



OREGON UNIVERSITY SYSTEM



2010 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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OREGON UNIVERSITY SYSTEM 2010 ANNUAL FINANCIAL REPORT



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SYSTEM UNIVERSITIES

EASTERN OREGON UNIVERSITY—EOU was founded in 1929 as a teachers college and today serves its regional mission through programs in the liberal arts; professional programs in business, education, and community service; and cooperative programs in agriculture and nursing. EOU is located in La Grande, Oregon.

OREGON INSTITUTE OF TECHNOLOGY—OIT, the Northwest’s only polytechnic institution, was founded in 1947 and serves the state with programs in engineering and health technologies, engineering, management, and the arts and sciences. OIT is located in Klamath Falls, Oregon and offers statewide opportunities with an expanding presence in the Portland metro area.

OREGON STATE UNIVERSITY—OSU, one of only two universities in the country to hold land, space, sea, and sun grant designations, was founded in 1858 and provides programs in the liberal arts and sciences, and professional programs in agricultural sciences, business, education, engineering, forestry, health and human sciences, oceanography, pharmacy, and veterinary medicine. OSU is located in Corvallis, Oregon. OSU-Cascades Campus, in Bend, Oregon, opened in Fall 2001 as a branch campus on the site of its major partner, Central Oregon Community College.

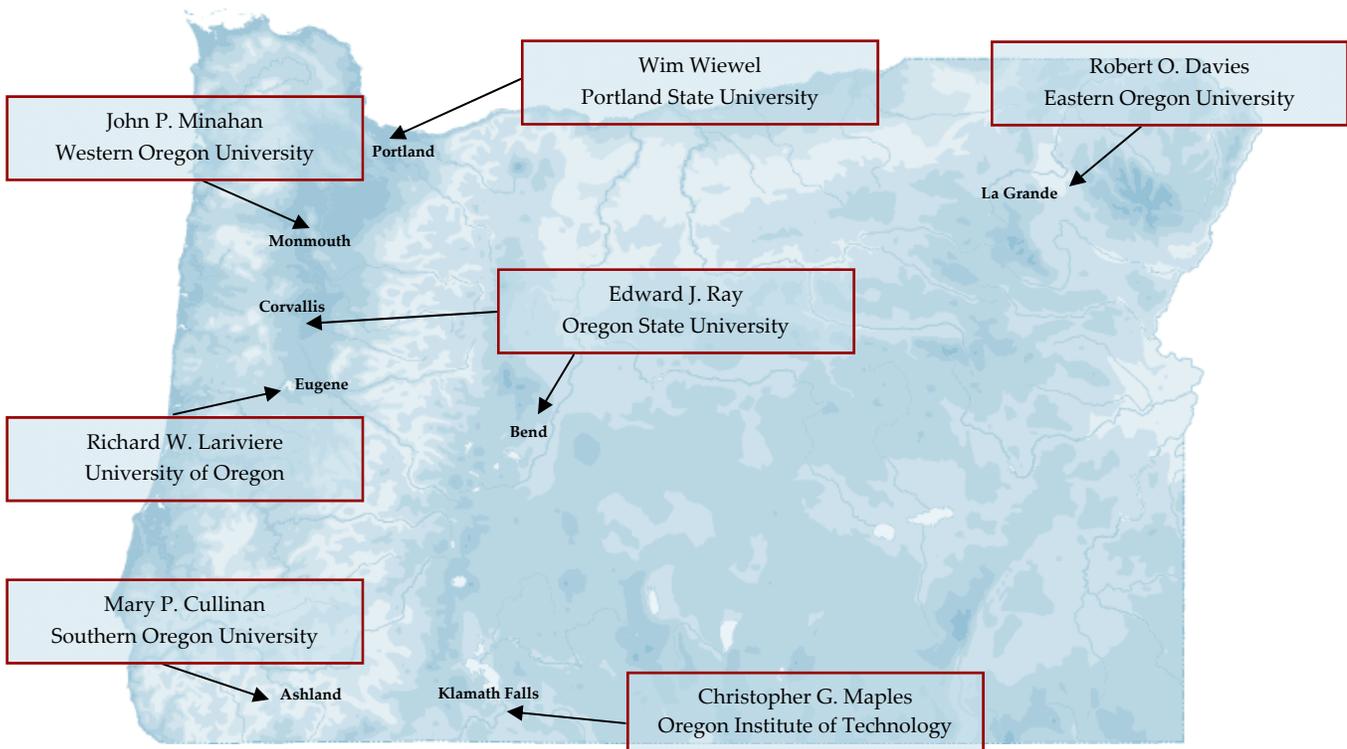
PORTLAND STATE UNIVERSITY—PSU, located in downtown Portland, Oregon, is an urban university founded in 1946 and offers liberal arts and sciences programs and professional programs in business, education, engineering, health, performing arts, social work, and urban and public affairs.

SOUTHERN OREGON UNIVERSITY—SOU, located in Ashland, Oregon, was founded in 1882 and provides liberal arts and sciences programs; professional programs in business, education, and performing arts; and a cooperative program in nursing.

UNIVERSITY OF OREGON—UO was founded in 1876 and is a major liberal arts and sciences university with professional programs in architecture and allied arts, business, education, journalism, law, music and performing arts, and planning and public policy. UO is located in Eugene, Oregon.

WESTERN OREGON UNIVERSITY—WOU was founded in 1856 as a teachers college and provides programs in liberal arts and sciences and professional programs in education, business, and public services. WOU is located in Monmouth, Oregon.

UNIVERSITY PRESIDENTS



OREGON UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

MESSAGE FROM THE CHANCELLOR

Over the last year, the Oregon University System (OUS) has faced some of our greatest challenges, yet it has met these with energy, creativity, and prudent management of our financial and academic portfolios. It was also a year in which we developed an innovative plan to restructure the governance of the OUS as a means to help ensure the continued ability to meet our mission of access to higher education for all Oregonians.

MEETING CHALLENGES AND MOVING FORWARD

Oregon's and the nation's recession hit students and families hard, impacted industries and jobs, and inserted a level of uncertainty and instability into the landscape which set the context for decision making and forward planning. While the 2009-2011 state general fund appropriation for OUS has decreased 11.6%, from \$791.5 million in 2007-2009 to \$699.7 million in the 2009-2011 appropriation (including the state budget cuts after the close of the 2009 Legislative Session, and excluding federal stimulus), record enrollment demand enabled the universities to continue to provide high quality academic programs and support services through use of tuition revenue and a variety of cost controls, including departmental consolidations, salary reduction measures, and savings which have accrued through more efficient energy use from green building and renovation.

The State Board of Higher Education and the universities also focused intently on ensuring that public higher education remains affordable for Oregonians, even in the midst of state need-based aid cuts, lower state appropriations, and the struggles of students and families, some of whom faced lower incomes due to unemployment and other financial challenges. Although tuition increased an average of 5% at the small campuses and 8% at the large campuses due to appropriation cuts, these increases were much lower than those of our Western neighbors; and were offset by each campus setting aside a large portion of increased tuition revenue to provide need-based financial aid to the hardest hit students. In addition, as the Oregon Opportunity Grant was cut, campuses again stepped up and increased their institutional aid to the highest extent possible in order that no student was shut out because of tuition increases. We are very proud of the outstanding effort that our universities have made to ensure student access and affordability despite the challenging economic times.

OUS PERFORMANCE HIGHLIGHTS FOR 2009-10

- OUS witnessed extraordinary growth over the past two academic years. Total enrollment grew by over 9,300 students during that time, reaching an all-time high of 91,580 at 4th week fall 2009. This two-year growth rate of 11.3% is the largest increase since fall 2001 and fall 2002. While the economy certainly accounts for some percentage of the enrollment increase, other factors include the successful transfer programs and relationships that OUS has with the 17 Oregon community colleges; growing numbers of college-age young adults in the Oregon population; and greater awareness of the need for a college degree in order to compete in the knowledge economy.
- Graduate student enrollment—largely stagnant between 2002 and 2007—increased 3.9% to 16,137, the second consecutive year of significant growth.
- A gradual shift in the composition of the OUS student population continues, with more undergraduate enrollment attributable to transfer students and the representation of students of color growing to 17.8%.
- Retention rates improved at six of the seven OUS campuses despite the record enrollment of first-time freshmen in fall 2008. Freshman retention within OUS reached a record high of 81.7% this year. Additionally, the average time to degree decreased for the fifth consecutive year to 4.56 years in 2009.
- While the total number of degrees awarded grew at only a small rate, the number of doctoral awards increased 13.6% in 2009 to a record high of 419. Overall, annual degree awards have increased 27.5% since 2000-01.
- In spite of tightening resources nationally, OUS institutions saw increases in federal and other grant support for research and innovation projects, with research expenditures increasing 9.7%, from \$328 million in FY 2008 to almost \$360 million in FY



GEORGE PERNSTEINER

MESSAGE FROM THE CHANCELLOR—CONTINUED

2009. We are proud to report that OUS faculty (including Oregon Health & Science University) rank 5th in the nation in federal research grant expenditures, an enormous accomplishment for a state that remains in the bottom ten for per student spending on postsecondary education. OUS research expenditures have increased 77.2% since FY 2000.

Areas that OUS, its universities, and the Board of Higher Education are watching and working on for improvement include:

- Graduation rates declined in 2008-09 to 58.9%—nearly a full percentage point below the record high of 59.7% in 2006-07. Historically underserved populations such as students of color or students from rural areas of the state continue to graduate at lower rates.
- The ratio of students to full-time faculty increased for a second consecutive year to 26.9 to 1 in response to record enrollment growth. After reaching a high of 27.9 in 2004 and triggering a concerted improvement effort, the ratio declined to 25.1 before rising again to its current level.
- Net assets of OUS foundations decreased 16.7% in FY09—due primarily to market devaluations resulting from the global recession and planned capital expenditures.

ADVANCING ACCESS, QUALITY AND INNOVATION IN OREGON HIGHER EDUCATION

The Board's Academic Strategies Committee worked very hard during the year to identify priority recommendations needing particular focus during 2009-10 and beyond. These broad areas and priority topics, flowing from Board goals, guiding principles, and strategic priorities, include six strategies and priorities for the Board and campuses moving forward in the current and into the 2011-2013 biennium:

- Aligning institution missions to frame the OUS portfolio of academic, research and other assets
- Creating a college-going culture in K-12 for underrepresented students to ensure increased college access and success once in college
- Improving student outcomes, with a focus on retention and graduation rates
- Preparing for a diverse world, with a focus on underserved student populations such as Latino and rural students
- Serving Oregon with regionalized approaches that meet local needs in fast growing areas such as Central Oregon and Portland, and

- Strengthening critical areas of Oregon's economy through a focus on sustainability in academic programs, research, and industry collaborations.

