 million in 2006 compared to 2005 due to increased tuition and fee rates that accounted for $16.9 million and increased enrollment that accounted for $4.0 million. Offsetting the increases were increased fee remissions that accounted for $4.4 million. In the previous fiscal year fee remissions were limited to a legislative cap, and scholarships were used in lieu of fee remissions to help meet students' financial needs.

Federal, State and Nongovernmental Grants and Contracts increased $22.6 million in 2006 compared to 2005. This was mainly related to Federal Research and Development grants growing by $22.8 million during fiscal year 2006 when compared to the prior year. Almost all grants increased when compared to the prior year with significant increases in agricultural research, forestry, military medical research, technology transfer, scientific research, technology development and science financial assistance.

Auxiliary Enterprise revenue increased $16.4 million compared to the prior year. Revenue growth of $7.8 million occurred in Intercollegiate Athletics relating to higher sponsorship income, increased ticket gate receipts and post-season football income. Higher Housing and Student Center revenues of $8.6 million in 2006 related mainly to new housing facilities, higher rates and student occupancy, and an aggregation of many small increases across auxiliary activities.

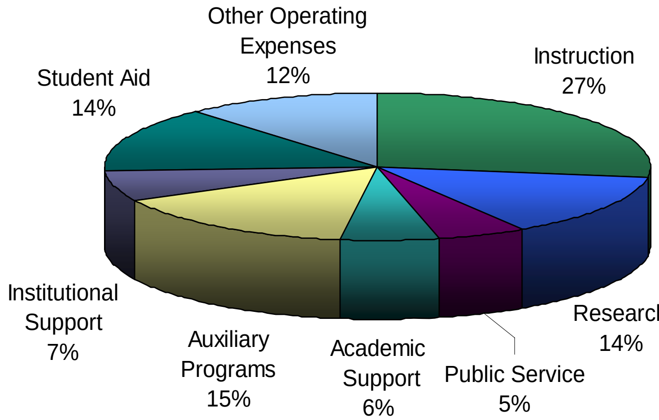
Educational and Other Revenues increased $8.4 million between the two fiscal periods. Educational services increased $3.9 million mainly due to increased services provided by OSU's Veterinarian Teaching Hospital, books and publications, and educational conference income. Other revenues increased $4.5 million mainly relating to a change in the recognition of student loan income when compared to the prior year.

Operating Expenses

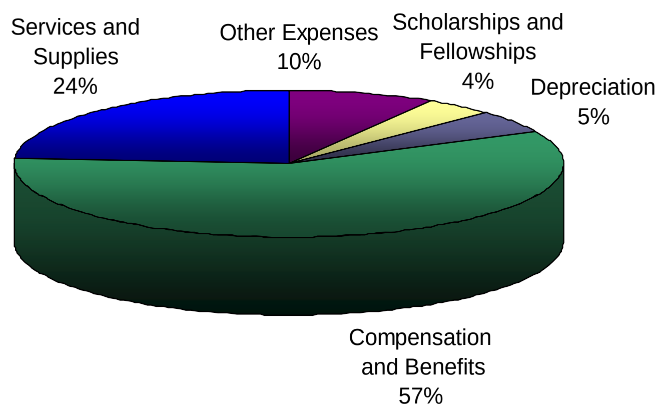
Operating expenses increased $49.0 million in fiscal year 2007, or 3%, over fiscal year 2006, to $1.9 billion. This change is due to increases in Instruction, Research, Auxiliary Programs, Institutional Support and Public Service. Operating expenses increased $119.6 million in fiscal year 2006, or 7%, over fiscal year 2005, to $1.8 billion. This change is due to increases in Instruction, Research, Auxiliary Programs, Institutional Support, Public Service, Academic Support and Other Operating Expenses.

For the Year Ended June 30,	2007	2006	2005
		(In millions)	
Instruction	$ 504.9	$ 482.6	$ 444.3
Research	259.8	255.8	231.2
Student Aid	263.9	266.2	266.8
Auxiliary Programs	284.2	260.7	237.7
Institutional Support	122.7	117.3	108.2
Public Service	102.2	98.7	92.0
Academic Support	107.2	108.1	97.7
Other Operating Expenses	218.9	225.4	217.3
Total Operating Expenses	$1,863.8	$1,814.8	$1,695.2

2007 Operating Expenses by Functional Classification



2007 Operating Expenses by Natural Classification



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 2007 compared to 2006 and fiscal year 2006 compared to 2005 (in thousands):

Comparison of fiscal year 2007 to fiscal year 2006

Variances relating to:	Compensation & Benefits	Scholarships & Fellowships	Services & Supplies	Depreciation	Other Variances
	Expense (Decrease) Increase				
Instruction	$ 20,270	$ 609	(198)	$ -	$ 1,625
Research	5,933	1,656	(3,622)	-	91
Public Service	2,530	(510)	1,536	-	(109)
Academic Support	1,006	(67)	(1,156)	3	(718)
Auxiliary Programs	10,277	691	10,364	2,066	154
Institutional Support	6,527	64	2,529	-	(3,694)
Student Aid	(26)	3,755	111	-	(6,146)
Other Operating Exp.	2,705	(5)	(4,690)	(1,923)	(2,665)
Total Variance	$ 49,222	$ 6,193	$ 4,874	$ 146	$ (11,462)

Compensation and Benefits increased $49.2 million, or 4.7% in fiscal year 2007 compared to 2006. A year end accrual accounted for $3.5 million of the increase. The number of employees included in payroll expense in fiscal year 2007 was similar to fiscal year 2006. Benefit costs were virtually unchanged as higher insurance rates were offset by lower retirement rates. Insurance costs increased 5% and retirement costs decreased 10%. The moderate growth in insurance costs was due to past credits which became fully amortized during fiscal year 2007. The remainder of the increase is attributable to wage increases.

Scholarships and Fellowships increased $6.2 million, or 8%, when comparing fiscal year 2007 and 2006. This was mainly due to increased scholarships of $5.4 million during fiscal year 2007. See Other Variances below for additional information about the scholarship increase.

Services and Supplies increased $4.9 million, or 1.1%, during fiscal year 2007. Rents and leases, assessments, fees, travel and other services all increased during fiscal year 2007. Offsetting the expense increases were supplies expense, utilities, maintenance and repairs, and subcontractor decreases.

Depreciation was unchanged during fiscal year 2007. An increase in capital assets was offset by a fiscal year 2006 adjustment for component depreciation of $4.1 million.

Other Variances decreased $11.5 million when comparing fiscal year 2007 and 2006. The decrease can be attributed to changes in internal reimbursements and decreased student loans. Before the end of fiscal year 2006, some universities encouraged students to apply for their loans before the interest rate increase that became effective fiscal year 2007. Universities also offered more scholarships during fiscal year 2007 which resulted in a reduction of student loans.

Comparison of fiscal year 2006 to fiscal year 2005

Variances relating to:	Compensation & Benefits	Scholarships & Fellowships	Services & Supplies	Depreciation	Other Variances
	Expense (Decrease) Increase				
Instruction	$ 36,304	$ (281)	$ 3,475	$ -	$ (1,148)
Research	17,156	380	7,010	-	6
Public Service	7,083	(272)	154	-	(197)
Academic Support	8,540	(45)	2,500	(31)	(532)
Auxiliary Programs	13,070	382	5,082	4,936	(527)
Institutional Support	8,167	(5)	1,392	-	(492)
Student Aid	(2,172)	(2,801)	(429)	-	4,828
Other Operating Exp.	8,052	(104)	477	8,797	(9,099)
Total Variance	$ 96,200	$ (2,746)	$ 19,661	$ 13,702	$ (7,161)

Compensation and Benefits increased $96.2 million in fiscal year 2006 compared to 2005. This increase can be separated into three main variances. Employee Growth, mainly related to increased teaching positions and positions relating to grants, increased compensation and benefit costs by $32 million. For existing employees, Benefit Costs increased $31 million compared to fiscal year 2005. Insurance costs increased 12% and retirement costs increased 28%. Wage increases**,** the first since fiscal year 2003, raised compensation and benefits by $31 million compared to fiscal year 2005.

Scholarships and Fellowships decreased $2.7 million when comparing fiscal year 2006 and 2005. This was mainly due to a $2.6 million one-time contribution of student aid received in fiscal year 2005.

Services and Supplies increased $19.7 million, or 5%, during fiscal year 2006. Utilities, miscellaneous services and supplies, contractor expenses, supplies expenses, rents and leases, assessments and travel all increased during fiscal year 2006. Offsetting the expense increases were maintenance and repairs decreases. During fiscal year 2005, a higher than average amount was provided by the State to address the most serious maintenance and repair risks to capital assets.

Depreciation increased $13.7 million during fiscal year 2006. A change in accounting estimate pertaining to deprecation of research-intensive buildings increased depreciation expense by $4.1 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 $7.2 million when comparing fiscal year 2006 and 2005. Changes in internal reimbursements were partially offset by increased student loans.

Nonoperating Revenues (Expenses)

The increase in Nonoperating Revenues of $47.7 million during 2007 can be directly tied to the increases in Government and Capital Appropriations, Other Nonoperating Items, Capital Grants and Gifts and Investment Activity. This was partially offset by increased Interest Expense. The increase in Nonoperating Revenues of $51.7 million during 2006 can be directly tied to the increases in Government and Capital Appropriations, Other Nonoperating Items, and Investment Activity. This was partially offset by increased Interest Expense.

For the Year Ended June 30,	2007	2006	2005
		(In millions)	
Appropriations	$ 392.4	$ 383.8	$ 348.2
Investment Activity	35.9	23.2	18.3
Interest Expense	(46.3)	(44.5)	(38.3)
Capital Grants and Gifts	40.1	29.4	26.6
Other Nonoperating Items	98.3	80.8	66.2
Total Nonoperating Revenues, Net	$ 520.4	$ 472.7	$ 421.0

Comparison of fiscal year 2007 to fiscal year 2006

Government and Capital Appropriations increased $8.6 million in 2007. State Appropriations that are used to fund operations at OUS increased $22.8 million and State Capital Appropriations decreased $14.8 million. All of the capital appropriations for the 2005-2007 biennium were drawn down in fiscal year 2006.

Investment Activity increased $12.7 million in 2007 mainly relating to increased interest income due to higher interest rates, net appreciation of investments, royalties and gain on sale of investments.

Interest Expense increased by $1.8 million due to new debt issuances and higher interest rates. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts increased $10.7 million in 2007 relating to the timing of the fundraising for construction projects.

Other Nonoperating Items increased $17.5 million in 2007. Gain on Sale of Assets, Net increased $17.0 million relating to the sale of real property. Gifts increased $6.2 million mainly relating to increased scholarships. Partially offsetting these increases were depreciation expense adjustments to capital assets of $3.2 million that were not recorded in prior years and contributions to permanent endowments of $2.5 million.

Comparison of fiscal year 2006 to fiscal year 2005

Government and Capital Appropriations increased $35.6 million in 2006. State Appropriations that are used to fund operations at OUS increased $24.1 million and State Capital Appropriations increased $14.8 million. All of the capital appropriations for the 2005-2007 biennium were drawn down in fiscal year 2006. A debt service reversion of $2.0 million and a Federal Appropriations decrease of $1.7 million partially offset the above increases during fiscal year 2006.

Investment Activity increased $4.9 million in 2006 relating to increased interest income due to higher interest rates.

Interest Expense increased by $6.2 million due to new debt issuances and higher interest rates.

Capital Grants and Gifts increased $2.8 million in 2006 relating to the timing of the fundraising for construction projects.

Other Nonoperating Items increased $14.6 million in 2006. Gifts increased $6.5 million mainly relating to increased scholarships and beginning balance adjustments to capital assets of $5.7 million that were not recorded in prior years. Changes to Permanent Endowments and Capital Contributions make up the remaining increase for the fiscal year ended 2006 when compared to 2005.

Change in Net Assets

The Increase in Net Assets rose $47.7 million in 2007 compared to 2006. Operating Loss decreases, and increased Other Nonoperating Items, Government Appropriations, Capital Gifts and Grants, and Investment Activities all contributed to the increase in Net Assets. The Increase in

Net Assets declined $3.9 million in 2006 compared to 2005. Operating Loss increases of $55.6 million were mostly offset by increased Other Nonoperating Items, Government Appropriations and Investment Activities.