While state funding will remain constrained during the next several years, the Board and the campuses have committed to finding creative, cost-effective ways to work on this important agenda in order that higher education access and innovation continue to expand for Oregonians who wish to pursue postsecondary education.

A REFORM AGENDA FOR OREGON HIGHER EDUCATION

The critical need to educate more Oregonians to meet community and workforce demands has prompted the State Board of Higher Education to seek governance changes for the Oregon University System that will improve access, affordability and success for Oregon students, and better control costs. In a time of increased enrollment demand and changing demographics, these reforms will provide the catalyst to more effectively deliver educational opportunity, protect tuition for uses that benefit students, and invest in programs and research that strengthen and grow Oregon's economy.

As it has become increasingly clear that the current governance and funding structure will not sustain the mission and financial health of Oregon's public universities, the Board has been developing principles, commitments, and frameworks for a new compact with the state which will place primary importance on the achievement of the goals as stated in the strategic plan – increasing the education level of Oregon's adults; providing high quality instruction; providing research for an innovative and successful Oregon; and contributing to the civic, cultural, and economic success of communities throughout Oregon.

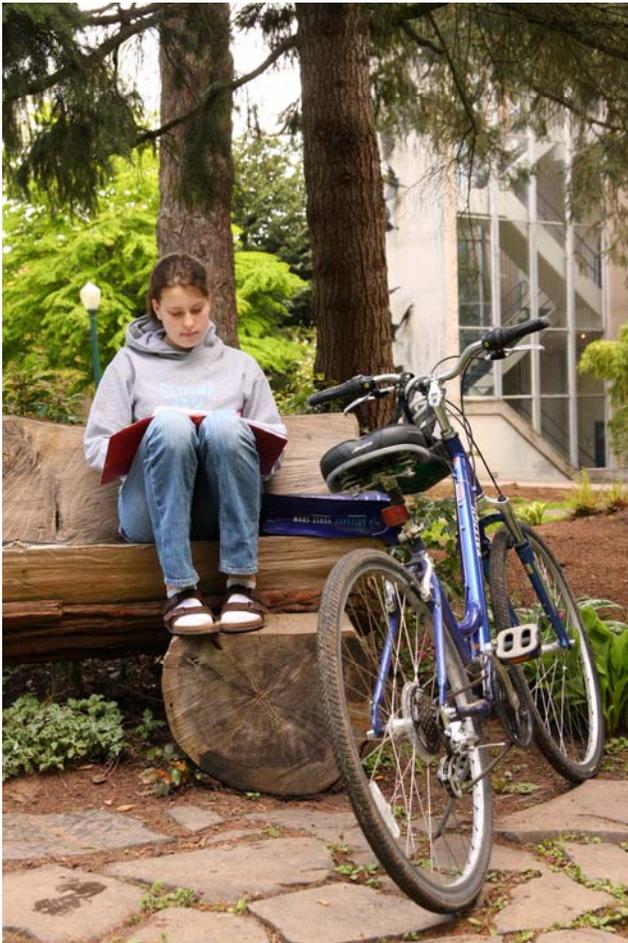
The new governance proposal would change the status of the OUS from that of a state agency to that of a public university system. It also proposes an operating principle of efficient use of scarce resources, which means having enough flexibility to manage costs wisely and generate other sources of revenue needed to serve Oregon's higher education needs. In other words, having the flexibility to be good stewards of state and student sources of operating revenue. Finally, a new governance structure and compact with the state will include a performance and accountability framework that is public, transparent, focused on key outcomes of importance to Oregonians, and designed to facilitate improvement. OUS will be seeking reforms in the 2011 Legislative Session that will allow it to improve higher education in Oregon, and evolve the state's role so that the OUS can fulfill its statewide mission while meeting the demands of our competitive, global economy.

MESSAGE FROM THE CHANCELLOR—CONTINUED

One of our country's top experts on business leadership, Peter Drucker, said, "Unless commitment is made, there are only promises and hopes...but no plans." The Board of Higher Education and the OUS institutions have made a strong, unified commitment to improving and advancing higher education in Oregon, regardless of the state of the economy and other factors that are not always within our control. We are doing this through forward planning and advancing a platform of reform that will ensure a strong higher education system now and into the future. We look forward to working with our education, industry, legislative and other partners to ensure that Oregon is well prepared for the challenges and opportunities of the 21st century global economy.



George Pernsteiner
Chancellor
Oregon University System



TOP CAMPUS ACCOMPLISHMENTS FY2010



- EOU welcomed 473 new freshman students at the beginning of the academic year and enrollment reached 4,000 students by the end of fall term – the highest enrollment ever recorded at EOU.
- Major renovation work began on Inlow Hall, EOU's historic administration building. The \$6.4 million capital investment project focused on increased access to essential student services, reduced deferred maintenance, improved seismic stability and energy efficiency.
- EOU implemented seven certificate programs and two associate degrees in response to community need. Many of the courses in the curricula are provided in a flexible format, including online and evening classes.
- EOU researchers investigated the discovery of ice age fossils in the Grande Ronde Valley. The remains were identified as a Columbian mammoth, giant short-faced bear, giant bison and an ancient ground squirrel. Faculty and students are conducting ongoing studies and preservation of the specimens, including DNA extraction.
- Classroom and instructional equipment modernizations were completed campus-wide, including new tables, chairs, carpeting, paint, whiteboards, chalkboards and dark blinds. The project cost approximately \$350,000 and was paid for by EOU's general fund, strengthened by positive enrollment.



- OIT successfully completed its capital campaign to fund the final stage of construction of the Martha Anne Dow Center for Health Professions (CHP) at the Klamath Falls Campus. The university has secured all of the \$38.5 million needed to complete the project through generous donations, a challenge grant from the Kresge Foundation, and state funding.
- OIT began work to consolidate its four Portland-metro campuses into one integrated site by June 2011. The university signed a lease for the former InFocus headquarters in Wilsonville, Oregon on June 28, 2010. The 131,000 square-foot building will allow Oregon Tech to expand its student base from 500 to approximately 1,000 over time; and offer engineering and allied health programs tied to Portland industries.
- OIT's Klamath Falls campus dedicated its new geothermal electric project on April 20, 2010. This "small" power plant is Oregon's first geothermal combined heat and power plant and it's the only geothermal electric plant currently operating. It has a maximum capacity output of 280 kilowatts gross power utilizing existing wells on the campus.

MESSAGE FROM THE CHANCELLOR—CONTINUED



- The Sustainable Village buildings opened their doors to the first student residents in September 2009, with the attractive, apartment-style complex proving very popular with students. Most apartments have four bedrooms, two bathrooms, a shared kitchen, and living area. The new buildings meet a LEED Silver-equivalent rating, with sustainable features including geothermal heat, compact florescent lighting, and low-VOC (volatile organic compound) carpet and paint.
- OIT Men's Basketball Coach Danny Miles led the Hustlin' Owls to victory on February 13, 2010, giving Miles his 900th win of his coaching career, only the fifth coach ever to do so, and setting the men's basketball record for most consecutive home wins with 35-straight. Miles' win happened during OIT's first ever "Pink Out," a breast cancer awareness event, a fitting tribute to former OIT President Dow, who lost her battle to breast cancer on September 29, 2007, and to her vision for the health sciences.



- OSU broke ground on the \$62.5 million, 100,000-square foot Linus Pauling Science Center, named for the university's legendary two-time Nobel Prize winner. The largest academic building project in OSU history, the new facility will house the Linus Pauling Institute (a federal center of excellence) and new classrooms for the thousands of students who study chemistry annually at OSU.
- Faculty researchers earned more than \$275 million in external contracts and grants – a record for the university representing growth of \$23 million over the previous year. OSU was recognized in *The Chronicle of Higher Education* as one of America's top 100 research universities in overall and federal funding. OSU spinoff HD+ was among many successful technology transfer efforts, attracting \$50 million in venture capital funding for its home dialysis innovation – a record for Oregon startups.
- Distinguished Professor of English and Creative Writing Tracy Daugherty's acclaimed "Hiding Man: A Biography of Donald Barthelme" (St. Martin's Press) is named one of *The New York Times'* "100 Notable Books of 2009." This is the ninth book for Daugherty, whose work has been supported by the National Endowment for the Humanities and the Guggenheim Foundation.
- For the second consecutive year of its two-year-old survey, *The Oregonian* reports that more high-achieving graduates from Portland area schools will enroll this fall at OSU than any other institution. The fall class includes a record 15 new National Merit scholars and 164 valedictorians and salutatorians from Oregon high schools.
- OSU launched an innovative organizational approach to its academic enterprise, combining colleges in four new academic divisions. Designed to spur further, deeper levels of collaboration among faculty and new learning opportunities for students, the divisions focus the university's efforts around its strongest areas and will guide decision making in education, research, outreach, external partnerships and faculty recruitment, the latter including 30 new positions approved at the end of 2009.

- Nearly 29,000 students enrolled at PSU in 2009-10, making it the largest and most diverse public or private university in Oregon. The graduating Class of 2010 was the largest ever, with more than 5,135 degrees awarded.
- Sponsored research grew from \$40 million in grants two years ago to \$58 million in 2009-10. Leading areas included science, engineering, business, social work, urban and public affairs and education.
- PSU's partnerships with businesses, government, nonprofits, schools and other organizations grew significantly, providing scores of new opportunities for students and faculty. The partnerships include Intel, Toyota, Solarworld, Portland General Electric, Columbia Sportswear, Mercy Corps, Oregon Health & Science University, the City of Portland, Multnomah County, the State of Oregon, every school district in the Portland metro area, among others.
- PSU alumnus Fariborz Maseeh, through his Massiah Foundation, made a \$3.9 million philanthropic investment in computational science to PSU's Department of Mathematics and Statistics. Computational scientists create computer simulations and data analysis tools that predict the behavior of extremely complex systems that shape everyday life, such as the atmosphere, oceans, tectonic plates, airplanes, freeways, and cells and genes. This investment will allow the department to be more versatile and collaborative with other PSU departments and with many businesses in the region, supporting upgrades in the department's facilities; and will add three new faculty positions in computational science, five annual research fellowships, a lecture series, and symposium.
- The growth of campus facilities continued with the opening of the Academic and Student Recreation Center in the Urban Center Plaza. The LEED gold-standard center offers everything from an aquatic complex to a new home for the Graduate School of Social Work and the Portland City Archives.



- The Higher Education Center (HEC) in Medford, jointly operated by SOU and Rogue Community College, received LEED platinum certification by the U.S. Building Council. The HEC becomes the first building in the OUS and the first commercial building in southern Oregon to achieve LEED platinum status.
- The U.S. Environmental Protection Agency ranked SOU #14 in the nation for use of Green Power on campus. That plus similar achievements helped SOU rank in the top 100 "Cool Schools" named by *Sierra Club Magazine*.
- More than 400 SOU classes (totaling 8,960 students) participated in community-based learning activities that benefited organizations throughout the Rogue Valley.
- SOU received \$898,000 in National Science Foundation funding, including a \$491,000 NSF equipment grant for an isotope radius

MESSAGE FROM THE CHANCELLOR—CONTINUED

mass spectrometer that will help measure fog in tree rings and identify historical climate change.

- SOU's popular Accelerated Baccalaureate Program received national media attention for providing a way that qualified and dedicated students can complete course work and graduate in three years.



- Professor Emeritus Michael Posner was among nine researchers named as winners of the National Medal of Science, the highest honor given by the U.S. government to scientists, engineers and inventors. Posner, a leading pioneer in the field of cognitive neuroscience, joined the UO faculty in 1965.
- During the 2009-10 academic year, six faculty members received prestigious Fulbright Scholar awards to teach or conduct research abroad. The university tied for first in producing the most Fulbright Scholar awards of any institution of higher education.
- Eight UO students received U.S. Student Program Fulbright awards for international study or research during the 2009-10 academic year. This is our largest number of student Fulbrights in 15 years.
- Latin American Studies was granted full program status in the fall of 2009. The university also established the Center for Latino/a and Latin American Studies (CLLAS). The new research center will focus on the interconnectedness between Latino/a people in the U.S. and Latin America.
- UO Athletics finished 14th in the country in the Learfield Sports Directors' Cup, which annually recognizes the best overall athletic department in each NCAA division, its highest finish ever since standings were initiated in 1993-94.

WESTERN OREGON UNIVERSITY

- The Education Trust ranked WOU first in the nation for the smallest White-Hispanic gap in graduation rates as well as in the top-ten for improvement in graduation rates for underrepresented minority students.
- The university broke ground on two important construction projects: a new live-learn residence hall and a health and wellness center. The residence hall, named Ackerman Hall, was constructed to meet LEED Platinum certification, the first large-scale, new construction residence hall in the country for such a standard. The health and wellness center was constructed to meet LEED Gold certification.
- WOU's enrollment numbers grew six percent over the previous year, to a record enrollment of 5,654. This marks another year of enrollment growth for the university, with an estimated continued growth for the 2010-11 year.
- Two WOU students received Fulbright grants for the 2010-11 year to teach English in Europe. Erin Huggins will spend the year in Germany and Rebecca Chad will spend the year in Spain.
- Dr. Eduardo Gonzalez-Viaña, professor of Spanish, was awarded the Congressional Medal of Honor of Peru in the grade of Gran Cruz, the highest honor the legislature can bestow.



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, 2010 and 2009, 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 audits. We did not audit the financial statements of 7 of the 8 discretely presented component units which represents 46% of the total net assets and 56% of the total revenues of the System's discretely presented component units as described in Note 18 for the year ended June 30, 2010. We also did not audit the financial statements of 6 of the 8 discretely presented component units which represents 8% of the total net assets and 13% of the total revenues of the System's discretely presented component units as described in Note 18 for the year ended June 30, 2009. 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 opinions.

In our opinion, based on our audits 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, 2010 and 2009, 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 30, 2010, 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 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010, 2009 and 2008. OUS comprises the Chancellor's Office and 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)
- Western Oregon University (WOU)

ANNUAL FULL TIME EQUIVALENT STUDENT ENROLLMENT SUMMARY

University	2010	2009	2008	2007	2006
EOU	2,870	2,550	2,435	2,460	2,609
OIT	2,686	2,490	2,350	2,319	2,377
OSU	21,266	19,536	18,963	18,875	18,821
PSU	22,124	20,764	19,213	18,927	18,719
SOU	4,472	4,373	4,213	4,174	4,249
UO	22,635	21,679	20,361	20,421	20,695
WOU	4,891	4,571	4,384	4,152	4,202
Total System	80,944	75,963	71,919	71,328	71,672

UNDERSTANDING THE FINANCIAL STATEMENTS

The MD&A focuses on OUS as a whole and is intended to foster a greater understanding of OUS's financial activities. Since this presentation includes summarized formats it should be read in conjunction with the financial statements which have the following six components.

Report of Independent Auditors presents an unqualified opinion rendered by an independent certified public accounting firm, Moss Adams LLP, on the fairness (in all material respects) of the financial statements.

Statement of Net Assets (SNA) presents a snapshot of OUS assets and liabilities under the accrual basis of accounting at the end of each fiscal year presented. The SNA helps the reader understand the types and amounts of assets available

to support operations, how much OUS owes to vendors and bond holders; and net assets delineated based upon their availability for future expenditures.

Statement of Revenues, Expenses, and Changes in Net Assets (SRE) presents OUS revenues and expenses categorized between operating, nonoperating and other related activities. The SRE reports the OUS operating results for each fiscal year presented.

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

Notes to the Financial Statements (Notes) provide additional information to clarify and expand on the financial statements.

Component Units, comprised of eight supporting foundations, are discretely presented in the OUS financial statements and in Notes 2 and 18.

The MD&A provides an objective analysis of OUS's financial activities based on currently known facts, decisions, and conditions. The analysis is for OUS as a whole and is not broken out by individual university. The MD&A discusses the current year results in comparison to the prior year. To see discussions relating to the prior year, refer to last year's annual financial report on the OUS website: http://www.ous.edu/cont-div/reports/annfinst_fy2009.php. The fiscal year 2010 presentation has resulted in reclassifications to the fiscal year 2009 and 2008 financial statements. The reclassifications did not materially affect the analysis provided in the prior year's MD&A. Unless otherwise stated, all years refer to the fiscal year ended June 30.

STATEMENT OF NET ASSETS

The term "Net Assets" refers to the difference between total assets and total liabilities, and is an indicator of OUS's current financial condition. 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:

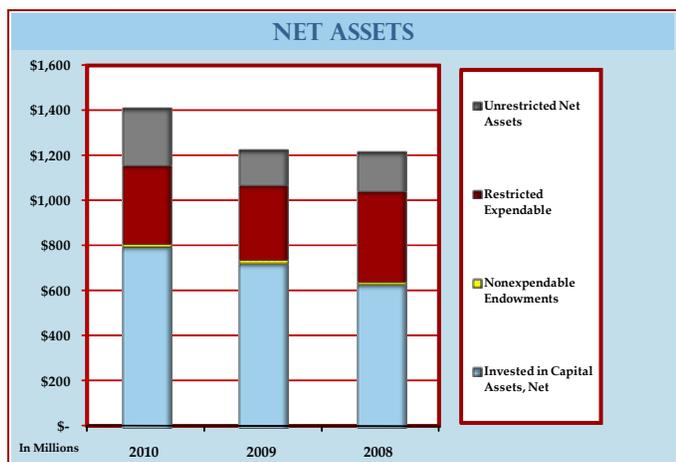
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2010

CONDENSED STATEMENT OF NET ASSETS			
As of June 30,	2010	2009	2008
(In millions)			
Current Assets	\$ 1,094	\$ 944	\$ 999
Noncurrent Assets	640	694	636
Capital Assets, Net	2,127	1,764	1,548
Total Assets	\$ 3,861	\$ 3,402	\$ 3,183
Current Liabilities	\$ 749	\$ 750	\$ 728
Noncurrent Liabilities	1,698	1,427	1,239
Total Liabilities	\$ 2,447	\$ 2,177	\$ 1,967
Invested in Capital Assets, Net of Related Debt	\$ 818	\$ 729	\$ 632
Restricted - Nonexpendable	16	16	17
Restricted - Expendable	328	327	397
Unrestricted	252	153	170
Total Net Assets	\$ 1,414	\$ 1,225	\$ 1,216

TOTAL NET ASSETS

OUS's overall financial position materially improved in 2010. Changes to Total Assets reflected a larger increase than Total Liabilities causing Total Net Assets to increase \$189 million during 2010 compared to a modest \$9 million increase in 2009. As illustrated by the following graph, the make-up of net assets changed between 2010, 2009 and 2008.



- **Net Assets Invested in Capital Assets, Net of Related Debt** increased \$89 million. Capital assets increases of \$469 million were offset by a \$273 million increase to long-term debt attributable to the capital assets, and a \$107 million increase to accumulated depreciation.
- **Restricted Expendable Net Assets** did not change materially in aggregate in 2010. Net assets of funds reserved for capital construction projects increased by \$20 million due to gifted funds for capital construction expenditures in 2010. Deferred income increases partially offset by increases in year-end receivable accruals for unreimbursed

expenditures incurred on behalf of grant and contract funding agencies caused net decreases of \$17 million but the year-end balance of endowment income yet to be distributed increased by \$5 million. Net assets relating to Debt Service reserves decreased \$6 million due to a change in the debt service reserve policy, beginning with the 2010 debt issuances.

- **Unrestricted Net Assets** increased \$99 million. Growth in operating revenue for unrestricted purposes outpaced the growth in operating expenses, resulting in the build-up of unrestricted fund balance reserves.

TOTAL ASSETS AND LIABILITIES

Total Assets increased \$459 million, or 13%, and Total Liabilities increased \$270 million, or 12% during the year ended 2010. The State Treasurer receives temporary cash collateral on behalf of OUS from investment firms who borrow OUS securities. Absent the securities lending balances, total Assets increased by \$468 million or 15% and Total Liabilities increased by \$279 million or 16%. The remaining analysis is absent securities lending variances.

- **Current Assets** increased \$159 million, or 28% due to increased cash and cash equivalents and accounts receivable. Cash related to Unrestricted Net Assets grew as operating revenue growth outpaced operating expenses. Accounts receivable increased mainly related to growth in grants and contracts activities. See "Operating Revenues" and "Operating Expenses" for information relating to the cash variance. See "Note 3. Accounts Receivable" for information relating to the receivable variance.
- **Noncurrent Assets** decreased \$54 million, or 8%. Year-end cash balances in capital construction funds, debt service reserve funds, agency funds and in long-term investments all decreased compared to the prior year.
- **Capital Assets, Net** increased \$362 million, or 21%. Capitalized acquisitions net of disposals and adjustments included \$407 million in real property and \$24 million in personal property. Accumulated depreciation increased by \$82 million. Intangible assets, net of amortization increased capital assets by \$13 million. See "Capital Assets" in this MD&A for additional information relating to these variances.
- **Current Liabilities** increased \$8 million, or 2%. Deferred revenue increased by \$11 million mainly relating to a change in the grant and contract billing process at one university. Deposits increased \$4 million due to the timing of payments due from agency funds. Partially offsetting these increases were decreases in accounts payable

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

and accrued liabilities of \$6 million, the majority of which was caused by year-end accounts payable for unpaid capital construction invoices decreasing in 2010 compared to 2009.