Statements of Cash Flows

The Statements of Cash Flows provide information about OUS's sources (receipts) and uses (payments) of cash during the fiscal year. These statements classify sources and uses of cash into four categories. They assist in determining whether an entity has the ability to generate future net cash flows to meet its obligations as these come due, and to determine the need for external financing.

Summary statements of cash flows for the years ended June 30, 2007, 2006 and 2005, are as follows:

For the Year Ended June 30,	2007	2006	2005
		(In millions)	
Net Cash Used by Operating Activities	$ (372.9)	$ (385.4)	$ (336.2)
Net Cash Provided by Noncapital Financing Activities	480.6	434.1	411.1
Net Cash Used by Capital and Related Financing Activities	(7.4)	(108.5)	(85.8)
Net Cash Provided by Investing Activities	12.6	17.3	12.6
Net Increase (Decrease) in Cash	112.9	(42.5)	1.7
Cash, Beginning of Year	509.0	551.5	549.8
Cash, End of Year	$ 621.9	$ 509.0	$ 551.5

Comparison of fiscal year 2007 to fiscal year 2006

Cash Used by Operating Activities decreased by $12.5 million in 2007 compared to 2006. This decrease in the use of cash resulted from increased Tuition and Fee revenue of $46.0 million and revenues from Auxiliary Enterprise Operations of $22.0 million, and decreased expenses relating to Payments to Suppliers of $22.8 million. Partially offsetting these favorable changes were cash decreases of $13.4 million in Grants and Contracts and $9.4 million in Other Operating Receipts, and increases of $47.4 million in Payments to Employees for Salaries and Benefits and $6.2 million in Student Financial Aid. See "Statements of Revenues, Expenses and Changes in Net Assets – Operating Revenues," and "Statements 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 $46.5 million in 2007. This increase related to increased cash from Other Gifts and Private Contracts and Governmental Appropriations. See "Statements of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to the revenue increase.

Cash Used by Capital and Related Financing Activities decreased by $101.1 million in 2007. The increase of $52.4 million in Bond Proceeds on Capital Debt and lower Purchase of Capital Assets of $34.7 million combined for the majority of the decline. Increased Sales of Capital Assets caused the OUS cash position to increase by $24.1 million. Capital Grants and Gifts increased $11.4 million. Interest and Principal Payments increased cash usage by $6.7 million. Capital Appropriations of $14.8 million received during fiscal year 2006 partially offset the cash received. See "Statements 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 $4.7 million in 2007 compared to 2006. This was mainly due to the increase in Net Investment Purchases of $14.2 million. Fiscal year 2007 reflects investment purchases of $37.4 million and investment sales of $21.4 million. Interest on Investments and Cash Balances of $9.5 million increased cash balances. Fiscal year 2006 reflects investment purchases of $19.2 million and investment sales of $17.5 million.

Comparison of fiscal year 2006 to fiscal year 2005

Cash Used by Operating Activities increased by $49.2 million in 2006 compared to 2005. This increase in the use of cash was impacted by increased expenses relating to Payments for Salaries and Benefits of $87.0 million and Payments to Suppliers of $35.3 million. Partially offsetting these unfavorable changes were cash increases of $34.1 million in Grants and Contracts, $16.0 million in Other Operating Receipts, $15.6 million in Auxiliary Enterprise Operations and $3.6 million in Sales and Services of Educational Activities. See "Statements of Revenues, Expenses and Changes in Net Assets – Operating Revenues," and "Statements of Revenues, Expenses and Changes in Net Assets – Operating Expenses" above for further information relating to these revenue and expense increases and decreases.

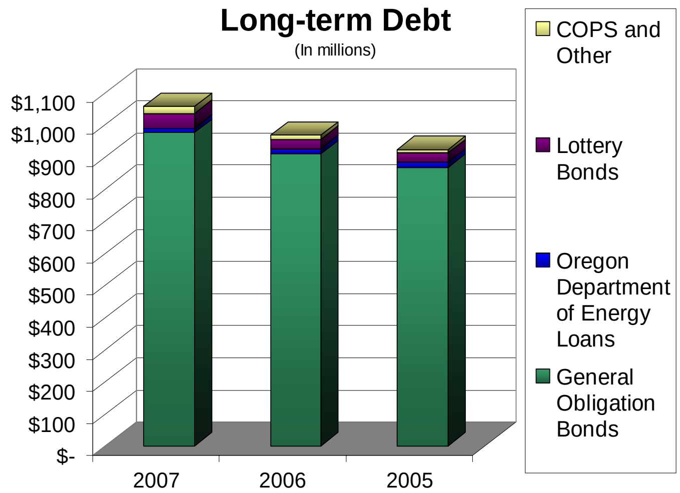
Cash Provided by Noncapital Financing Activities increased by $23.0 million in 2006. This increase related to increased cash from Other Gifts and Private Contracts and Governmental Appropriations. See "Statements of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to the revenue increase.

Cash Used by Capital and Related Financing Activities increased by $22.7 million in 2006. The decline of $101.4 million in Bond Proceeds on Capital Debt was mostly offset by lower Purchase of Capital Assets of $78.1 million. Decreased Sales of Capital Assets caused the OUS cash position to decrease by $5.8 million. Interest Payments increased cash usage by $9.5 million. Capital Appropriations of $14.8 million received during fiscal year 2006 partially offset the cash used. See "Statements of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to these changes in revenue.

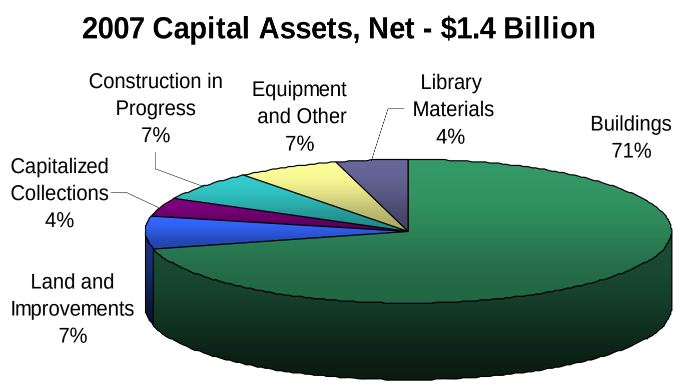
Cash Provided by Investing Activities increased by $4.7 million in 2006 when compared to 2005. This was mainly due to the increase in Interest on Investments and Cash Balances of $4.4 million. Fiscal year 2006 reflects investment purchases of $19.2 million and investment sales of $17.5 million. Fiscal year 2005 reflects investment purchases of $2.0 million.

Capital Assets and Related Financing Activities

During fiscal years 2007, 2006 and 2005, OUS issued bonds totaling $124 million, $72 million and $173 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. During 2007, 2006 and 2005, capital expenditures exceeded debt proceeds as debt proceeds were used from the past fiscal years, as well as gifts and other funding sources, to pay for construction.



OUS facilities include 1,178 buildings totaling 20.7 million gross square feet. 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 $136 million for the fiscal year 2007, $156 million for 2006 and $255 million for 2005. During fiscal year 2007, the seven universities purchased buildings, and completed new construction and renovations of buildings, such as UO Living Learning Center and Health and Counseling Center, OSU Cauthorn Hall and the Veterinary Medical Large Animal Hospital, PSU Koinonia House, and OIT Snell Hall. During fiscal year 2006, the seven universities purchased buildings, and completed new construction and renovations of buildings, such as PSU Northwest Engineering, PSU Ondine Conversion, PSU Montgomery Student Housing, OSU Reser Stadium, OSU Kelly Engineering, OSU Dixon Recreation Center, UO Outdoor Tennis Court/Field Relocation, SOU Madrone Student Housing, and WOU Arbor/Alder Park Student Housing. Facilities under construction at the end of the fiscal year ended 2007 include projects funded from private gifts, general obligation bonds, State capital appropriations, certificates of participation (COPs) and internal funds.

Accumulated depreciation at June 30, 2007 increased $73.1 million, which represented $89.8 million in depreciation expense offset by $16.7 million in asset retirements. Depreciation expense remained at $89 million during 2007 compared to 2006. Accumulated depreciation at June 30, 2006 increased $65.2 million, which represented $89.7 million in depreciation expense offset by $24.5 million in asset retirements. Depreciation expense increased $13.7 million during 2006 compared to 2005 due to increased depreciable assets and the refining 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.

State funding levels continue to challenge the institutional mission of OUS. The Oregon Legislature established limits on tuition and fee increases, further limiting the ability to offset the state funding declines relative to operating cost increases. With lower state support, limits on tuition and fees, and recent declines in enrollment, all of our institutions, and particularly our regional campuses, are operating in a financially challenging environment.

OUS will be challenged by insufficient state support but the Board and management are committed to ensuring the long-term health of OUS and supporting the core mission of access, affordability, excellence and economic development.

INDEPENDENT AUDITOR'S 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, 2007 and 2006, 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 5 of the 8 discretely presented component units which represents 7% of the total net assets and 11% of the total revenues of the System's discretely presented component units as described in Note 17 for the year ended June 30, 2007. We also did not audit 5 of the 8 discretely presented component units which represent 7% of total net assets and 7% of total revenues of the System's discretely presented component units as described in Note 14 for the year ended June 30, 2006. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included in those component units, is based solely on the report of other auditors.

We conducted our audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, 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, based on our audit and the reports of other auditors, 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, 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.

The Management's Discussion and Analysis listed in the table of contents 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 required 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 listed in the table of contents 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
November 16, 2007

Statements of Net Assets

As of June 30,	University System 2007	University System 2006
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$ 284,419	$ 262,190
Collateral from Securities Lending (Note 2)	240,871	68,528
Accounts Receivable, Net (Note 3)	156,359	150,396
Notes Receivable, Net (Note 4)	14,544	15,429
Inventories	6,594	6,214
Prepaid Expenses	11,541	13,428
Total Current Assets	714,328	516,185
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	337,505	246,815
Long-Term Investments (Note 2)	100,876	77,590
Notes Receivable, Net (Note 4)	94,184	100,744
Capital Assets, Net of Accumulated Depreciation (Note 5)	1,421,168	1,381,804
Total Noncurrent Assets	1,953,733	1,806,953
Total Assets	**$ 2,668,061**	**$ 2,323,138**
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	$ 98,592	$ 75,476
Deposits	13,222	15,597
Obligations Under Securities Lending (Note 2)	240,871	68,528
Current Portion of Long-Term Liabilities (Note 8)	85,131	78,418
Deferred Revenue	83,047	80,767
Total Current Liabilites	520,863	318,786
Noncurrent Liabilities		
Long-Term Liabilities (Note 8)	1,011,392	925,064
Total Noncurrent Liabilities	1,011,392	925,064
Total Liabilities	**$ 1,532,255**	**$ 1,243,850**
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 591,989	$ 583,547
Restricted For:		
Nonexpendable Endowments	17,333	17,263
Expendable:		
Gifts, Grants and Contracts	99,370	93,038
Student Loans	86,188	85,286
Capital Projects	80,109	67,495
Debt Service	78,608	63,896
Unrestricted Net Assets (Note 10)	182,209	168,763
Total Net Assets	**$ 1,135,806**	**$ 1,079,288**

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

Statements of Financial Position

As of June 30,	Component Units 2007	Component Units 2006
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	$ 61,617	$ 50,593
Contributions, Pledges and Grants Receivable, Net	93,354	108,887
Investments	1,155,596	970,033
Prepaid or Deferred Expenses, and Other Assets	25,060	22,749
Property and Equipment, Net	52,673	58,905
Total Assets	**$ 1,388,300**	**$ 1,211,167**
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 5,046	$ 3,289
Obligations to Beneficiaries of Split-Interest Agreements	87,829	72,296
Deposits and Deferred Revenue	13,978	11,825
Long-Term Liabilities	50,496	55,345
Total Liabilities	**$ 157,349**	**$ 142,755**
NET ASSETS		
Unrestricted	$ 69,996	$ 61,137
Temporarily Restricted	608,779	514,957
Permanently Restricted	552,176	492,318
Total Net Assets	**$ 1,230,951**	**$ 1,068,412**

Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30,	University System 2007	2006
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowance of $74,404 and $70,409, respectively)	$ 469,939	$ 440,182
Federal Grants and Contracts	515,722	533,777
State and Local Grants and Contracts	31,815	31,163
Nongovernmental Grants and Contracts	39,738	34,307
Educational Department Sales and Services	59,623	58,410
Auxiliary Enterprise Revenues (Net of Scholarship Allowance of $8,963 and $8,201, respectively)	253,877	231,205
Other Operating Revenues	29,182	21,808
Total Operating Revenues	**1,399,896**	**1,350,852**
OPERATING EXPENSES		
Instruction	504,918	482,612
Research	259,812	255,754
Public Service	102,163	98,716
Academic Support	107,208	108,140
Student Services	61,322	58,480
Auxiliary Programs	284,232	260,680
Operation and Maintenance of Plant	69,351	69,755
Institutional Support	122,697	117,271
Student Aid	263,881	266,187
Other Operating Expenses	88,218	97,234
Total Operating Expenses	**1,863,802**	**1,814,829**
Operating Loss	**(463,906)**	**(463,977)**
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	392,425	368,967
Investment Activity (Note 9)	35,866	23,203
Gain on Sale of Assets, Net	17,290	260
Interest Expense	(46,258)	(44,480)
Other Nonoperating Items	80,251	77,361
Net Nonoperating Revenues	**479,574**	**425,311**
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**15,668**	**(38,666)**
Capital Appropriations (Note 12)	-	14,796
Capital Grants and Gifts	40,118	29,437
Capital Contributions	662	619
Changes to Permanent Endowments	70	2,580
Total Other Nonoperating Revenues	**40,850**	**47,432**
Increase In Net Assets	**56,518**	**8,766**
NET ASSETS		
Beginning Balance	1,079,288	1,070,522
Ending Balance	**$ 1,135,806**	**$ 1,079,288**

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

Statements of Activities

For The Year Ended June 30,	Component Units 2007	Component Units 2006
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	$ 165,013	$ 147,930
Interest and Dividends	11,586	10,423
Investment Income, Net	128,426	75,316
Change in Value of Life Income Agreements	6,379	3,048
Other Revenues	12,514	12,338
Total Revenues	**323,918**	**249,055**
EXPENSES		
General and Administrative	24,394	21,884
Development Expenses	6,094	5,564
University Support	120,959	98,758
Other Expenses	10,274	8,167
Total Expenses	**161,721**	**134,373**
Increase In Net Assets Before Capital Contributions	**162,197**	**114,682**
Capital Contributions to Real Estate Operations	342	1,034
Increase In Net Assets	**162,539**	**115,716**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**1,068,412**	**960,610**
Prior Period Adjustments and Restatements	-	(7,914)
NET ASSETS, END OF YEAR	**$ 1,230,951**	**$ 1,068,412**

Statements of Cash Flows

For the Years Ended June 30,	University System 2007	University System 2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 468,134	$ 422,167
Grants and Contracts	590,112	603,543
Sales and Services of Educational Departments	59,552	58,234
Auxiliary Enterprise Operations	253,228	231,209
Student Loan Collections	21,930	18,844
Payments to Employees for Salaries and Benefits	(1,079,686)	(1,032,291)
Payments to Suppliers	(597,947)	(620,745)
Student Financial Aid	(79,413)	(73,219)
Student Loan Issuance and Costs	(24,959)	(18,728)
Other Operating Receipts	16,170	25,557
Net Cash Used by Operating Activities	**(372,879)**	**(385,429)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	401,768	358,778
Private Gifts Received for Endowment Purposes	70	2,580
Other Gifts and Private Contracts	79,206	73,049
Net Agency Fund Payments	(483)	(289)
Net Cash Provided by Noncapital Financing Activities	**480,561**	**434,118**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	-	14,796
Capital Grants and Gifts	40,118	28,706
Capital Contributions	661	619
Bond Proceeds on Capital Debt	124,384	71,976
Sales of Capital Assets	40,320	16,194
Purchase of Capital Assets	(132,579)	(167,232)
Interest Payments on Capital Debt	(46,248)	(43,747)
Principal Payments on Capital Debt	(34,021)	(29,812)
Net Cash Used by Capital and Related Financing Activities	**(7,365)**	**(108,500)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchases of Investments	(15,976)	(1,749)
Interest on Investments and Cash Balances	28,578	19,060
Interest Income from Securities Lending	5,102	1,908
Interest Expense from Securities Lending	(5,102)	(1,908)
Net Cash Provided by Investing Activities	**12,602**	**17,311**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**112,919**	**(42,500)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	509,005	551,505
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 621,924**	**$ 509,005**

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

For the Years Ended June 30,	University System 2007	2006
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (463,906)	$ (463,977)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	89,805	89,652
Changes in Assets and Liabilities:		
Accounts Receivable	(19,351)	(10,016)
Notes Receivable	2,391	3,512
Inventories	(381)	(236)
Prepaid Expenses	1,892	618
Accounts Payable and Accrued Liabilities	8,169	(12,958)
Long-Term Liabilities	3,120	5,056
Deposits	(276)	(12)
Deferred Revenue	5,658	2,932
NET CASH USED BY OPERATING ACTIVITIES	**$ (372,879)**	**$ (385,429)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ 175	$ 43
Capital Assets Acquired by Gifts in Kind	3,584	839
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	7,309	4,181

The accompanying notes are an integral part of these 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 (PSU), Southern Oregon University (SOU), University of Oregon (UO), Western Oregon University, and the Chancellor's Office. OSU includes a branch campus in Bend and receives separate appropriations for statewide activities including agricultural experiment stations, cooperative extension services and forestry research laboratories. 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.

OUS implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* effective for the year ended June 30, 2006. GASB 42 establishes accounting and financial reporting standards for impairment of capital assets and establishes requirements for application of related insurance recoveries. No disclosures were required for this reporting period.

OUS implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation,* effective for the year ended June 30, 2006. GASB 46 establishes and modifies the requirements related to restrictions of net assets resulting from enabling legislation. It amends GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraph 34. No disclosures were required for this reporting period.

OUS implemented GASB Statement No. 47, *Accounting for Termination Benefits,* effective for the year ended June 30, 2006. GASB 47 establishes standards of accounting and financial reporting for termination benefits. As used in GASB 47, termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination or as a consequence of the involuntary early termination of services. See "Note 8. J. Early Retirement Liabilities" for disclosure relating to this GASB.

New Accounting Standards – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB 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 45 are effective for the fiscal year ending June 30, 2008. Currently, OUS OPEB is limited to providing retirees the option of continuing with OUS medical and dental insurance, provided the retiree pays the monthly premium. This benefit option creates an "implicit rate subsidy" because the premium paid by the retiree is based on what OUS pays on behalf of its current employees, not the cost of what the premium would be if it were purchased by the retiree independently. An actuarial study has been performed at the State level, and the actuarial accrued liability attributable to OUS ranges between $69 million and $86 million. OUS is reviewing the options of recording the liability in its entirety or amortizing the liability over 30 years. If OUS decides to amortize the liability, approximately $5 million would be recorded in fiscal year 2008.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* GASB 48 defines reporting requirements when governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The requirements of GASB 48 are effective for the fiscal year ending June 30, 2008. OUS, historically, has not sold or pledged receivables and is not anticipating that the adoption of GASB 48 will have a material impact on its financial statements.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* GASB 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements of GASB 49 are effective for the fiscal year ending June 30, 2009. OUS is not anticipating that the adoption of GASB 49 will have a material impact on its financial statements.

In preparing the financial statements, significant interfund transactions and balances between universities have been eliminated. The fiscal year 2006 financial statements reflect certain reclassifications to conform to the fiscal year 2007 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 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 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 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.

Estimates of useful lives of building components were revised by OSU for fiscal year ended June 30, 2005 and by PSU and UO for fiscal year ended June 30, 2006. 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, PSU and UO componentized buildings now contain

19 components with useful lives ranging from 10 to 50 years. The change in estimate had the effect of increasing building depreciation expense and decreasing net assets by approximately $4.1 million during fiscal year 2006 and $3.5 million during fiscal year 2005.

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
Invested 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
Restricted nonexpendable 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 which OUS is legally or contractually obligated to spend 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, restricted resources are applied first.

K. Endowments

Oregon Revised Statutes (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. In accordance with current board policy, the amount available for distribution during fiscal year 2008 is $2,560,000. For the years ended June 30, 2007 and 2006, the net amount of appreciation available for authorization for expenditure was $22,829,000 and $18,227,000, respectively.

Nonexpendable Endowments on the Statements of Net Assets of $17,333,000 and $17,263,000 at June 30, 2007 and 2006, respectively, 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 that net into tuition and fees. Tuition waivers, provided directly by OUS, amounted to $35,122,000 and $32,150,000 for the fiscal years ended 2007 and 2006, 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 $48,245,000 and $46,460,000 for the fiscal years ended 2007 and 2006, 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 $141,994,000 and $120,153,000 for the fiscal years ended 2007 and 2006, 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 for use by all state funds. At the fiscal years ended June 30, 2007 and 2006, OUS carrying amounts of cash and cash equivalents were $618,600,000 and $505,529,000, respectively, while the State Treasury balances were $630,481,000 and $528,909,000, respectively. Differences between the OUS carrying amount and the State Treasury balance occur due to timing differences between transfers.

A copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97310-0840 or by linking to http://www.ost.state.or.us/about/annual_reports/index.htm.

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 (COPs) 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 COPs 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 COPs.

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. In the course of providing students and faculty opportunities for international studies and research abroad, foreign bank accounts have been established in several countries. The aggregate account balances converted into U.S. dollars equaled $82,000 at June 30, 2007.

Other Deposits

OUS cash and cash equivalents held by a fiscal agent outside the State Treasury comprised $3,324,000 and $3,476,000 at June 30, 2007 and 2006, 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, 2007, no bondholders had balances exceeding $100,000.

Other Cash Activities

OUS participates in a limited amount of forward contracts relating to international currency purchases. The contracts are used to limit the exposure to currency fluctuations during the school year and establish a fixed cost to the students who participate in international studies abroad. The unused portions of the forward currency contracts totaled $191,000 and were in slightly unfavorable positions at June 30, 2007.

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 who 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, 2007 (in thousands):

University System	Fair Value	Concentration of Credit Risk
Investment Type:		
Money Market Funds	$ 495	-
Corporate Bonds	57	-
Mutual Funds - Domestic Fixed Income	22,190	22%
Guaranteed Investment Contracts	17,307	17%
US Agency Securites	6	
Fixed Income Investments	40,055	
Mutual Funds - Domestic Equity Securities	32,886	33%
Mutual Funds - International Equity Securities	23,212	23%
Equity Investments	56,098	
Alternative Equities	1,733	2%
Real Estate	3,200	3%
Other Investments	4,933	
Total All Investments	101,086	100%
Less Amounts Recorded As Cash	(210)	
Total Investments	$100,876	

Of the total investments, $80 million are in pooled endowment investments, $3 million are separately invested endowments, and $18 million are investments of unspent bond proceeds. OUS has an endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Investments of the OUS discretely presented component units are summarized at June 30, 2007 as follows (in thousands):

Component Units	Fair Value
Investment Type:	
Corporate Stocks, Bonds, Securities and Mutual Funds	$ 793,130
Investment in Common Stock, Voting Trust and Partnerships	291,048
US Treasury Notes and Government Obligations	38,622
Money Market Funds and Certificates of Deposit	8,949
Collateralized Mortgages, Mortgage Notes and Contracts, Realty Funds	9,976
Land and Buildings	5,261
Remainder Trusts, Unitrusts and Gift Annuities	4,806
Alternative Investments	2,161
Commodities Funds	1,587
Cash Value of Life Insurance Policies	56
Total Investments	$1,155,596

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, 2007, OUS fixed income investments (in thousands) had the following credit quality ratings:

Investment Type:	Total	Money Market Funds	Mutual Funds- Domestic Fixed Income	Guaranteed Investment Contracts	Other
AAA	$ 6				$ 6
AA+	22,190		$ 22,190		
Aa	2,844			$ 2,844	
Aaa	57				57
Unrated	14,958	$ 495		14,463	
Fair Value	$ 40,055	$ 495	$ 22,190	$ 17,307	$ 63

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, 2007.