- **Noncurrent Liabilities** increased \$271 million, or 19%, mainly due to debt issued for the construction of capital assets. Refer to "Debt Administration" later in this MD&A for additional information.

For both years presented, current assets are sufficient to meet current obligations.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Due to the classification of certain revenues as nonoperating revenue, OUS shows a loss from operations. State General Fund Appropriations and non-capital gifts, although considered nonoperating revenue under Governmental Accounting Standards Board (GASB) 35 standards and reflected accordingly in the nonoperating section of the SRE, are used solely for operating purposes.

The following summarizes the revenue and expense activity of OUS:

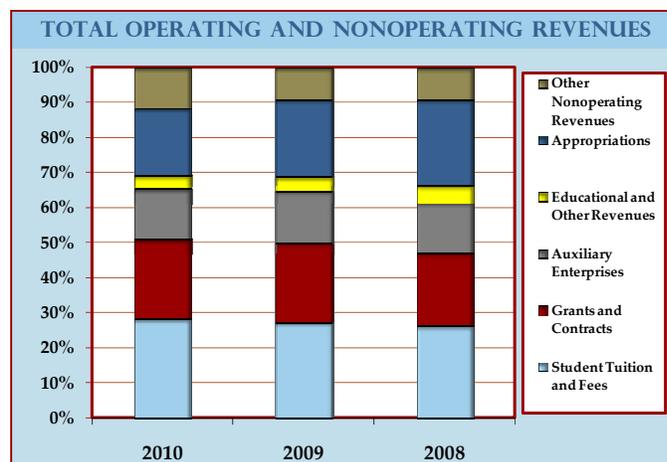
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
For the Year Ended June 30,	2010	2009	2008
	(In millions)		
Operating Revenues	\$ 1,532	\$ 1,369	\$ 1,252
Operating Expenses	1,963	1,916	1,757
Operating Loss	(431)	(547)	(505)
Nonoperating Revenues, Net of Expenses	474	443	490
Other Revenues	146	113	95
Increase In Net Assets	189	9	80
Net Assets, Beginning of Year	1,225	1,216	1,136
Net Assets, End of Year	\$ 1,414	\$ 1,225	\$ 1,216

Net Assets increased by \$189 million in 2010 compared to an increase of \$9 million in 2009.

REVENUES

Revenues increased \$228 million, or 11%, in 2010 compared to the prior year.

TOTAL OPERATING AND NONOPERATING REVENUES			
For the Year Ended June 30,	2010	2009	2008
	(In millions)		
Student Tuition and Fees	\$ 628	\$ 542	\$ 496
Grants and Contracts	506	455	394
Auxiliary Enterprises	317	289	271
Educational and Other	81	83	91
Total Operating Revenues	1,532	1,369	1,252
Appropriations	429	440	465
Investment Activity	20	5	17
Capital Grants and Gifts	108	76	55
Other Nonoperating Items	129	100	102
Total Nonoperating Revenues	686	621	639
Total Revenues	\$ 2,218	\$ 1,990	\$ 1,891



Operating Revenues

Operating revenues increased \$163 million in 2010, or 12% over 2009, to \$1.5 billion. This change is primarily due to increases in Student Tuition and Fees, Grants and Contracts and Auxiliary Enterprises Revenues.

Student Tuition and Fees increased \$86 million, or 16%, in 2010 compared to 2009.

- Higher tuition and fee rates accounted for \$73 million of the increase.
- Increased enrollment added \$40 million to tuition and fees.
- Increased fee remissions and scholarship allowances reduced tuition and fees by \$27 million.

Federal, State and Nongovernmental Grants and Contracts increased \$51 million, or 11%, in 2010 compared to 2009.

- Federal grants and contract revenue were higher during 2010 when compared to the prior year by \$62 million relating to increased Pell grants, research and develop-

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2010

ment grants and contracts, and other grants and contracts and a change in the grant and contract billing process at one university.

- State and Local grants and contracts revenue decreased \$3 million mainly relating to lower Oregon Opportunity Grant funding.
- Nongovernmental grants decreased \$8 million relating to a change in the grant and contract billing process at one university which was partially offset by an aggregation of small grant and contract increases.

Auxiliary Enterprises revenues increased \$28 million, or 10%, compared to the prior year.

- Student Health and Incidental Fee revenue increased \$15 million due to higher rates and increased enrollment.
- Athletics revenues increased by \$5 million mainly due to the growth in event income.
- Housing and Dining revenues increased by \$7 million in 2010 related mainly to higher rates and student occupancy.

Educational and Other Revenues decreased \$2 million, or 2%, between the two fiscal periods.

Nonoperating Revenues

The increase in Nonoperating Revenues of \$65 million during 2010 can be directly tied to the increases in Capital Grants and Gifts, Other Nonoperating Items and Investment Activities. This was partially offset by a decrease to Government Appropriations.

Government, Capital and Debt Service Appropriations decreased \$11 million, or 3%.

- State appropriations for OUS operations were reduced by \$12 million or 3% due to the state's decline in overall revenues available for appropriation.

See "Note 12. Government Appropriations" for additional information relating to changes in appropriations.

Investment Activity increased \$15 million, or 274% in 2010.

- Market value increases of \$9 million in 2010 were \$23 million greater compared to a \$14 million market value loss in 2009.
- Interest income declined \$9 million during 2010 compared to 2009. Interest rates dropped and less cash was invested due to the timing of debt issuances during 2010.

See "Note 10. Investment Activity" for additional information relating to these variances.

Capital Grants and Gifts increased \$32 million in 2010 mainly relating to the donation of a building valued at \$37 million, which was partially offset by the timing of fundraising for various construction projects, causing a \$5 million decrease from the prior year.

Other Nonoperating Items increased \$30 million in 2010.

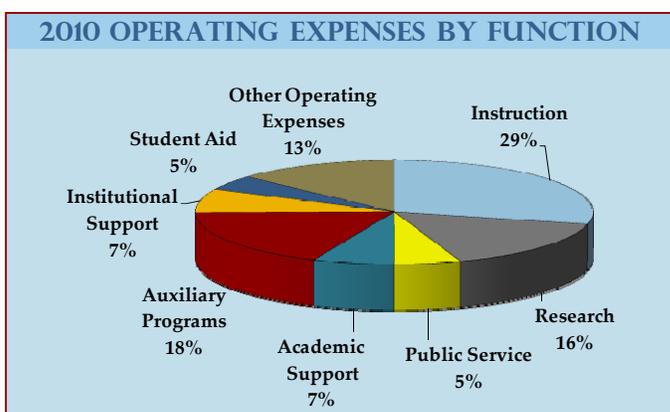
- Gifts increased \$23 million mainly relating to scholarships, and equipment and furnishings included as part of a donated building.
- The implementation of GASB 51 caused \$13 million to be added for intangible assets.
- Gain on Sale of Assets, Net declined \$4 million compared to the prior year.

EXPENSES

Operating Expenses

Operating expenses increased \$47 million in 2010, or 2%, over 2009, to \$2.0 billion. This moderate increase results from offsetting increases and decreases in all expense categories. The following summarizes operating expenses by functional classification:

OPERATING EXPENSES BY FUNCTION			
For the Year Ended June 30,	2010	2009	2008
	(In millions)		
Instruction	\$ 565	\$ 568	\$ 530
Auxiliary Programs	356	330	307
Research	311	301	264
Institutional Support	146	152	133
Academic Support	130	130	119
Public Service	105	108	104
Student Aid	91	73	61
Other Operating Expenses	259	254	239
Total Operating Expenses	\$ 1,963	\$ 1,916	\$ 1,757



The following summarizes operating expenses by natural classification:

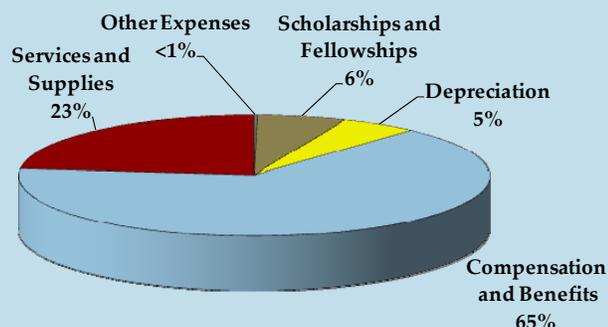
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2010

OPERATING EXPENSES BY NATURE

For the Year Ended June 30,	2010	2009	2008
	(In millions)		
Compensation and Benefits	\$ 1,277	\$ 1,256	\$ 1,148
Services and Supplies	457	465	422
Scholarships and Fellowships	121	100	86
Depreciation and Amortization	103	91	92
Other Expenses	5	4	9
Total Operating Expenses	\$ 1,963	\$ 1,916	\$ 1,757

2010 OPERATING EXPENSES BY NATURE



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.

Compensation and Benefits costs increased \$21 million, or 2%, in 2010 compared to 2009.

- Additional employees due to increased student enrollment caused increases of approximately \$41 million.
- Lower wage costs of approximately \$13 million were attributed to combinations of wage cuts and furloughs in response to decreased state funding.
- Benefit costs decreased approximately \$17 million. Retirement costs decreased \$27 million while health insurance costs increased \$9 million or 4% compared to the prior year.
- Deferred compensation increased by \$11 million in 2010.

Services and Supplies expense decreased \$8 million, or 2%, during 2010 mainly relating to lower fees and services paid for building maintenance and repairs.

Scholarships and Fellowships costs increased \$21 million, or 21%, when comparing 2010 and 2009 which mainly related to increased PELL grants.

Depreciation and Amortization expense increased \$12 million during 2010 relating to new buildings and intangible assets.

Nonoperating Expenses

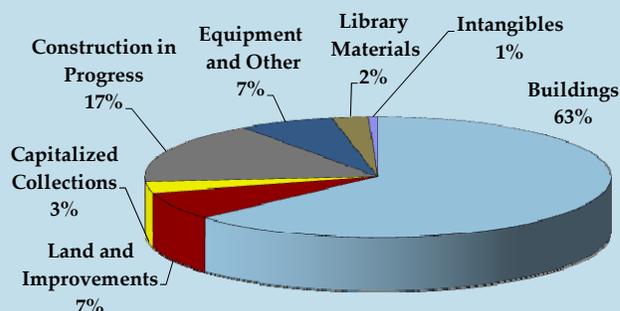
Interest Expense increased by \$2 million, or 4%, due to new debt issuances. See "Capital Assets and Related Financing Activities," below, and "Note 8. Long-term Liabilities" for information relating to this variance.

CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

CAPITAL ASSETS

At June 30, 2010, OUS had \$3.5 billion in capital assets, less accumulated depreciation of \$1.4 billion, for net capital assets of \$2.1 billion. 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, Federal, private, borrowed, and internal OUS funding combine to accomplish OUS's capital objectives.