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 of endowments to 20% - 30% of total investments. OUS has the following investments in corporate bonds and fixed income mutual funds:

Investment Type:	Total	Money Market Funds	Mutual Funds- Domestic Fixed	Guaranteed Investment Contracts	Other
Investment Maturities (in years):					
Less than 1	$ 9,126	$ 495	$ 5,055	$ 3,570	$ 6
1 to 5	13,942		3,049	10,893	
6 to 10	1,539		1,482		57
More than 10	15,448		12,604	2,844	
Fair Value	$ 40,055	$ 495	$ 22,190	$ 17,307	$ 63

Foreign Currency Risk

Foreign currency risk is the risk of investments losing value due to fluctuations in foreign exchange rates. OUS does not directly invest in foreign currency investments and is therefore not subject to foreign currency risk. However, OUS has $23,212,000 in mutual funds that are primarily invested in international equities at June 30, 2007.

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, 2007	June 30, 2006
OUS Securities on loan:		
Fair Value	$ 8,941	$ 2,763
Cash Collateral held by OUS:		
Fair Value	9,154	2,688
Reported Value	9,146	2,867
Securities on loan by OSTF:		
Fair Value	227,287	64,338
Cash Collateral held by OSTF:		
Fair Value	231,921	65,602
Reported Value	231,725	65,661

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. At June 30, 2007, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit (TCD), and corporate notes. The funds' rules provide 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 COPs 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, 2007	June 30, 2006
Student Tuition and Fees	$ 77,598	$ 82,801
Auxiliary Enterprises and Other Operating Activities	15,700	13,761
Federal Grants and Contracts	12,612	11,381
State, and Private Gifts and Contracts	49,871	43,592
Other	8,138	7,699
	163,919	159,234
Less: Allowance for Doubtful Accounts	(7,560)	(8,838)
Accounts Receivable, Net	$ 156,359	$ 150,396

4. Notes Receivable

Notes Receivable comprised the following (in thousands):

	June 30, 2007		
	Current	Noncurrent	Total
Institutional Student Loans	$ 1,646	$ 5,690	$ 7,336
Federal Student Loans	11,823	61,265	73,088
Amounts Due from OHSU for Bond Indebtedness (See Note 8.G.)	5,904	30,622	36,526
	19,373	97,577	116,950
Less: Allowance for Doubtful Accounts	(4,829)	(3,393)	(8,222)
Notes Receivable, Net	$ 14,544	$ 94,184	$108,728

	June 30, 2006		
	Current	Noncurrent	Total
Institutional Student Loans	$ 2,762	$ 8,613	$ 11,375
Federal Student Loans	12,668	57,008	69,676
Amounts Due from OHSU for Bond Indebtedness (See Note 8.G.)	6,039	35,401	41,440
	21,469	101,022	122,491
Less: Allowance for Doubtful Accounts	(6,040)	(278)	(6,318)
Notes Receivable, Net	$ 15,429	$ 100,744	$116,173

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2007 and 2006. The program is funded through annual capital contributions from the federal government, an OUS match, 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 July 1, 2005	Additions	Retirements	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Capital assets, non-depreciable:							
Land	$ 89,271	$ 2,480	$ (11,731) A	$ 80,020	$ 6,488	$ (2,100)	$ 84,408
Capitalized Collections	58,855	11,042	(11,346)	58,551	677	(77)	59,151
Construction in Progress	193,411	119,354	(237,830)	74,935	98,242	(78,294)	94,883
Total capital assets, non-depreciable	341,537	132,876	(260,907)	213,506	105,407	(80,471)	238,442
Capital assets, depreciable							
Equipment	262,199	23,698	(24,721)	261,176	20,596	(13,209)	268,563
Library Materials	281,947	11,776	(1,477)	292,246	10,479	(938)	301,787
Buildings	1,354,927	234,461 A	(195)	1,589,193	69,844	(4,675)	1,654,362
Land Improvements	22,513	1,679		24,192	1,087	(1,088)	24,191
Improvements Other Than Buildings	16,560	679	(2,741)	14,498	3,576	(981)	17,093
Infrastructure	49,971	730		50,701	2,892	(16)	53,577
Total capital assets, depreciable	1,988,117	273,023	(29,134)	2,232,006	108,474	(20,907)	2,319,573
Less accumulated depreciation for:							
Equipment	(187,327)	(20,662)	22,847	(185,142)	(20,362)	11,044	(194,460)
Library Materials	(212,939)	(13,438)	1,396	(224,981)	(13,622)	927	(237,676)
Buildings	(543,659)	(51,425)	158	(594,926)	(51,589)	3,316	(643,199)
Land Improvements	(11,874)	(1,096)		(12,970)	(1,124)	519	(13,575)
Improvements Other than Buildings	(9,061)	(947)	88	(9,920)	(1,087)	837	(10,170)
Infrastructure	(33,685)	(2,084)		(35,769)	(2,014)	16	(37,767)
Total accumulated depreciation	(998,545)	(89,652)	24,489	(1,063,708)	(89,798)	16,659	(1,136,847)
Total capital assets, net	$ 1,331,109	$ 316,247	$ (265,552)	$ 1,381,804	$ 124,083	$ (84,719)	$ 1,421,168
Capital Assets Summary							
Capital assets, nondepreciable	$ 341,537	$ 132,876	$ (260,907)	$ 213,506	$ 105,407	$ (80,471)	$ 238,442
Capital assets, depreciable	1,988,117	273,023	(29,134)	2,232,006	108,474	(20,907)	2,319,573
Total cost of capital assets	2,329,654	405,899	(290,041)	2,445,512	213,881	(101,378)	2,558,015
Less accumulated depreciation	(998,545)	(89,652)	24,489	(1,063,708)	(89,798)	16,659	(1,136,847)
Capital Assets, net	$ 1,331,109	$ 316,247	$ (265,552)	$ 1,381,804	$ 124,083	$ (84,719)	$ 1,421,168

A — In fiscal year 2005, an asset purchase of $11,731,000 was recorded as land. Upon further evaluation of the asset during fiscal year 2006, the asset was reclassified to buildings.

6. Accounts Payable and Accrued Liabilities

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

	June 30, 2007	June 30, 2006
Services and Supplies	$ 63,487	$ 44,309
Accrued Interest	12,652	12,427
Salaries and Wages	12,252	8,557
Payroll Related Expenses	4,139	3,809
Contract Retainage Payable	2,720	2,879
Matured Bonds, COPs and Interest Payable	3,324	3,476
Financial Aid	18	19
	$ 98,592	$ 75,476

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 $6,081,000 and $5,393,000 for the years ended June 30, 2007 and 2006, respectively. The value of assets leased, net of depreciation, was $22,717,000 and $16,965,000 for the years ended June 30, 2007 and 2006, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2007 were (in thousands):

For the year ending June 30,	
2008	$ 6,097
2009	4,702
2010	4,293
2011	3,974
2012	3,712
2013-2017	7,900
2018-2022	2,254
2023-2027	2,215
2028-2032	1,541
2033-2037	615
2038-2042	604
2043-2047	46
2048-2052	1
Total Minimum Operating Lease Revenue	$ 37,954

B. Payables

OUS leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were $7,018,000 and $5,294,000 for the years ended June 30, 2007 and 2006, respectively. Minimum future lease payments on operating leases at June 30, 2007 were (in thousands):

For the year ending June 30,	
2008	$ 6,044
2009	5,726
2010	5,043
2011	4,161
2012	3,755
2013-2017	14,949
2018-2022	15,908
2023-2027	5,143
2028-2032	39
2033-2037	39
2038-2042	39
2043-2047	39
2048-2052	40
Total Minimum Operating Lease Payments	$ 60,925

8. Long-Term Liabilities

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

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	$ 699,496	$ 168,696	$ (135,923)	$ 732,269	$ 31,255
General Obligation Bonds XI-G	208,814	70,307	(37,203)	241,918	7,703
Oregon Department of Energy Loans (SELP)	15,641		(1,777)	13,864	1,656
Certificates of Participation	12,124	10,834	(2,658)	20,300	3,806
Lottery Bonds	28,741	19,059	(1,602)	46,198	1,691
Capital Leases	466	115	(348)	233	136
Arbitrage	182	790		972	85
Other Notes Payable	32		(5)	27	
Total Long-Term Debt	965,496	269,801	(179,516)	1,055,781	46,332
Other Noncurrent Liabilities					
Compensated Absences	37,554	37,370	(34,752)	40,172	38,613
Early Retirement Liability	432	277	(139)	570	186
Total Other Noncurrent Liabilities	37,986	37,647	(34,891)	40,742	38,799
	$1,003,482	$ 307,448	$ (214,407)	$1,096,523	$ 85,131

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	$ 678,786	$ 48,165	$ (27,455)	$ 699,496	$ 30,001
General Obligation Bonds XI-G	187,645	27,489	(6,320)	208,814	7,278
Oregon Department of Energy Loans (SELP)	14,641	2,670	(1,670)	15,641	1,733
Certificates of Participation	9,065	5,707	(2,648)	12,124	2,656
Lottery Bonds	30,255		(1,514)	28,741	1,586
Capital Leases	694	32	(260)	466	268
Arbitrage	130	52		182	-
Other Notes Payable	10	27	(5)	32	5
Total Long-Term Debt	921,226	84,142	(39,872)	965,496	43,527
Other Noncurrent Liabilities					
Compensated Absences	33,109	35,124	(30,679)	37,554	34,752
Early Retirement Liability	514		(82)	432	139
Total Other Noncurrent Liabilities	33,623	35,124	(30,761)	37,986	34,891
	$ 954,849	$ 119,266	$ (70,633)	$1,003,482	$ 78,418

The schedule of principal and interest payments for OUS debt is as follows (in thousands):

For the Year Ending June 30,	General Obligation Bonds XI-F(1)	General Obligation Bonds XI-G	SELP	COPs	Lottery Bonds	Capital Leases	Other Borrowings	Total Payments	Principal	Interest
2008	$ 58,149	$ 16,335	$ 2,375	$ 4,599	$ 3,839	$ 143	$ 85	$ 85,525	$ 37,031	$ 48,494
2009	58,969	17,599	2,150	3,399	4,131	87	914	87,249	36,970	50,279
2010	57,988	17,153	1,865	3,401	3,690	7		84,104	34,805	49,299
2011	57,577	17,236	1,711	2,303	3,694	6		82,527	34,332	48,195
2012	58,177	17,230	1,697	1,663	3,687			82,454	35,063	47,391
2013-2017	271,955	86,491	6,191	3,940	21,483			390,060	176,658	213,402
2018-2022	236,034	81,103	2,101	3,024	15,520			337,782	190,166	147,616
2023-2027	193,607	75,835		3,031	11,899			284,372	205,605	78,767
2028-2032	132,895	52,461						185,356	150,515	34,841
2033-2037	59,022	22,446						81,468	73,395	8,073
2038	2,607	1,401						4,008	3,920	88
Accreted Interest									70,266	(70,266)
									$1,048,726	$656,179
Total Future Debt Service	**1,186,980**	**405,290**	**18,090**	**25,360**	**67,943**	**243**	**999**	**1,704,905**		
Less: Interest Component of Future Payments	(461,673)	(161,056)	(4,226)	(5,778)	(23,436)	(10)		(656,179)		
Principal Portion of Future Payments	**725,307**	**244,234**	**13,864**	**19,582**	**44,507**	**233**	**999**	**1,048,726**		
Adjusted by:										
Unamortized Bond Premiums	20,263	2,281		718	2,095			25,357		
Deferred Gain on Refunding	(13,301)	(4,597)			(404)			(18,302)		
Total Debt	**$ 732,269**	**$ 241,918**	**$ 13,864**	**$ 20,300**	**$ 46,198**	**$ 233**	**$ 999**	**$ 1,055,781**		

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. OUS policy requires 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 1.8 percent to 7.5 percent, are due serially through 2038.