2010 CAPITAL ASSETS, NET - \$2.1 BILLION



CHANGES TO CAPITAL ASSETS

	2010	2009	2008
	(In millions)		
Capital Assets, Beginning of Year	\$ 3,045	\$ 2,757	\$ 2,558
Add: Purchases/Construction	457	306	228
Less: Retirements/Disposals	13	(18)	(29)
Total Capital Assets, EOY	3,515	3,045	2,757
Accum. Depreciation, Beginning of Year	(1,281)	(1,208)	(1,137)
Add: Depreciation Expense	(103)	(91)	(92)
Less: Retirements/Disposals	(4)	18	21
Total Accum. Depreciation, EOY	(1,388)	(1,281)	(1,208)
Total Capital Assets, Net, EOY	\$ 2,127	\$ 1,764	\$ 1,549

Capital additions totaled \$457 million for 2010, \$306 million for 2009 and \$228 million for 2008. Due to the implementa-

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2010

tion of GASB No. 51, *Accounting and Reporting for Intangible Assets*, retirements/disposals include related adjustments of \$35 million to record intangible assets.

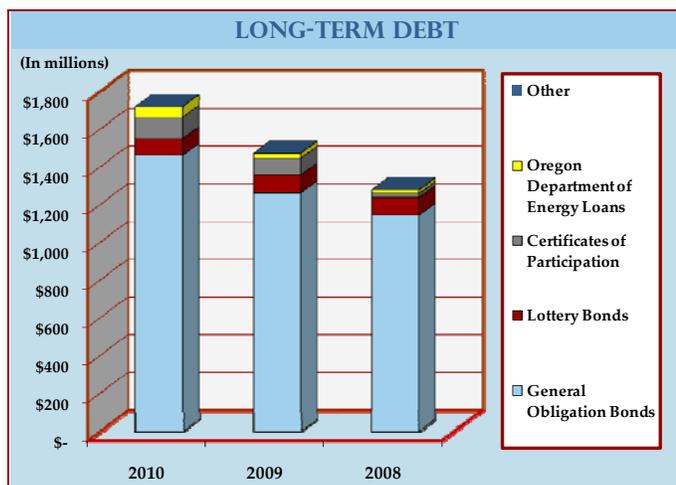
Accumulated depreciation at June 30, 2010 increased \$107 million, which represented \$103 million in depreciation and amortization expense, \$23 million of prior years' amortization of intangible assets offset by \$19 million in asset retirements. Depreciation expense was \$103 million during 2010 compared to \$91 million during 2009.

CAPITAL COMMITMENTS

OUS has outstanding capital commitments on partially completed and planned but not initiated construction projects authorized by the Oregon State Legislature of \$438 million as of June 30, 2010. See "Note 17. Commitments and Contingent Liabilities" for additional information relating to capital construction commitments.

DEBT ADMINISTRATION

During 2010, 2009 and 2008, OUS issued bonds totaling \$277 million, \$243 million and \$294 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. Fiscal year 2010 saw many large individual construction projects funded. The introduction of "Go Oregon!", a program initiated by the State of Oregon to combat unemployment, jump-started many "shovel ready" projects during 2009. The UO Arena Project, debt totaling \$200 million, was issued at the end of fiscal year 2008. Construction on this project began in fiscal year 2009. During 2010 and 2009, capital expenditures exceeded debt proceeds as debt proceeds from prior fiscal years, as well as gifts and other funding sources, were used to pay for construction.



ECONOMIC OUTLOOK

The funding for the major activities of OUS comes from a variety of sources: tuition and fees; financial aid programs; state, Federal and county 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. Revenue declines brought on by the recession caused the State to drastically reduce its support to the students attending state universities. The Federal government stepped in to replace some of the lost State funding, backfilling a portion of the shortfall through the American Recovery and Reinvestment Act. These subsidies will continue through fiscal year 2011. The remaining shortfall was covered by increased tuition and fees, which cannot be sustained in the long-term because of enrollment fluctuations.

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

OUS approved a policy to implement differential tuition, which allows universities to establish different tuition rates for academic programs by Fall 2011. Differential tuition is intended to 1) offset higher than average instructional costs of specific programs; 2) provide supplemental resources to enhance quality; 3) reflect the market for programs with high demand.

OUS received legislative approval to change how its cash balances can be invested in an attempt to increase investment earnings. OUS continues to seek approval to retain the investment earnings on all of its cash balances. Currently, earnings for 32% of OUS invested cash is retained by the State General Fund. Retaining investment earnings is an important economic factor in OUS's ability to retain and build its service level to students and reduce future tuition increases. OUS continues to 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.

STATEMENT OF NET ASSETS

As of June 30,	University System	
	2010	2009
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 485,599	\$ 334,192
Collateral from Securities Lending (Note 2)	366,704	375,509
Accounts Receivable, Net (Note 3)	191,164	177,670
Accounts Receivable from Component Units (Note 3)	11,330	14,388
Notes Receivable, Net (Note 4)	16,243	16,679
Inventories	6,882	6,796
Prepaid Expenses	16,556	18,550
Total Current Assets	1,094,478	943,784
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	498,042	539,846
Investments (Note 2)	61,160	67,305
Notes Receivable, Net (Note 4)	81,014	86,823
Capital Assets, Net of Accumulated Depreciation (Note 5)	2,126,535	1,764,436
Total Noncurrent Assets	2,766,751	2,458,410
Total Assets	\$ 3,861,229	\$ 3,402,194
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	\$ 144,184	\$ 149,974
Deposits	23,060	18,637
Obligations Under Securities Lending (Note 2)	366,704	375,509
Current Portion of Long-Term Liabilities (Note 8)	99,578	100,884
Deferred Revenue	115,846	105,333
Total Current Liabilities	749,372	750,337
Noncurrent Liabilities		
Long-Term Liabilities (Note 8)	1,698,063	1,426,532
Total Noncurrent Liabilities	1,698,063	1,426,532
Total Liabilities	\$ 2,447,435	\$ 2,176,869
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 817,565	\$ 729,382
Restricted For:		
Nonexpendable Endowments	15,942	16,287
Expendable:		
Gifts, Grants and Contracts	78,577	90,019
Student Loans	84,935	85,616
Capital Projects	91,696	71,999
Debt Service	72,971	79,407
Unrestricted Net Assets (Note 9)	252,108	152,615
Total Net Assets	\$ 1,413,794	\$ 1,225,325
The accompanying notes are an integral part of these financial statements.		

STATEMENT OF FINANCIAL POSITION

As of June 30,	Component Units	
	2010	2009
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	\$ 49,895	\$ 58,336
Contributions, Pledges and Grants Receivable, Net	199,851	237,068
Investments (Note 2)	1,047,178	924,588
Prepaid or Deferred Expenses, and Other Assets	39,438	37,451
Property and Equipment, Net	49,623	50,005
Total Assets	\$ 1,385,985	\$ 1,307,448
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 14,715	\$ 11,321
Accounts Payable to Universities	3,969	7,350
Obligations to Beneficiaries of Split-Interest Agreements	70,763	63,940
Deposits and Deferred Revenue	10,968	10,889
Long-Term Liabilities	78,976	60,399
Total Liabilities	\$ 179,391	\$ 153,899
NET ASSETS		
Unrestricted Deficit	\$ (19,543)	\$ (24,033)
Temporarily Restricted	567,356	544,844
Permanently Restricted	658,781	632,738
Total Net Assets	\$ 1,206,594	\$ 1,153,549

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30,	University System	
	2010	2009
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowances of \$131,670 and \$104,396, respectively)	\$ 627,911	\$ 542,276
Federal Grants and Contracts	415,126	353,130
State and Local Grants and Contracts	46,648	49,342
Nongovernmental Grants and Contracts	43,799	51,976
Educational Department Sales and Services	60,402	59,789
Auxiliary Enterprises Revenues (Net of Scholarship Allowances of \$13,186 and \$11,806, respectively)	317,043	289,230
Other Operating Revenues	20,775	22,938
Total Operating Revenues	1,531,704	1,368,681
OPERATING EXPENSES		
Instruction	565,284	567,543
Research	310,577	301,131
Public Service	104,972	108,113
Academic Support	130,112	130,395
Student Services	73,186	73,214
Auxiliary Programs	355,972	329,919
Operation and Maintenance of Plant	89,369	84,153
Institutional Support	146,144	151,865
Student Aid	90,709	72,857
Other Operating Expenses	96,388	96,745
Total Operating Expenses (Note 11)	1,962,713	1,915,935
Operating Loss	(431,009)	(547,254)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	391,035	402,667
Investment Activity (Note 10)	19,933	5,331
Gain (Loss) on Sale of Assets, Net	(875)	2,968
Interest Expense	(66,895)	(64,508)
Other Nonoperating Items	130,534	96,667
Net Nonoperating Revenues	473,732	443,125
Income (Loss) Before Other Nonoperating Revenues	42,723	(104,129)
Capital and Debt Service Appropriations (Note 12)	37,489	37,473
Capital Grants and Gifts	108,257	75,707
Total Other Nonoperating Revenues	145,746	113,180
Increase In Net Assets	188,469	9,051
NET ASSETS		
Beginning Balance	1,225,325	1,216,274
Ending Balance	\$ 1,413,794	\$ 1,225,325

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

STATEMENT OF ACTIVITIES

For The Years Ended June 30,	Component Units	
	2010	2009
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	\$ 158,799	\$ 160,710
Interest and Dividends	13,050	10,696
Investment Income (Loss), Net	65,363	(181,296)
Change in Value of Life Income Agreements	8,039	(19,865)
Other Revenues	24,847	17,937
Total Revenues	270,098	(11,818)
EXPENSES		
General and Administrative	23,434	24,679
Development Expenses	5,610	5,573
University Support	182,694	178,917
Other Expenses	6,902	9,994
Total Expenses	218,640	219,163
Increase (Decrease) In Net Assets Before Other Changes in Net Assets	51,458	(230,981)
Other Changes in Net Assets	1,587	-
Increase (Decrease) In Net Assets	53,045	(230,981)
NET ASSETS		
Beginning Balance	1,153,549	1,384,530
Ending Balance	\$ 1,206,594	\$ 1,153,549

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

STATEMENT OF CASH FLOWS

For the Years Ended June 30,	University System	
	2010	2009
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 624,374	\$ 551,802
Grants and Contracts	511,680	450,251
Educational Department Sales and Services	60,413	59,765
Auxiliary Enterprises Operations	318,447	290,988
Student Loan Collections	11,947	13,105
Payments to Employees for Compensation and Benefits	(1,258,093)	(1,247,799)
Payments to Suppliers	(420,371)	(438,608)
Student Financial Aid	(121,149)	(99,939)
Student Loan Issuance and Costs	(8,764)	(9,697)
Other Operating Receipts	2,045	16,220
Net Cash Used by Operating Activities	(279,471)	(413,912)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	394,593	403,641
Other Gifts and Private Contracts	111,110	97,599
Net Agency Fund Receipts (Payments)	(6,986)	4,910
Net Cash Provided by Noncapital Financing Activities	498,717	506,150
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	-	11,718
Debt Service Appropriations	32,105	26,829
Capital Grants and Gifts	59,338	72,187
Bond Proceeds on Capital Debt	276,725	243,010
Sales of Capital Assets	22,146	21,126
Purchases of Capital Assets	(401,549)	(302,530)
Interest Payments on Capital Debt	(79,737)	(69,272)
Principal Payments on Capital Debt	(44,569)	(56,921)
Net Cash Used by Capital and Related Financing Activities	(135,541)	(53,853)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales of Investments	17,460	174
Interest on Investments and Cash Balances	8,438	19,531
Interest Income from Securities Lending	554	1,173
Interest Expense from Securities Lending	(554)	(1,173)
Net Cash Provided by Investing Activities	25,898	19,705
NET INCREASE IN CASH AND CASH EQUIVALENTS	109,603	58,090
CASH AND CASH EQUIVALENTS		
Beginning Balance	874,038	815,948
Ending Balance	\$ 983,641	\$ 874,038

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

STATEMENT OF CASH FLOWS

For the Years Ended June 30,	University System	
	2010	2009
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY		
OPERATING ACTIVITIES		
Operating Loss	\$ (431,009)	\$ (547,254)
Adjustments to Reconcile Operating Loss to Net Cash Used by		
Operating Activities:		
Depreciation Expense	103,449	90,938
Changes in Assets and Liabilities:		
Accounts Receivable	(3,843)	(16,503)
Notes Receivable	10,658	10,845
Inventories	(37)	(79)
Prepaid Expenses	981	(1,446)
Accounts Payable and Accrued Liabilities	5,453	31,768
Long-Term Liabilities	31,098	7,105
Deposits	(50)	33
Deferred Revenue	3,829	10,681
NET CASH USED BY OPERATING ACTIVITIES	\$ (279,471)	\$ (413,912)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND		
RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Incurring Capital Lease Obligations	\$ 643	\$ 290
Capital Assets Acquired by Gifts in Kind	46,171	3,380
Increase (Decrease) in Fair Value of Investments Recognized as a Component of Investment Activity	8,985	(14,251)
The accompanying notes are an integral part of these financial statements.		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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 State 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 (EOU), Oregon Institute of Technology (OIT), Oregon State University (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO), Western Oregon University (WOU), 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 U.S. 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.

Financial statements of the OUS discretely presented component units are presented in accordance with generally accepted accounting principles prescribed by the Financial Accounting

Standards Board (FASB).

OUS implemented GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the year ended June 30, 2010. GASB 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. OUS has not petitioned for Chapter 9 bankruptcy as of June 30, 2010.

OUS implemented GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, effective for the year ended June 30, 2010. GASB 51 requires that all intangible assets not specifically excluded by its provisions be classified as capital assets. To adopt GASB 51, OUS recorded intangible assets, net of amortization, of \$12.5 million as of July 1, 2009.

OUS implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. To implement GASB 53, OUS recorded a \$690,000 loss in fair value at June 30, 2010. See "Note 2. Cash and Investments" for information about OUS derivative instruments.

OUS implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for the year ended June 30, 2009. 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. OUS has accrued a pollution remediation obligation liability of \$282,000 and \$585,000 relating to the adoption of GASB 49 for the fiscal years ended June 30, 2010 and 2009, respectively.

OUS implemented GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report land and other real estate investments at fair value. OUS has adjusted the value of its qualifying endowment assets down by \$348,000 and \$1,046,000 relating to the adoption of GASB 52 for the fiscal years ended June 30, 2010 and 2009, respectively.

New Accounting Standards – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund*

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Type Definitions. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. These requirements are effective for the fiscal year ending June 30, 2011. OUS is not anticipating that the adoption of GASB 54 will impact its financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. These requirements are effective for the fiscal year ending June 30, 2012. OUS is not anticipating that the adoption of GASB 57 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 2009 financial statements reflect certain reclassifications to conform to the fiscal year 2010 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 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 but instead followed GASB pronouncements.

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 State of Oregon in the Oregon Short-Term Fund (OSTF); cash and cash equivalents restricted for the payment of the current portion of debt service; and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

Cash and cash equivalents restricted for the long-term portion of debt service, capital construction, and agency funds are

classified as noncurrent assets in the Statement 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 Statement 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 Statement 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 capitalizes real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization thresholds of \$50,000 to \$100,000, depending on the type of real property. Intangible assets valued in excess \$100,000 are capitalized. Expenditures below the capitalization threshold and 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. Amortization terms of intangible assets vary depending on the factors relating to the specific asset. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

H. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees, grants and contracts, lease income and auxiliary enterprises activities that relate to the subsequent fiscal year(s).

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 com-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

pensation 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 amortization, 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 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. In accordance with current board policy, the amount available for distribution during fiscal year 2011 is estimated to be \$2,607,000. For the years ended June 30, 2010 and 2009, the net amount of appreciation available for authorization for expenditure was \$12,791,000 and \$10,039,000, respectively.

Nonexpendable Endowments on the Statement of Net Assets of \$15,942,000 and \$16,287,000 at June 30, 2010 and 2009, 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 from income taxes. 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 compensation, benefits, and related expense; (2) scholarships and fellowships; (3) utilities, supplies and other services; (4) professional fees; and (5) depreciation expenses of capital assets.

Nonoperating revenues have the characteristics of nonexchange transactions. In a nonexchange transaction, OUS receives value without directly giving equal value in exchange. 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 enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the differ-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

ence 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 and housing waivers, provided directly by OUS, amounted to \$56,018,000 and \$46,890,000 for the fiscal years ended 2010 and 2009, 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 \$88,838,000 and \$69,312,000 for the fiscal years ended 2010 and 2009, respectively.

O. FEDERAL STUDENT LOAN PROGRAMS

OUS universities receive proceeds from the Federal Direct Student Loan Program and the Federal Family Education Loan Program. Since OUS transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, the grant is reported in an agency fund. Federal student loans received by OUS students but not reported in operations were \$519,314,000 and \$433,655,000 for the fiscal years ended 2010 and 2009, 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 could 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 AND CASH EQUIVALENTS

Deposits with State Treasury

OUS maintains the majority of 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 agencies. At the fiscal years ended June 30, 2010 and 2009, OUS carrying amounts of cash and cash equivalents were \$981,776,000 and \$871,386,000, respectively, while the State Treasury balances were \$1,002,881,000 and \$885,185,000, respectively. Differ-

ences between the OUS carrying amount and the State Treasury balance occur due to timing differences.

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/FactsAndFigures/AnnualReports/>.

Custodial Credit Risk—Deposits

Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to a depositor. Since OUS cash balances are held on deposit at the State Treasury and combined with funds from other State agencies, custodial credit risk exposure is not applicable to OUS.

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 \$75,000 at June 30, 2010.

Other Deposits

OUS cash and cash equivalents held by a fiscal agent outside the State Treasury comprised \$2,037,000 and \$2,195,000 at June 30, 2010 and 2009, respectively. The fiscal agent is the custodian for distributing the OUS bond principal and interest repayments made by OUS to bondholders. The cash balance with the fiscal agent is subject to Federal deposit insurance for the first \$250,000 for each bondholder. At June 30, 2010, no bondholders had balances exceeding \$250,000.

For the years ended June 30, 2010 and 2009, OUS had vault and petty cash balances of \$518,000 and \$457,000, respectively. Additionally, OUS had small amounts of cash invested with a fiscal agent relating to debt issuances.

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 following table displays the terms of the OUS forward contracts outstanding at June 30, 2010 (amounts in thousands).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Notional Currency Amount	Principal Amount	Effective Date	Maturity Date	Contract Rate	Fair Value
EUR	27	\$ 35	5/12/2010	8/31/2010	\$ 1.2898	\$ (2)
	40	52	5/7/2010	9/30/2020	1.2890	(2)
	573	787	3/23/2010	3/31/2011	1.3717	(83)
	500	689	3/23/2010	9/14/2011	1.3770	(75)
	500	700	2/5/2010	6/30/2011	1.4000	(87)
	800	1,176	12/17/2009	10/31/2010	1.4698	(194)
	300	444	10/1/2009	9/30/2010	1.4800	(76)
	400	592	9/29/2009	9/22/2010	1.4800	(101)
	GBP	200	305	5/10/2010	10/31/2011	1.5255
200		305	3/12/2010	9/12/2011	1.5271	(5)
200		312	3/2/2010	8/20/2011	1.5600	(12)
200		328	9/24/2009	9/24/2010	1.6388	(27)
100		164	12/17/2009	12/31/2010	1.6388	(14)
AUD	81	75	4/22/2010	10/31/2010	0.8520	(7)
CAD	3	3	1/29/2010	8/31/2010	0.9155	-

The fair value balances and notional amounts of forward contracts outstanding at June 30, 2010 and changes in fair value for the year then ended as reported on 2010 financial statements are as follows (amounts in thousands; debit (credit)):

Changes in Fair Value		Fair Value at June 30, 2010		Notional	
Classification	Amount	Classification	Amount	Currency	Amount
Deferred Inflow	\$ 620	Derivative Instrument	\$ (620)	EUR	3,140
Deferred Inflow	63	Derivative Instrument	(63)	GBP	900
Deferred Inflow	7	Derivative Instrument	(7)	AUD	81
Deferred Inflow	-	Derivative Instrument	-	CAD	3

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 utilize demand deposit accounts and fixed-income investments, equity investments must be directed by external investment managers who are under contract to the Council.

The following schedule presents the fair value of OUS investments as reported by the applicable investment trustee at June 30, 2010 (dollars in thousands):

	Fair Value	Asset Allocation
University System		
Investment Type:		
Money Market Funds	\$ 746	1%
US Government Bonds	66	-
Mutual Funds - Domestic Fixed Income	18,404	30%
Guaranteed Investment Contracts	2,844	5%
Fixed Income Investments	22,060	
Mutual Funds - Domestic Equity Securities	16,216	26%
Mutual Funds - International Equity Securities	16,097	26%
Equity Investments	32,313	
Alternative Equities	5,727	9%
Real Estate	1,806	3%
Other Investments	7,533	
Total All Investments	61,906	100%
Less Amounts Recorded As Cash	(746)	
Total Investments	\$ 61,160	

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the statement of net assets.