During the fiscal year ended June 30, 2007, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bond Series 2007 A, $54,935,000, effective rate of 4.3 percent for capital construction due serially through 2038.

During the fiscal year ended June 30, 2006, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bond Series 2006 A, $38,440,000, effective rate of 4.6 percent for capital construction due serially through 2037.
- XI-F(1) Taxable Bond Series 2006 C, $1,430,000, effective rate of 6.1 percent for capital construction due serially through 2037.

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, with effective yields ranging from 1.8 percent to 7.0 percent, are due serially through 2038.

During the fiscal year ended June 30, 2007, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bonds Series 2007 B, $38,015,000, effective rate of 4.3 percent for capital construction and refunding due serially through 2038.

During the fiscal year ended June 30, 2006, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bonds Series 2006 B, $23,230,000, effective rate of 4.5 percent for capital construction and refunding due serially through 2037.
- XI-G Taxable Bonds Series 2006 D, $1,695,000, effective rate of 6.1 percent for capital construction due serially through 2037.

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 2021.

D. Certificates of Participation

Certificates of Participation (COPs) are issued to finance certain equipment, computer software and construction. OUS makes monthly payments (principal and interest) to a trustee in accordance with the interagency agreement. The trustee, in turn, makes the debt service payments to COPs holders. COPs, with effective yields ranging from 2.3 percent to 4.1 percent, are due through fiscal year 2027.

During the fiscal year ended June 30, 2007, OUS issued COPs as follows:
- Series 2007 A, $10,330,000, effective rate of 4.2 percent for technology projects and construction due serially through 2027.

During the fiscal year ended June 30, 2006, OUS issued COPs as follows:
- Series 2005 B, $2,855,000, effective rate of 3.5 percent for technology projects due serially through 2011.
- Series 2006 A, $2,720,000, effective rate of 4.0 percent for technology projects due serially through 2012.

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 2.0 percent to 5.3 percent, are due through fiscal year 2027.

In fiscal year 2007, Tax Exempt Lottery Bond Series 2007 A was issued with net proceeds of $17,985,000 and an effective interest rate of 4.4 percent. The proceeds were used for capital construction.

In fiscal year 2006, there were no lottery bond issuances.

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, 2007 and 2006 was $972,000 and $182,000, 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, 2007 and 2006, long-term debt of OUS that relates to OHSU was $36,526,000 and $41,440,000, respectively.

H. Defeased Debt

During the year ended June 30, 2007, OUS issued $106,800,000 of XI-F(1) bonds with an average interest rate of 4.5 percent to refund $103,305,000 in XI-F(1) bonds with an average interest rate of 5.0 percent. The net proceeds of the XI-F(1) bonds were $107,605,000 (after bond premium of $1,354,000 and payment of $549,000 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 $2,098,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 29 years by $7,187,000 and resulted in an economic gain of $4,725,000.

During the year ended June 30, 2007, OUS issued $30,755,000 of XI-G bonds with an average interest rate of 4.5 percent to refund $30,085,000 in XI-G bonds with an average interest rate of 5.0 percent. The net proceeds of the XI-G bonds were $30,960,000 (after net premium of $362,000 and payment of $157,000 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 $1,523,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 27 years by $2,711,000 and resulted in an economic gain of $1,765,000.

OUS did not refund any debt during the year ended June 30, 2006.

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 $279,719,000 at June 30, 2007 and $179,026,000 at June 30, 2006 of which $207,000 and $269,000, 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 $667,000 and $1,548,000 as of June 30, 2007 and 2006, respectively. Accumulated depreciation of leased equipment totaled $384,000 and $750,000 for June 30, 2007 and 2006, respectively.

The lease purchase (capital lease) contracts expire through fiscal year 2012. 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 1.7 percent to 8.0 percent.

J. Early Retirement Liability

Since 1998, SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty electing this plan relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2007, 24 retirees were participating in the health and benefits option of this plan.

Early retirement liabilities comprised $186,000 and $139,000 in Current Portion of Long-Term Liabilities and $384,000 and $293,000 in Long-Term Liabilities as of June 30, 2007 and 2006, respectively. This liability was calculated using a discounted present value of expected future benefit payments, with a discount rate of six percent.

9. Investment Activity

Investment Activity detail is as follows (in thousands):

	June 30, 2007	June 30, 2006
Interest Income	$ 18,901	$ 13,815
Net Appreciation of Investments	7,309	4,179
Royalties and Technology Transfer Income	6,155	4,108
Endowment Income	2,412	2,315
Trust Income Distribution	(2,410)	(2,310)
Gain on Sale of Investments	3,488	1,083
Dividend Income	3	3
Rent Income	1	10
Other	7	-
	$ 35,866	$ 23,203

For the years ended June 30, 2007 and 2006, the fair value of endowment investments appreciated by $7,309,000 and $4,179,000, respectively.

10. Unrestricted Net Assets

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2007	June 30, 2006
Budgeted Operating Funds	$ 95,985	$ 87,291
Designated Operating Funds	17,279	15,210
Service Department Funds	5,216	5,126
Housing Funds	27,542	23,698
Intercollegiate Athletics Funds	(3,312)	(1,401)
Other Auxiliary Funds and Other Funds	35,451	35,598
Unrestricted Endowment Funds	4,048	3,241
	$ 182,209	$ 168,763

11. Operating Expenses by Natural Classification

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

	June 30, 2007	June 30, 2006
Compensation and Benefits	$1,086,433	$1,037,211
Services and Supplies	447,393	442,519
Scholarships and Fellowships	79,412	73,219
Depreciation	89,798	89,652
Other Expenses	160,766	172,228
	$1,863,802	$1,814,829

12. Government Appropriations

Government appropriations comprised the following (in thousands):

	June 30, 2007			
	General Operations	Debt Service	Capital Construction	Total
General Fund	$ 353,784	$ 16,382		$ 370,166
Lottery Funding	2,553	3,679		6,232
Harvest Tax	2,829			2,829
Total State	359,166	20,061	-	379,227
Federal Appropriations	7,677			7,677
County Appropriations	5,521			5,521
Total Appropriations	$ 372,364	$ 20,061	$ -	$ 392,425

	June 30, 2006			
	General Operations	Debt Service	Capital Construction	Total
General Fund	$ 338,006	$ 13,916	$ 14,796	$ 366,718
Debt Service Reversion		(2,020)		(2,020)
Lottery Funding	1,138	2,541		3,679
Harvest Tax	2,819			2,819
Total State	341,963	14,437	14,796	371,196
Federal Appropriations	7,157			7,157
County Appropriations	5,410			5,410
Total Appropriations	$ 354,530	$ 14,437	$ 14,796	$ 383,763

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 System/ Oregon Public Service Retirement Plan

Oregon Public Employees Retirement System (System) holds assets in a pension trust and offers two retirement plans in which OUS employees are eligible to participate, the State of Oregon Public Employees Retirement System and the Oregon Public Service Retirement Plan. These plans are 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 **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. 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 was 8.69 percent for Tier One and Two for the fiscal years ended 2007 and 2006.

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 coordinates 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 is adjusted biennially over the life of the twenty-four year debt repayment schedule.

The payroll assessment for the pension obligation bond began May 2004 at a rate of 7.39%. Payroll assessments for the fiscal years ended June 30, 2007 and 2006 were $24,200,000 and $24,268,000, respectively.

The **Oregon Public Service Retirement Plan** (OPSRP) is a single pension plan that features both a defined benefit plan and a defined contribution plan. The 2003 Oregon Legislature enacted a law creating OPSRP. Employees hired into eligible positions after August 29, 2003 are enrolled.

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 was 8.04 percent for the first six months and 4.43 percent for the second six months for OPSRP for the fiscal year ended 2007 and 4.43 percent for the fiscal year ended 2006.

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

An **actuarial valuation** of the System is performed every two years to determine the level of employer contributions. The most recently completed valuation was performed as of December 31, 2005. The valuation included projected payroll growth at 3.75 percent in 2005. 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 accrued liability at December 31, 2005, for PERS and OPSRP, determined through an actuarial valuation performed as of that date, was $49.2 billion and $53.8 million, respectively. PERS' and OPSRP net assets available for benefits on that date (valued at market) were $44.7 billion and $55.0 million, respectively. 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, 2006.

The System 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, or by linking on the internet at http://www.oregon.gov/PERS/docs/financial_reports/2006CAFRDec20.pdf, or by calling 1-888-320-7377 or 1-503-598-7377 (in Portland Metro area).

OUS employer contributions to PERS and OPSRP for the years ended June 30, 2007 and 2006 were $30,719,000 and $31,409,000, respectively, equal to the required contributions for those years.

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:

	2007	2006
ORP Tier One	16.75%	16.75%
ORP Tier Two	16.75%	16.75%
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 on Federal appointment 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, 2007 was $790,913,000, of which $633,102,000 was subject to retirement contributions. The following schedule lists payments made by OUS to pension plans for the fiscal year (in thousands):

	June 30, 2007			
	Employer Contri-bution	As a % of Covered Payroll	Employee Contri-bution	As a % of Covered Payroll
PERS/OPSRP	$ 30,719	4.85%	$ 23,378	3.69%
ORP	26,193	4.14%	11,233	1.77%
TIAA-CREF	224	0.03%	224	0.04%
Federal	430	0.07%	175	0.03%
FERS - TSP	121	0.02%	313	0.05%
	$ 57,687	9.11%	$ 35,323	5.58%

Of the employee share, the employer paid $23,180,000 of PERS/OPSRP, $11,181,000 of ORP, and $224,000 of TIAA-CREF during the fiscal year ended June 30, 2007. The federal contributions of $175,000 represent FERS and CSRS employees, and the $313,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched from one to five percent by the employer in fiscal year 2007.

OUS total payroll for the year ended June 30, 2006 was $754,282,000, of which $556,910,000 was subject to retirement contributions. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2006			
	Employer Contri-bution	As a % of Covered Payroll	Employee Contri-bution	As a % of Covered Payroll
PERS/OPSRP	$ 31,409	5.64%	$ 22,365	4.01%
ORP	25,301	4.54%	10,355	1.86%
TIAA-CREF	221	0.04%	221	0.04%
Federal	495	0.09%	210	0.04%
FERS - TSP	130	0.02%	341	0.06%
	$ 57,556	10.33%	$ 33,492	6.01%

Of the employee share, the employer paid $22,219,000 of PERS/OPSRP, $10,298,000 of ORP, and $221,000 of TIAA-CREF during the fiscal year ended June 30, 2006. The federal contributions of $210,000 represent FERS and CSRS employees, and the $341,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched from one to five percent by the employer in fiscal year 2006.

14. 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, 2007 and 2006, was $6,470,000 and $5,976,000, respectively.

15. 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.

16. Commitments and Contingent Liabilities

Outstanding commitments on partially completed construction contracts totaled approximately $150,687,000 and $68,189,000 at June 30, 2007 and 2006, 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, 2007.

17. 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, 2007 and 2006, gifts of $103,772,000 and $86,263,000, respectively, were transferred from university foundations to OUS universities. All of the OUS affiliated foundations are audited annually and received unqualified audit opinions except for the following:

Agricultural Research Foundation financial statements are prepared on the cash basis of accounting which does not conform to generally accepted accounting principles; Oregon Tech Foundation financial statements contained a gift of privately held stock that could not be valued by the report date.

Please see the combining financial statements for the OUS component units on the following pages.