In 2010, there were significant events in domestic and international investment markets: sovereign debt concerns across Europe, declining consumer confidence, continuing high unemployment and sweeping Federal financing regulatory reform. Consequently, the fair value of OUS's investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2010.

OUS monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2010, three individual named permanent endowment funds had estimated fair values that, in total, were \$112,000 less than their permanently restricted or historical value. This was the result of net declines in financial markets since these funds were established. The associated unrealized losses are recorded in the Unrestricted Net Assets caption on the Statement of Net Assets.

Of the total investments, \$56 million are in pooled endowment investments, \$2 million are separately invested endowments, and \$3 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, 2010 as follows (in thousands):

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Component Units	Fair Value
Investment Type:	
Corporate Stocks, Bonds, Securities and Mutual Funds	\$ 453,300
Investment in Common Stock, Voting Trust and Partnerships	407,560
US Treasury Notes and Government Obligations	23,338
Money Market Funds and Certificates of Deposit	49,458
Collateralized Mortgages, Mortgage Notes and Contracts, Realty Funds	11,587
Land and Buildings	12,744
Remainder Trusts, Unitrusts and Gift Annuities	53,245
Alternative Investments	11,896
Investment Receivables	20,256
Cash Value of Life Insurance Policies	335
Other	3,459
Total Investments	\$ 1,047,178

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/Aa or better and limits below investment grade bonds to no more than 15% of the bond portfolio, exclusive of guaranteed investment contracts. At June 30, 2010, OUS fixed income investments (in thousands) has the following credit quality ratings:

Investment Type:	Total	Mutual Funds-				Other
		Money Market Funds	Domestic Fixed Income	Guaranteed Investment Contracts		
AA	\$ 18,404		\$ 18,404			
Aaa	66				\$ 66	
Unrated	3,590	\$ 746		\$ 2,844		
Fair Value	\$ 22,060	\$ 746	\$ 18,404	\$ 2,844	\$ 66	

Custodial Credit Risk

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 OUS investments are not used to 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 U.S. 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 no more than 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 security, unless part of an index fund. No investments representing five percent or more of total investments were held at June 30, 2010.

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 was not invested in any floating rate debt at June 30, 2010. OUS has the following investments in corporate bonds and fixed income mutual funds at June 30, 2010 (dollars in thousands, duration in years):

Investment Type:	Fair	
	Value	Duration
Money Market Funds	\$ 746	0.50
Mutual Funds-Domestic Fixed Income	18,404	4.49
Guaranteed Investment Contracts	2,844	4.00
Other	66	5.20
Total Fair Value	\$ 22,060	
Portfolio Weighted Average Duration		4.29

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 \$16 million in mutual funds that are primarily invested in international equities at June 30, 2010.

C. SECURITIES LENDING

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	June 30, 2010	June 30, 2009
OUS Securities on loan:		
Fair Value	\$ 257	\$ 1,723
Cash Collateral held by OUS:		
Fair Value	271	1,800
Reported Value	260	1,831
OSTF Securities on loan:		
Fair Value	358,993	366,029
Cash Collateral held by OSTF:		
Fair Value	366,384	370,498
Reported Value	366,444	373,678

The State Treasurer 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 Treasurer'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 Treasurer 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 Treasurer 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, 2010, 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 Treasurer 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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

3. ACCOUNTS RECEIVABLE

Accounts Receivable comprised the following (in thousands):

	June 30, 2010	June 30, 2009
Student Tuition and Fees	\$ 99,080	\$ 92,812
Auxiliary Enterprises and Other		
Operating Activities	20,814	17,771
Federal Grants and Contracts	51,917	32,960
State, Other Government, and Private		
Gifts and Contracts	21,741	37,184
Component Units	11,330	14,388
Other	12,835	9,585
	<u>217,717</u>	<u>204,700</u>
Less: Allowance for Doubtful Accounts	(15,223)	(12,642)
Accounts Receivable, Net	<u>\$ 202,494</u>	<u>\$ 192,058</u>

4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2010 and 2009. 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.

Notes Receivable comprised the following (in thousands):

	June 30, 2010		
	Current	Noncurrent	Total
Institutional and Other			
Student Loans	\$ 1,756	\$ 4,308	\$ 6,064
Federal Student Loans	14,709	63,178	77,887
Amounts Due from OHSU for Bond			
Indebtedness (See Note 8.G.)	3,149	21,004	24,153
	<u>19,614</u>	<u>88,490</u>	<u>108,104</u>
Less: Allowance for Doubtful			
Accounts	(3,371)	(7,476)	(10,847)
Notes Receivable, Net	<u>\$ 16,243</u>	<u>\$ 81,014</u>	<u>\$ 97,257</u>
	June 30, 2009		
	Current	Noncurrent	Total
Institutional and Other			
Student Loans	\$ 1,625	\$ 4,778	\$ 6,403
Federal Student Loans	14,589	65,377	79,966
Amounts Due from OHSU for Bond			
Indebtedness (See Note 8.G.)	3,103	24,285	27,388
	<u>19,317</u>	<u>94,440</u>	<u>113,757</u>
Less: Allowance for Doubtful			
Accounts	(2,638)	(7,617)	(10,255)
Notes Receivable, Net	<u>\$ 16,679</u>	<u>\$ 86,823</u>	<u>\$ 103,502</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets (in thousands):

	Balance June 30, 2008	Additions	Retirements and Adjustments	Balance June 30, 2009	Additions	Retirements and Adjustments	Balance June 30, 2010
Capital Assets, Non-depreciable/ Non-amortizable:							
Land	\$ 101,018	\$ 5,679		\$ 106,697	\$ 9,238	\$ (77)	\$ 115,858
Capitalized Collections	61,227	784		62,011	2,836	(953)	63,894
Construction in Progress	164,620	256,996	\$ (171,024)	250,592	366,153	(263,340)	353,405
Intangible Assets (A)				-	1		1
Intangible Assets in Progress (A)				-	409		409
Total Capital Assets, Non-depreciable/Non-amortizable	326,865	263,459	(171,024)	419,300	378,637	(264,370)	533,567
Capital Assets, Depreciable/ Amortizable:							
Equipment	286,771	33,886	(14,550)	306,107	31,410	(11,856)	325,661
Library Materials	311,940	9,026	(515)	320,451	8,611	(6,402)	322,660
Buildings	1,728,918	142,102	(2,417)	1,868,603	270,186	(3,285)	2,135,504
Land Improvements	25,205	19,288		44,493	3,393	(128)	47,758
Improvements Other Than Buildings	21,154	3,041		24,195	2,361	(20)	26,536
Infrastructure	55,558	6,319	(141)	61,736	23,555	(113)	85,178
Intangible Assets (A)				-	2,101	35,413	A 37,514
Total Capital Assets, Depreciable/Amortizable	2,429,546	213,662	(17,623)	2,625,585	341,617	13,609	2,980,811
Less Accumulated Depreciation/ Amortization for:							
Equipment	(200,137)	(23,439)	11,707	(211,869)	(24,937)	11,196	(225,610)
Library Materials	(250,348)	(12,845)	458	(262,735)	(12,347)	6,351	(268,731)
Buildings	(690,985)	(48,895)	5,974	(733,906)	(57,697)	1,349	(790,254)
Land Improvements	(14,706)	(1,776)	1	(16,481)	(2,447)	3	(18,925)
Improvements Other than Buildings	(11,828)	(1,737)	(8)	(13,573)	(1,514)	(10)	(15,097)
Infrastructure	(39,613)	(2,246)	(26)	(41,885)	(2,550)	50	(44,385)
Intangible Assets (A)				-	(1,957)	(22,884)	A (24,841)
Total Accumulated Depreciation/ Amortization	(1,207,617)	(90,938)	18,106	(1,280,449)	(103,449)	(3,945)	(1,387,843)
Total Capital Assets, Net	\$ 1,548,794	\$ 386,183	\$ (170,541)	\$ 1,764,436	\$ 616,805	\$ (254,706)	\$ 2,126,535
Capital Assets Summary							
Capital Assets, Non-depreciable/ Non-amortizable	\$ 326,865	\$ 263,459	\$ (171,024)	\$ 419,300	\$ 378,637	\$ (264,370)	\$ 533,567
Capital Assets, Depreciable/ Amortizable	2,429,546	213,662	(17,623)	2,625,585	341,617	13,609	2,980,811
Total Cost of Capital Assets	2,756,411	477,121	(188,647)	3,044,885	720,254	(250,761)	3,514,378
Less Accumulated Depreciation/ Amortization	(1,207,617)	(90,938)	18,106	(1,280,449)	(103,449)	(3,945)	(1,387,843)
Total Capital Assets, Net	\$ 1,548,794	\$ 386,183	\$ (170,541)	\$ 1,764,436	\$ 616,805	\$ (254,706)	\$ 2,126,535

A— With the implementation of GASB 51, intangible assets and the related accumulated amortization are now included in Capital Assets. On July 1, 2009, OUS recorded net intangibles of \$12,529,000 relating to this implementation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2010	June 30, 2009
Services and Supplies	\$ 88,853	\$ 97,268
Accrued Interest	23,576	23,128
Salaries and Wages	15,890	14,950
Payroll Related Expenses	4,933	4,472
Contract Retainage Payable	8,085	7,959
Matured Bonds, COPs and Interest Payable	2,037	2,195
Other	810	2
	<u>\$ 144,184</u>	<u>\$ 149,974</u>

7. OPERATING LEASES

A. RECEIVABLES/REVENUES

OUS receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was \$6,507,000 and \$7,180,000 for the years ended June 30, 2010 and 2009, respectively. The original cost of assets leased, net of depreciation, was \$45,879,000 and \$20,483,000 for the years ended June 30, 2010 and 2009, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2010 were (in thousands):

For the year ending June 30,	
2011	\$ 6,172
2012	4,922
2013	3,550
2014	2,246
2015	1,852
2016-2020	8,233
2021-2025	5,607
2026-2030	6,491
2031-2035	6,002
2036-2040	3,506
2041-2045	1,101
2046-2050	687
2051-2055	245
Total Minimum Operating Lease Revenue	<u>\$ 50,614</u>



B. PAYABLES/EXPENSES

OUS leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were \$13,920,000 and \$12,503,000 for the years ended June 30, 2010 and 2009, respectively. Minimum future lease payments on operating leases at June 30, 2010 were (in thousands):

For the year ending June 30,	
2011	\$ 11,172
2012	9,547
2013	9,407
2014	7,925
2015	7,270
2016-2020	29,549
2021-2025	20,632
2026-2030	2,435
2031-2035	977
2036-2040	5
Total Minimum Operating Lease Payments	<u>\$ 98,919</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