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

Combining Financial Statements—Component Units

STATEMENTS OF FINANCIAL POSITION As of June 30, 2007 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	$ 1,027	$ 1,655	$ 39,505
Contributions, Pledges and Grants Receivable, Net	100	3,190	34,110
Investments	2,653	20,459	486,631
Prepaid or Deferred Expenses, and Other Assets	63	120	2,293
Property and Equipment, Net		35	9,512
Total Assets	**$ 3,843**	**$ 25,459**	**$ 572,051**
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 1	$ 800	$ 1,173
Obligations to Beneficiaries of Split-Interest Agreements		181	33,908
Deposits and Deferred Revenue	138		
Long-Term Liabilities			
Total Liabilities	**$ 139**	**$ 981**	**$ 35,081**
NET ASSETS			
Unrestricted	$ 224	$ 10,296	$ 41,903
Temporarily Restricted	1,033	9,712	263,876
Permanently Restricted	2,447	4,470	231,191
Total Net Assets	**$ 3,704**	**$ 24,478**	**$ 536,970**

STATEMENTS OF ACTIVITIES For the Year Ended June 30, 2007 (in thousands)			
REVENUES			
Grants, Bequests and Gifts	$ 935	$ 4,555	$ 58,124
Interest and Dividends			11,284
Investment Income, Net	231	2,280	47,746
Change in Value of Life Income Agreements		67	1,332
Other Revenues	93	77	4,282
Total Revenues	**1,259**	**6,979**	**122,768**
EXPENSES			
General and Administrative	81	704	14,259
Development Expenses			
University Support	301	3,926	36,411
Other Expenses	130		3,954
Total Expenses	**512**	**4,630**	**54,624**
Increase In Net Assets Before Capital Contributions	**747**	**2,349**	**68,144**
Other Changes in Net Assets			
Increase In Net Assets	**747**	**2,349**	**68,144**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**2,957**	**22,129**	**468,826**
Prior Period Adjustments and Restatements			
NET ASSETS, END OF YEAR	**$ 3,704**	**$ 24,478**	**$ 536,970**

* As of December 31, 2006

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
$ 407	$ 2,187	$ 16,176	$ 265	$ 395	$ 61,617
3,342	330	52,165	117		93,354
42,012	19,447	561,812	9,958	12,624	1,155,596
6,169	816	15,554	45		25,060
41,164	1,423		531	8	52,673
$ 93,094	**$ 24,203**	**$ 645,707**	**$ 10,916**	**$ 13,027**	**$ 1,388,300**
$ 145	$ 357	$ 2,570			$ 5,046
1,031	512	50,485	$ 1,712		87,829
291	208	13,341			13,978
48,894		1,602			50,496
$ 50,361	**$ 1,077**	**$ 67,998**	**$ 1,712**	**$ -**	**$ 157,349**
$ (2,354)	$ 3,376	$ 14,981	$ 534	$ 1,036	$ 69,996
20,683	6,801	290,663	4,688	11,323	608,779
24,404	12,949	272,065	3,982	668	552,176
$ 42,733	**$ 23,126**	**$ 577,709**	**$ 9,204**	**$ 13,027**	**$ 1,230,951**

$ 5,977	$ 3,082	$ 84,223	$ 1,785	$ 6,332	$ 165,013
	302				11,586
5,517	2,863	67,634	1,276	879	128,426
	(58)	5,038			6,379
6,216	631	1,014	201		12,514
17,710	**6,820**	**157,909**	**3,262**	**7,211**	**323,918**
1,510	371	7,274	195		24,394
				6,094	6,094
6,719	1,669	70,647	1,286		120,959
5,886	304				10,274
14,115	**2,344**	**77,921**	**1,481**	**6,094**	**161,721**
3,595	**4,476**	**79,988**	**1,781**	**1,117**	**162,197**
342					342
3,937	**4,476**	**79,988**	**1,781**	**1,117**	**162,539**
38,796	**18,650**	**497,721**	**7,423**	**11,910**	**1,068,412**
					-
$ 42,733	**$ 23,126**	**$ 577,709**	**$ 9,204**	**$ 13,027**	**$ 1,230,951**

STATEMENTS OF FINANCIAL POSITION As of June 30, 2006 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	$ 398	$ 314	$ 31,583
Contributions, Pledges and Grants Receivable, Net	115	3,701	27,776
Investments	2,590	18,379	425,514
Prepaid or Deferred Expenses, and Other Assets	20	9	1,773
Property and Equipment, Net			14,398
Total Assets	**$ 3,123**	**$ 22,403**	**$ 501,044**
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 64	$ 123	$ 1,664
Obligations to Beneficiaries of Split-Interest Agreements		151	30,554
Deposits and Deferred Revenue	102		
Long-Term Liabilities			
Total Liabilities	**$ 166**	**$ 274**	**$ 32,218**
NET ASSETS			
Unrestricted	$ 308	$ 9,785	$ 36,517
Temporarily Restricted	860	8,066	222,511
Permanently Restricted	1,789	4,278	209,798
Total Net Assets	**$ 2,957**	**$ 22,129**	**$ 468,826**

STATEMENTS OF ACTIVITIES For the Year Ended June 30, 2006 (in thousands)			
REVENUES			
Grants, Bequests and Gifts	$ 512	$ 6,695	$ 53,347
Interest and Dividends			10,197
Investment Income, Net	162	1,444	25,742
Change in Value of Life Income Agreements		57	
Other Revenues	10	86	4,611
Total Revenues	**684**	**8,282**	**93,897**
EXPENSES			
General and Administrative	72	483	13,226
Development Expenses			
University Support	243	1,345	45,061
Other Expenses	107		2,401
Total Expenses	**422**	**1,828**	**60,688**
Increase (Decrease) In Net Assets Before Capital Contributions	**262**	**6,454**	**33,209**
Capital Contributions to Real Estate Operations			
Increase (Decrease) In Net Assets	**262**	**6,454**	**33,209**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**2,747**	**15,675**	**443,479**
Prior Period Adjustments and Restatements	(52)		(7,862)
NET ASSETS, END OF YEAR	**$ 2,957**	**$ 22,129**	**$ 468,826**

* As of December 31, 2005

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
$ 2,314	$ 2,203	$ 12,987	$ 219	$ 575	$ 50,593
4,279	240	72,747	29		108,887
34,508	14,691	454,817	8,205	11,329	970,033
6,631	1,051	13,215	50		22,749
42,523	1,431		547	6	58,905
$ 90,255	**$ 19,616**	**$ 553,766**	**$ 9,050**	**$ 11,910**	**$ 1,211,167**
$ 532	$ 274	$ 632			$ 3,289
1,027	528	38,409	$ 1,627		72,296
139	164	11,420			11,825
49,761		5,584			55,345
$ 51,459	**$ 966**	**$ 56,045**	**$ 1,627**	**$ -**	**$ 142,755**
$ (2,206)	$ 3,116	$ 12,339	$ 536	$ 742	$ 61,137
18,084	2,980	248,174	3,782	10,500	514,957
22,918	12,554	237,208	3,105	668	492,318
$ 38,796	**$ 18,650**	**$ 497,721**	**$ 7,423**	**$ 11,910**	**$ 1,068,412**

$ 7,452	$ 1,983	$ 71,406	$ 1,024	$ 5,511	$ 147,930
	226				10,423
2,855	1,499	43,050	626	(62)	75,316
	(56)	3,047			3,048
4,912	558	2,015	146		12,338
15,219	**4,210**	**119,518**	**1,796**	**5,449**	**249,055**
1,476	841	5,598	188		21,884
				5,564	5,564
5,099	1,497	44,704	809		98,758
5,659					8,167
12,234	**2,338**	**50,302**	**997**	**5,564**	**134,373**
2,985	**1,872**	**69,216**	**799**	**(115)**	**114,682**
1,034					1,034
4,019	**1,872**	**69,216**	**799**	**(115)**	**115,716**
34,777	**16,778**	**428,505**	**6,624**	**12,025**	**960,610**
					(7,914)
$ 38,796	**$ 18,650**	**$ 497,721**	**$ 7,423**	**$ 11,910**	**$ 1,068,412**

As of June 30, 2007 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 2,551	$ 9,682	$ 96,461
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	4,126	4,012	57,310
Notes Receivable, Net	165	505	4,308
Inventories	351	369	1,722
Prepaid Expenses	54	25	2,106
Total Current Assets	7,247	14,593	161,907
Noncurrent Assets			
Cash and Cash Equivalents	1,028	2,089	43,559
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,510	2,920	23,723
Due From Other OUS Funds and Entities	736	110	14,867
Capital Assets, Net of Accumulated Depreciation	57,988	30,592	491,661
Total Noncurrent Assets	61,262	35,711	577,010
TOTAL ASSETS	**$ 68,509**	**$ 50,304**	**$ 738,917**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 958	$ 3,981	$ 29,136
Deposits	505	425	2,546
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,023	1,184	19,084
Deferred Revenue	1,214	1,177	27,052
Total Current Liabilities	3,700	6,767	77,818
Noncurrent Liabilities			
Long-Term Liabilities	40,152	23,228	257,424
Due to Other OUS Funds and Entities	103	140	2,384
Total Noncurrent Liabilities	40,255	23,368	259,808
TOTAL LIABILITIES	**$ 43,955**	**$ 30,135**	**$ 337,626**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 18,072	$ 8,517	$ 268,827
Restricted For:			
Nonexpendable Endowments	554	-	4,183
Expendable:			
Gifts, Grants, and Contracts	547	591	24,778
Student Loans	1,936	4,148	34,038
Capital Projects	879	(1,169)	10,808
Debt Service	35	312	1,294
Unrestricted Net Assets	2,531	7,770	57,363
TOTAL NET ASSETS	**$ 24,554**	**$ 20,169**	**$ 401,291**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 37,314	$ 10,995	$ 103,962	$ 15,837	$ 7,617		$ 284,419
-	-	-	-	240,871		240,871
41,133	4,565	34,175	6,940	4,098		156,359
1,149	463	1,627	424	5,903		14,544
394	627	1,957	1,174	-		6,594
819	103	1,821	29	6,584		11,541
80,809	16,753	143,542	24,404	265,073		714,328
24,280	3,798	89,357	4,913	168,481		337,505
-	-	57	-	97,619		100,876
8,072	3,692	20,085	3,561	30,621		94,184
4,789	2,359	12,291	15	1,745	$ (36,912)	-
246,979	77,120	463,969	46,189	6,670		1,421,168
284,120	86,969	585,759	54,678	305,136	(36,912)	1,953,733
$ 364,929	**$ 103,722**	**$ 729,301**	**$ 79,082**	**$ 570,209**	**$ (36,912)**	**$ 2,668,061**
$ 10,457	$ 2,366	$ 19,191	$ 3,038	$ 29,465		$ 98,592
2,313	752	4,923	714	1,044		13,222
-	-	-	-	240,871		240,871
5,679	1,564	10,346	1,109	45,142		85,131
20,493	1,765	26,156	3,740	1,450		83,047
38,942	6,447	60,616	8,601	317,972		520,863
178,948	48,291	255,653	38,250	169,446		1,011,392
3,424	793	2,241	12	27,815	$ (36,912)	-
182,372	49,084	257,894	38,262	197,261	(36,912)	1,011,392
$ 221,314	**$ 55,531**	**$ 318,510**	**$ 46,863**	**$ 515,233**	**$ (36,912)**	**$ 1,532,255**
$ 77,277	$ 30,816	$ 251,164	$ 11,734	$ (74,418)		$ 591,989
1,285	1,812	7,387	2	2,110		17,333
1,329	744	18,448	1,021	50,797	$ 1,115	99,370
9,822	4,749	25,891	5,593	11		86,188
13,884	4,509	42,639	3,112	2,803	2,644	80,109
199	138	9,274	139	67,217		78,608
39,819	5,423	55,988	10,618	6,456	(3,759)	182,209
$ 143,615	**$ 48,191**	**$ 410,791**	**$ 32,219**	**$ 54,976**	**$ -**	**$ 1,135,806**

For The Year Ended June 30, 2007 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 12,027	$ 10,347	$ 119,764
Federal Grants and Contracts	5,681	7,128	214,125
State and Local Grants and Contracts	1,311	330	9,696
Nongovernmental Grants and Contracts	26	348	19,504
Educational Department Sales and Services	197	221	28,492
Auxiliary Enterprise Revenues, Net	6,179	6,363	72,714
Other Operating Revenues	644	837	6,099
Total Operating Revenues	**26,065**	**25,574**	**470,394**
OPERATING EXPENSES			
Instruction	15,000	18,091	145,570
Research	303	30	164,436
Public Service	1,821	2,771	51,248
Academic Support	3,715	3,457	35,079
Student Services	2,107	2,336	16,659
Auxiliary Programs	6,830	7,015	92,758
Operation and Maintenance of Plant	3,077	2,307	21,489
Institutional Support	4,851	4,038	35,434
Student Aid	2,216	2,333	92,867
Other Operating Expenses	2,605	1,824	34,626
Total Operating Expenses	**42,525**	**44,202**	**690,166**
Operating Loss	**(16,460)**	**(18,628)**	**(219,772)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	14,311	17,174	158,706
Investment Activity	208	236	7,758
Gain on Sale of Assets, Net	-	-	86
Interest Expense	(2,234)	(1,336)	(12,679)
Other Nonoperating Items	122	1,948	42,325
Net Nonoperating Revenues	**12,407**	**18,022**	**196,196**
(Loss) Income Before Other Revenues, Expenses, Gains or Losses	**(4,053)**	**(606)**	**(23,576)**
Capital Appropriations	190	50	-
Capital Grants and Gifts	-	881	8,651
Capital Contributions	24	-	258
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,226	1,827	11,935
Total Other Nonoperating Revenues	**2,440**	**2,758**	**20,844**
(Decrease) Increase In Net Assets	**(1,613)**	**2,152**	**(2,732)**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	26,167	18,017	404,023
NET ASSETS, END OF YEAR	**$ 24,554**	**$ 20,169**	**$ 401,291**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 117,440	$ 20,219	$ 172,091	$ 17,896	$ 155		$ 469,939
47,339	27,462	180,974	32,789	2,877	$ (2,653)	515,722
7,087	1,739	6,272	3,350	2,030		31,815
8,300	2,030	8,870	630	30		39,738
6,800	3,538	17,291	3,053	31		59,623
45,417	17,194	92,782	13,114	114		253,877
9,347	675	6,093	633	4,854	-	29,182
241,730	**72,857**	**484,373**	**71,465**	**10,091**	**(2,653)**	**1,399,896**
120,634	25,168	157,367	21,564	1,524		504,918
24,232	708	64,969	7,051	-	(1,917)	259,812
9,664	4,152	29,373	430	2,704		102,163
21,200	5,916	32,644	5,072	125		107,208
10,681	4,083	21,328	4,128	-		61,322
45,240	17,211	98,956	15,786	436		284,232
15,906	3,982	19,059	3,531	-		69,351
17,775	4,424	37,884	4,604	13,687		122,697
16,231	25,008	100,762	24,464	-		263,881
14,655	3,823	28,210	2,703	508	(736)	88,218
296,218	**94,475**	**590,552**	**89,333**	**18,984**	**(2,653)**	**1,863,802**
(54,488)	**(21,618)**	**(106,179)**	**(17,868)**	**(8,893)**	**-**	**(463,906)**
65,839	16,195	69,466	17,776	32,958		392,425
1,267	366	8,011	416	17,604		35,866
46	7	17,143	8	-		17,290
(8,902)	(2,698)	(12,205)	(1,962)	(4,242)		(46,258)
3,779	2,573	29,512	199	(207)		80,251
62,029	**16,443**	**111,927**	**16,437**	**46,113**	**-**	**479,574**
7,541	**(5,175)**	**5,748**	**(1,431)**	**37,220**	**-**	**15,668**
-	-	50	34	(324)		-
3,788	252	26,362	184	-		40,118
92	70	149	69	-		662
1	-	-	-	69		70
12,180	3,159	4,756	3,808	(39,891)		-
16,061	**3,481**	**31,317**	**4,095**	**(40,146)**	**-**	**40,850**
23,602	**(1,694)**	**37,065**	**2,664**	**(2,926)**	**-**	**56,518**
120,013	49,885	373,726	29,555	57,902		**1,079,288**
$ 143,615	**$ 48,191**	**$ 410,791**	**$ 32,219**	**$ 54,976**	**$ -**	**$ 1,135,806**

For the Year Ended June 30, 2007 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 12,227	$ 10,013	$ 115,872
Grants and Contracts	7,349	7,707	243,509
Sales and Services of Educational Departments	200	220	28,483
Auxiliary Enterprise Operations	6,172	6,389	70,661
Student Loan Collections	403	812	7,624
Payments to Employees for Salaries and Benefits	(27,939)	(31,168)	(400,889)
Payments to Suppliers	(9,168)	(5,954)	(227,160)
Student Financial Aid	(2,267)	(2,194)	(23,668)
Student Loan Issuance and Costs	(450)	(810)	(8,025)
Other Operating Receipts	584	527	4,853
Net Cash Used by Operating Activities	**(12,889)**	**(14,458)**	**(188,740)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	14,501	17,224	158,705
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	211	1,957	41,770
Net Agency Fund Receipts (Payments)	5	49	826
Net Transfers to (from) Other Funds and OUS Universities	2,227	1,011	11,707
Net Cash Provided by Noncapital Financing Activities	**16,944**	**20,241**	**213,008**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	-
Capital Grants and Gifts	-	882	8,651
Capital Contributions	24	-	258
Bond Proceeds on Capital Debt	372	439	34,632
Sales of Capital Assets	-	56	12,412
Purchase of Capital Assets	(1,617)	(13,272)	(41,929)
Interest Payments on Capital Debt	(2,234)	(1,282)	(12,451)
Principal Payments on Capital Debt	(1,527)	(831)	(7,796)
Net Cash (Used) Provided by Capital and Related Financing Activities	**(4,982)**	**(14,008)**	**(6,223)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	208	236	7,758
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	**208**	**236**	**7,758**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(719)**	**(7,989)**	**25,803**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,298	19,760	114,217
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 3,579**	**$ 11,771**	**$ 140,020**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 117,634	$ 20,192	$ 173,038	$ 17,962	$ 1,196		$ 468,134
63,536	31,108	199,206	36,082	4,268	$ (2,653)	590,112
6,787	3,541	17,235	3,055	31		59,552
44,788	16,918	94,742	13,268	290		253,228
2,799	838	8,443	1,011	-		21,930
(194,597)	(46,820)	(325,629)	(43,929)	(8,715)		(1,079,686)
(66,677)	(38,385)	(214,555)	(37,192)	(1,509)	2,653	(597,947)
(17,203)	(3,950)	(24,378)	(4,491)	(1,262)		(79,413)
(4,446)	(1,013)	(9,150)	(1,065)	-		(24,959)
10,601	568	4,103	404	(5,470)		16,170
(36,778)	**(17,003)**	**(76,945)**	**(14,895)**	**(11,171)**	**-**	**(372,879)**
65,839	16,195	69,516	17,811	41,977		401,768
1	-	-	-	69		70
3,007	2,252	29,724	99	186		79,206
250	(56)	1,077	166	(2,800)		(483)
11,698	3,030	3,624	3,807	(37,104)		-
80,795	**21,421**	**103,941**	**21,883**	**2,328**	**-**	**480,561**
-	-	-	-	-		-
3,788	253	26,361	183	-		40,118
92	70	149	68	-		661
9,473	569	37,107	842	40,950		124,384
997	283	26,175	397	-		40,320
(14,312)	(3,223)	(56,551)	(1,666)	(9)		(132,579)
(8,507)	(2,570)	(11,228)	(1,961)	(6,015)		(46,248)
(6,821)	(1,789)	(7,233)	(1,320)	(6,704)		(34,021)
(15,290)	**(6,407)**	**14,780**	**(3,457)**	**28,222**	**-**	**(7,365)**
-	-	-	-	(15,976)		(15,976)
1,267	366	8,011	416	10,316		28,578
-	-	-	-	5,102		5,102
-	-	-	-	(5,102)		(5,102)
1,267	**366**	**8,011**	**416**	**(5,660)**	**-**	**12,602**
29,994	**(1,623)**	**49,787**	**3,947**	**13,719**	**-**	**112,919**
31,600	16,416	143,532	16,803	162,379		**509,005**
$ 61,594	**$ 14,793**	**$ 193,319**	**$ 20,750**	**$ 176,098**	**$ -**	**$ 621,924**

For the Year Ended June 30, 2007 (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	$ (16,460)	$ (18,628)	$ (219,772)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Depreciation Expense	3,016	1,751	35,348
Changes in Assets and Liabilities:			
Accounts Receivable	489	(465)	(6,616)
Notes Receivable	(80)	(32)	(487)
Inventories	(37)	6	(112)
Prepaid Expenses	347	21	(8)
Accounts Payable and Accrued Liabilities	(280)	2,837	1,709
Long-Term Liabilities	(154)	(46)	963
Deposits	(52)	7	13
Deferred Revenue	322	91	222
NET CASH USED BY OPERATING ACTIVITIES	**$ (12,889)**	**$ (14,458)**	**$ (188,740)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	68	-	-
Capital Assets Acquired by Gifts in Kind	-	-	2,102
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
$ (54,488)	$ (21,618)	$ (106,179)	$ (17,868)	$ (8,893)		$ (463,906)
14,592	3,804	27,744	3,313	237		89,805
(3,698)	374	1,910	(1,303)	(10,042)		(19,351)
(467)	2	3,492	(37)	-		2,391
25	(3)	(277)	17	-		(381)
560	329	(23)	53	613		1,892
1,329	765	(2,847)	189	4,467		8,169
(68)	51	202	(19)	2,191		3,120
(286)	(3)	57	-	(12)		(276)
5,723	(704)	(1,024)	760	268		5,658
$ (36,778)	**$ (17,003)**	**$ (76,945)**	**$ (14,895)**	**$ (11,171)**	**$ -**	**$ (372,879)**
107	-	-	-	-	-	$ 175
97	251	1,134	-	-	-	3,584
-	-	-	-	7,309	-	7,309

Supplementary Schedules
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2006 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 1,939	$ 8,963	$ 95,073
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	5,021	3,505	50,631
Notes Receivable, Net	162	500	4,227
Inventories	314	375	1,610
Prepaid Expenses	401	46	2,093
Total Current Assets	7,837	13,389	153,634
Noncurrent Assets			
Cash and Cash Equivalents	2,359	10,797	19,144
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,436	2,893	23,311
Due From Other OUS Funds and Entities	829	110	13,066
Capital Assets, Net of Accumulated Depreciation	59,370	19,647	486,165
Total Noncurrent Assets	63,994	33,447	544,886
TOTAL ASSETS	**$ 71,831**	**$ 46,836**	**$ 698,520**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 1,106	$ 1,651	$ 16,791
Deposits	509	398	2,382
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,023	1,070	17,261
Deferred Revenue	1,349	1,019	26,024
Total Current Liabilities	3,987	4,138	62,458
Noncurrent Liabilities			
Long-Term Liabilities	41,482	23,779	231,456
Due to Other OUS Funds and Entities	195	902	583
Total Noncurrent Liabilities	41,677	24,681	232,039
TOTAL LIABILITIES	**$ 45,664**	**$ 28,819**	**$ 294,497**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 19,369	$ 4,810	$ 260,281
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	394	555	25,765
Student Loans	1,868	4,108	33,657
Capital Projects	765	1,368	22,275
Debt Service	91	69	619
Unrestricted Net Assets	3,126	7,107	57,244
TOTAL NET ASSETS	**$ 26,167**	**$ 18,017**	**$ 404,023**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 22,364	$ 11,385	$ 92,924	$ 14,814	$ 14,728		$ 262,190
-	-	-	-	68,528		68,528
40,780	4,876	35,915	6,169	3,499		150,396
1,087	466	2,527	420	6,040		15,429
420	624	1,680	1,191	-		6,214
1,379	432	1,799	82	7,196		13,428
66,030	17,783	134,845	22,676	99,991		516,185
9,236	5,031	50,608	1,989	147,651		246,815
-	-	56	-	74,334		77,590
7,662	3,694	22,819	3,527	35,402		100,744
10,380	2,059	12,379	15	1,840	$ (40,678)	-
247,403	77,452	436,903	47,961	6,903		1,381,804
274,681	88,236	522,765	53,492	266,130	(40,678)	1,806,953
$ 340,711	**$ 106,019**	**$ 657,610**	**$ 76,168**	**$ 366,121**	**$ (40,678)**	**$ 2,323,138**
$ 8,060	$ 1,481	$ 14,481	$ 2,610	$ 29,296		$ 75,476
2,948	707	3,989	623	4,041		15,597
-	-	-	-	68,528		68,528
5,531	1,451	9,005	1,085	41,992		78,418
18,136	2,417	27,152	3,511	1,159		80,767
34,675	6,056	54,627	7,829	145,016		318,786
176,922	49,584	226,872	38,771	136,198		925,064
9,101	494	2,385	13	27,005	$ (40,678)	-
186,023	50,078	229,257	38,784	163,203	(40,678)	925,064
$ 220,698	**$ 56,134**	**$ 283,884**	**$ 46,613**	**$ 308,219**	**$ (40,678)**	**$ 1,243,850**
$ 73,405	$ 29,303	$ 245,127	$ 10,149	$ (58,897)		$ 583,547
1,284	1,812	7,387	2	2,042		17,263
1,604	906	21,178	813	41,264	$ 559	93,038
9,763	4,756	25,686	5,442	6		85,286
1,153	7,063	21,405	2,955	2,441	8,070	67,495
200	78	636	49	62,154		63,896
32,604	5,967	52,307	10,145	8,892	(8,629)	168,763
$ 120,013	**$ 49,885**	**$ 373,726**	**$ 29,555**	**$ 57,902**	**$ -**	**$ 1,079,288**

Supplementary Schedules

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

For The Year Ended June 30, 2006 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 11,550	$ 9,958	$ 112,281
Federal Grants and Contracts	7,081	6,831	218,679
State and Local Grants and Contracts	1,011	604	7,732
Nongovernmental Grants and Contracts	32	323	17,271
Educational Department Sales and Services	158	251	30,116
Auxiliary Enterprise Revenues, Net	6,242	6,038	67,039
Other Operating Revenues	808	319	6,169
Total Operating Revenues	**26,882**	**24,324**	**459,287**
OPERATING EXPENSES			
Instruction	14,775	17,535	139,825
Research	670	11	163,675
Public Service	2,012	2,801	48,511
Academic Support	3,642	2,830	36,834
Student Services	2,421	2,221	16,850
Auxiliary Programs	7,032	6,764	82,625
Operation and Maintenance of Plant	3,151	2,255	21,477
Institutional Support	4,440	3,888	37,277
Student Aid	2,237	2,316	88,469
Other Operating Expenses	2,523	3,692	36,351
Total Operating Expenses	**42,903**	**44,313**	**671,894**
Operating Loss	**(16,021)**	**(19,989)**	**(212,607)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	13,605	16,299	153,057
Investment Activity	165	192	5,848
Gain on Sale of Assets, Net	-	22	115
Interest Expense	(2,352)	(828)	(12,212)
Other Nonoperating Items	245	1,627	36,516
Net Nonoperating Revenues	**11,663**	**17,312**	**183,324**
(Loss) Income Before Other Revenues, Expenses, Gains or Losses	**(4,358)**	**(2,677)**	**(29,283)**
Capital Appropriations	394	564	3,683
Capital Grants and Gifts	-	582	14,493
Capital Contributions	28	-	217
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,235	989	8,917
Total Other Nonoperating Revenues	**2,657**	**2,135**	**27,310**
(Decrease) Increase In Net Assets	**(1,701)**	**(542)**	**(1,973)**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	27,868	18,559	405,996
NET ASSETS, END OF YEAR	**$ 26,167**	**$ 18,017**	**$ 404,023**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 105,858	$ 20,037	$ 163,740	$ 16,593	$ 165		$ 440,182
49,486	28,992	188,350	34,006	2,808	$ (2,456)	533,777
8,040	1,662	6,647	3,268	2,199		31,163
8,261	937	6,883	441	159		34,307
5,958	3,002	16,649	2,238	38		58,410
38,775	15,989	82,585	14,459	78		231,205
3,899	656	6,982	599	2,376	-	21,808
220,277	**71,275**	**471,836**	**71,604**	**7,823**	**(2,456)**	**1,350,852**
113,431	24,282	149,931	20,999	1,834		482,612
24,836	612	59,864	7,695	-	(1,609)	255,754
10,010	3,230	28,805	497	2,850		98,716
22,590	6,217	30,947	5,029	51		108,140
9,830	3,666	19,648	3,844	-		58,480
40,006	15,764	92,663	15,921	(95)		260,680
16,057	4,601	18,923	3,291	-		69,755
17,235	4,477	33,324	4,739	11,891		117,271
14,664	26,269	106,943	25,289	-		266,187
16,781	4,009	31,957	2,779	(11)	(847)	97,234
285,440	**93,127**	**573,005**	**90,083**	**16,520**	**(2,456)**	**1,814,829**
(65,163)	**(21,852)**	**(101,169)**	**(18,479)**	**(8,697)**	**-**	**(463,977)**
62,280	15,510	64,927	16,426	26,863		368,967
1,000	375	4,919	309	10,395		23,203
18	19	81	5	-		260
(8,382)	(2,923)	(11,910)	(1,983)	(3,890)		(44,480)
2,499	2,426	34,030	18	-		77,361
57,415	**15,407**	**92,047**	**14,775**	**33,368**	**-**	**425,311**
(7,748)	**(6,445)**	**(9,122)**	**(3,704)**	**24,671**	**-**	**(38,666)**
1,722	3,714	3,223	639	857		14,796
4,938	26	9,398	-	-		29,437
91	66	145	72	-		619
-	1,557	99	-	924		2,580
3,958	2,494	5,262	1,309	(25,164)		-
10,709	**7,857**	**18,127**	**2,020**	**(23,383)**	**-**	**47,432**
2,961	**1,412**	**9,005**	**(1,684)**	**1,288**	**-**	**8,766**
117,052	48,473	364,721	31,239	56,614		**1,070,522**
$ 120,013	**$ 49,885**	**$ 373,726**	**$ 29,555**	**$ 57,902**	**$ -**	**$ 1,079,288**

For the Year Ended June 30, 2006 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 11,853	$ 9,358	$ 105,067
Grants and Contracts	7,217	8,001	242,497
Sales and Services of Educational Departments	171	250	30,017
Auxiliary Enterprise Operations	6,152	6,019	68,304
Student Loan Collections	412	662	7,384
Payments to Employees for Salaries and Benefits	(27,881)	(30,127)	(384,271)
Payments to Suppliers	(11,942)	(9,567)	(243,938)
Student Financial Aid	(2,352)	(2,188)	(22,009)
Student Loan Issuance and Costs	(501)	(580)	(7,750)
Other Operating Receipts	696	30	4,976
Net Cash (Used) Provided by Operating Activities	**(16,175)**	**(18,142)**	**(199,723)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	13,605	16,299	153,057
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	184	1,852	35,537
Net Agency Fund (Payments) Receipts	(149)	113	151
Net Transfers to (from) Other Funds and OUS Universities	2,091	1,751	7,710
Net Cash Provided (Used) by Noncapital Financing Activities	**15,731**	**20,015**	**196,455**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	394	564	3,683
Capital Grants and Gifts	-	582	13,762
Capital Contributions	28	-	217
Bond Proceeds on Capital Debt	2,936	10,575	10,536
Sales of Capital Assets	50	58	12,372
Purchase of Capital Assets	(6,121)	(2,076)	(58,185)
Interest Payments on Capital Debt	(2,208)	(828)	(11,004)
Principal Payments on Capital Debt	(1,483)	(904)	(7,770)
Net Cash (Used) Provided by Capital and Related Financing Activities	**(6,404)**	**7,971**	**(36,389)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	165	192	5,848
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided by Investing Activities	**165**	**192**	**5,848**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(6,683)**	**10,036**	**(33,809)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**10,981**	**9,724**	**148,026**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 4,298**	**$ 19,760**	**$ 114,217**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 99,176	$ 19,001	$ 161,560	$ 15,985	$ 167		$ 422,167
68,596	31,500	203,453	38,854	5,881	$ (2,456)	603,543
5,871	2,996	16,652	2,240	37		58,234
37,351	15,864	82,855	14,558	106		231,209
2,239	779	6,341	1,026	1		18,844
(185,702)	(44,831)	(308,621)	(42,910)	(7,948)		(1,032,291)
(73,225)	(42,366)	(201,985)	(39,991)	(187)	2,456	(620,745)
(15,421)	(4,133)	(21,529)	(4,324)	(1,263)		(73,219)
(3,463)	(806)	(4,463)	(1,166)	1		(18,728)
4,537	649	1,512	461	12,696		25,557
(60,041)	**(21,347)**	**(64,225)**	**(15,267)**	**9,491**	**-**	**(385,429)**
62,280	15,510	64,927	16,426	16,674		358,778
-	1,557	99	-	924		2,580
2,849	2,367	30,243	15	2		73,049
687	115	283	94	(1,583)		(289)
2,019	1,018	4,207	946	(19,742)		-
67,835	**20,567**	**99,759**	**17,481**	**(3,725)**	**-**	**434,118**
1,722	3,714	3,223	639	857		14,796
4,938	26	9,398	-	-		28,706
91	66	145	72	-		619
11,661	7,308	37,165	1,410	(9,615)		71,976
2,850	384	460	17	3		16,194
(31,583)	(7,513)	(60,282)	(1,472)	-		(167,232)
(6,358)	(2,905)	(11,342)	(1,607)	(7,495)		(43,747)
(6,667)	(1,636)	(7,823)	(1,612)	(1,917)		(29,812)
(23,346)	**(556)**	**(29,056)**	**(2,553)**	**(18,167)**	**-**	**(108,500)**
-	-	4	(1)	(1,752)		(1,749)
1,000	375	4,919	309	6,252		19,060
-	-	-	-	1,908		1,908
-	-	-	-	(1,908)		(1,908)
1,000	**375**	**4,923**	**308**	**4,500**	**-**	**17,311**
(14,552)	**(961)**	**11,401**	**(31)**	**(7,901)**	**-**	**(42,500)**
46,152	**17,377**	**132,131**	**16,834**	**170,280**		**551,505**
$ 31,600	**$ 16,416**	**$ 143,532**	**$ 16,803**	**$ 162,379**	**$ -**	**$ 509,005**

For the Year Ended June 30, 2006 (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	$ (16,021)	$ (19,989)	$ (212,607)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Depreciation Expense	2,699	1,813	35,969
Changes in Assets and Liabilities:			
Accounts Receivable	(1,620)	(826)	(8,991)
Notes Receivable	(86)	69	(256)
Inventories	5	22	(95)
Prepaid Expenses	(258)	28	699
Accounts Payable and Accrued Liabilities	(1,886)	286	(17,768)
Long-Term Liabilities	111	266	1,851
Deposits	76	14	68
Deferred Revenue	805	175	1,407
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	**$ (16,175)**	**$ (18,142)**	**$ (199,723)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	20	-	-
Capital Assets Acquired by Gifts in Kind			11
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
$ (65,163)	$ (21,852)	$ (101,169)	$ (18,479)	$ (8,697)		$ (463,977)
14,072	3,506	28,121	3,229	243		89,652
(3,461)	(1,530)	(4,718)	274	10,856		(10,016)
371	77	3,456	(119)	-		3,512
(16)	24	(88)	(87)	(1)		(236)
(269)	13	379	(27)	53		618
(4,957)	(2,031)	7,297	(580)	6,681		(12,958)
723	220	1,575	166	144		5,056
95	1	(266)	-	-		(12)
(1,436)	225	1,188	356	212		2,932
$ (60,041)	**$ (21,347)**	**$ (64,225)**	**$ (15,267)**	**$ 9,491**	**$ -**	**$ (385,429)**
-	-	23	-	-	-	$ 43
	85	743				839
-	-	-	-	4,181	-	4,181

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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 financial statements of the Oregon University System (System) as of and for the year ended June 30, 2007 and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the 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 communicated other matters which were noted during the course of our audit to management of the System, the Oregon State Board of Higher Education, and the Oregon Secretary of State Audits Division.

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
November 16, 2007

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