8. LONG-TERM LIABILITIES

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

	Balance June 30, 2009			Balance June 30, 2010		Amounts due within one year	Long-term Portion
		Additions	Reductions				
Long-Term Debt							
General Obligation Bonds XI-F(1)	\$ 946,099	\$ 232,330	\$ (75,190)	\$ 1,103,239	\$ 30,667	\$ 1,072,572	
General Obligation Bonds XI-G	317,795	50,511	(9,626)	358,680	10,733	347,947	
Oregon Department of Energy Loans (SELP)	27,093	32,077	(1,844)	57,326	2,572	54,754	
Certificates of Participation (COPs)	89,006	32,262	(7,247)	114,021	8,384	105,637	
Lottery Bonds	91,237		(3,082)	88,155	2,746	85,409	
Capital Leases	132	643	(79)	696	97	599	
Arbitrage	684	17	(128)	573	386	187	
Other Notes Payable	20		(7)	13	13	-	
Total Long-Term Debt	1,472,066	347,840	(97,203)	1,722,703	55,598	1,667,105	
Other Noncurrent Liabilities							
Compensated Absences	44,856	45,043	(44,856)	45,043	41,254	3,789	
Other Postemployment Benefits	10,111	1,943		12,054		12,054	
Deferred Compensation		11,085		11,085	1,385	9,700	
Employee Termination Liabilities		5,790	(1,324)	4,466	1,115	3,351	
Deferred Revenue		2,000	(21)	1,979	100	1,879	
Early Retirement Liability	383	47	(119)	311	126	185	
Total Other Noncurrent Liabilities	55,350	65,908	(46,320)	74,938	43,980	30,958	
Total Long-Term Liabilities	\$ 1,527,416	\$ 413,748	\$ (143,523)	\$ 1,797,641	\$ 99,578	\$ 1,698,063	

	Balance June 30, 2008			Balance June 30, 2009		Amounts due within one year	Long-term Portion
		Additions	Reductions				
Long-Term Debt							
General Obligation Bonds XI-F(1)	\$ 898,292	\$ 94,712	\$ (46,905)	\$ 946,099	\$ 35,386	\$ 910,713	
General Obligation Bonds XI-G	246,517	84,080	(12,802)	317,795	9,672	308,123	
Oregon Department of Energy Loans (SELP)	18,694	10,035	(1,636)	27,093	1,691	25,402	
Certificates of Participation (COPs)	22,094	71,131	(4,219)	89,006	7,229	81,777	
Lottery Bonds	94,347		(3,110)	91,237	3,083	88,154	
Capital Leases	113	121	(102)	132	63	69	
Arbitrage	1,137	5	(458)	684	7	677	
Other Notes Payable	27		(7)	20	8	12	
Total Long-Term Debt	1,281,221	260,084	(69,239)	1,472,066	57,139	1,414,927	
Other Noncurrent Liabilities							
Compensated Absences	41,018	44,856	(41,018)	44,856	43,610	1,246	
Other Postemployment Benefits	5,150	4,961		10,111		10,111	
Early Retirement Liability	543		(160)	383	135	248	
Total Other Noncurrent Liabilities	46,711	49,817	(41,178)	55,350	43,745	11,605	
Total Long-Term Liabilities	\$ 1,327,932	\$ 309,901	\$ (110,417)	\$ 1,527,416	\$ 100,884	\$ 1,426,532	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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

For the Year Ending June 30,	General Obligation Bonds		SELP	COPs	Lottery Bonds	Capital Leases	Other Borrowings	Total Payments	Principal	Interest
	XI-F(1)	XI-G								
2011	\$ 77,236	\$ 24,713	\$ 5,725	\$ 12,734	\$ 6,484	\$ 149	\$ 374	\$ 127,415	\$ 44,516	\$ 82,899
2012	88,683	26,309	5,714	12,415	6,476	115	212	139,924	55,004	84,920
2013	88,169	26,331	5,560	11,808	6,481	97		138,446	54,650	83,796
2014	87,103	26,402	5,349	10,456	7,524	94		136,928	56,254	80,674
2015	83,333	26,381	5,234	8,930	8,881	91		132,850	56,716	76,134
2016-2020	411,210	130,201	24,105	37,532	40,315	419		643,782	301,309	342,473
2021-2025	360,346	122,498	20,224	32,657	34,694			570,419	334,869	235,550
2026-2030	316,931	106,746	18,719	25,854	14,705			482,955	337,188	145,767
2031-2035	236,389	66,806	2,322	7,860				313,377	240,933	72,444
2036-2040	142,473	35,261						177,734	159,740	17,994
Accreted Interest									62,677	(62,677)
									\$ 1,703,856	\$ 1,159,974
Total Future Debt Service	1,891,873	591,648	92,952	160,246	125,560	965	586	2,863,830		
Less: Interest Component of Future Payments	(800,819)	(233,413)	(35,626)	(50,320)	(39,527)	(269)		(1,159,974)		
Principal Portion of Future Payments	1,091,054	358,235	57,326	109,926	86,033	696	586	1,703,856		
Adjusted by:										
Unamortized Bond Premiums	25,198	4,719		4,095	2,413			36,425		
Deferred Gain on Refunding	(13,013)	(4,274)			(291)			(17,578)		
Total Long-Term Debt	\$ 1,103,239	\$ 358,680	\$ 57,326	\$ 114,021	\$ 88,155	\$ 696	\$ 586	\$ 1,722,703		

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 or related projects/activities. OUS policy requires the establishment and maintenance of sinking funds and those funds are included in Cash and Cash Equivalents. See "Note 8. Long-term Liabilities, H. Defeased Debt" for information relating to debt issued to refund existing debt. XI-F(1) bonds, with effective yields ranging from 1.2 percent to 7.3 percent, are due serially through 2040.

During the fiscal year ended June 30, 2010, OUS issued bonded indebtedness as follows:

- XI-F(1) Taxable and Tax Exempt Bond Series 2010 ABC, \$224,835,000, average rate of 3.9 percent for capital construction and refunding due serially through 2040.

During the fiscal year ended June 30, 2009, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bond Series 2009 A, \$85,685,000, effective rate of 4.8 percent for capital construction and refunding due serially through 2039.

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. See "Note 8. Long-term Liabilities, H. Defeased Debt" for information relating to debt issued to refund existing debt.

XI-G bonds, with effective yields ranging from 1.2 percent to 7.0 percent, are due serially through 2040.

During the fiscal year ended June 30, 2010, OUS issued bonded indebtedness as follows:

- XI-G Taxable and Tax Exempt Bonds Series 2010 DE, \$52,765,000, average rate of 4.7 percent for capital construction and refunding due serially through 2040.

During the fiscal year ended June 30, 2009, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bonds Series 2008 B, \$31,195,000, effective rate of 4.4 percent for capital construction and refunding due serially through 2039.
- XI-G Tax Exempt Bonds Series 2009 B, \$50,485,000, effective rate of 4.7 percent for capital construction and refunding due serially through 2039.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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 6.7 percent, are due through 2032.

D. CERTIFICATES OF PARTICIPATION

Certificates of Participation (COPs) are issued to finance certain equipment, computer software purchases and construction projects. OUS makes 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 .5 percent to 6.2 percent, are due through fiscal year 2035.

During the fiscal year ended June 30, 2010, OUS issued COPs as follows:

- Series 2010 AB, \$28,955,000, effective rate of 4.1 percent for technology projects and construction due serially through 2035.
- Series 2009 C, \$2,675,000, effective rate of 3.9 percent for technology projects and construction due serially through 2024.

During the fiscal year ended June 30, 2009, OUS issued COPs as follows:

- Series 2008 A, \$7,400,000, effective rate of 3.6 percent for technology projects and construction due serially through 2018.
- Series 2009 AB, \$60,485,000, effective rate of 4.3 percent for technology projects and construction due serially through 2029.

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 2.5 percent to 5.3 percent, are due through fiscal year 2028.

In fiscal years 2010 and 2009, the Oregon State Lottery issued no lottery bonds on behalf of OUS.

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, 2010 and 2009 was \$573,000 and \$684,000, 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 1995 Oregon Legislature, 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 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, 2010 and 2009, long-term debt of OUS that relates to OHSU was \$24,153,000 and \$27,388,000, respectively.

H. DEFEASED DEBT

During the year ended June 30, 2010, OUS issued \$37,595,000 in XI-F(1) bonds with an average interest rate of 4.8 percent to refund \$39,515,000 in XI-F(1) bonds with an average interest rate of 4.7 percent. The net proceeds of the bonds were \$41,406,000 (after bond premium of \$1,745,000 and payment of \$205,000 in underwriting costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$1,239,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 23 years by \$3,594,000 and resulted in an economic gain of \$2,581,000.

During the year ended June 30, 2010, OUS issued \$5,025,000 in XI-G bonds with an average interest rate of 5.0 percent to refund \$5,455,000 in XI-G bonds with an average interest rate of 4.8 percent. The net proceeds of the bonds were \$5,568,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(after bond premium of \$575,000 and payment of \$32,000 in underwriting costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$132,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 18 years by \$624,000 and resulted in an economic gain of \$418,000.

During the year ended June 30, 2009, OUS issued \$17,490,000 of XI-F(1) bonds with an average interest rate of 4.8 percent to refund \$18,300,000 in XI-F(1) bonds with an average interest rate of 4.7 percent. The net proceeds of the XI-F(1) bonds were \$18,640,000 (after bond premium of \$1,280,000 and payment of \$130,000 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 \$338,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next nine years by \$1,087,000 and resulted in an economic gain of \$798,000.

During the year ended June 30, 2009, OUS issued \$4,225,000 of XI-G bonds with an average interest rate of 4.1 percent to refund \$4,085,000 in XI-G bonds with an average interest rate of 4.9 percent. The net proceeds of the XI-G bonds were \$4,241,000 (after net premium of \$58,000 and payment of \$42,000 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 \$96,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 10 years by \$171,000 and resulted in an economic gain of \$128,000.

In prior years, OUS and OHSU defeased various bond issues by placing funds in an irrevocable trust to provide for all future debt service payments of the defeased bonds. 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 \$184,294,000 at June 30, 2010 and \$242,404,000 at June 30, 2009 of which \$47,000 and \$96,000, 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 \$969,000 and \$326,000 as of June 30, 2010 and 2009, respectively. Accumulated depreciation of leased equipment totaled \$193,000 and \$148,000 for June 30, 2010 and 2009, respectively.

The lease purchase (capital lease) contracts run through fiscal year 2020. The capital leases are recorded at the present value of the minimum future lease payments at the inception date. Interest rates on capitalized leases vary from 1.2 percent to 13.4 percent with a weighted average interest rate of 7.8 percent.

J. DEFERRED COMPENSATION

OUS has a Section 415(m) excess benefit plan at one university. Section 415(m) plans are unfunded plans used as a means of deferring taxation on regular pension plan contributions by public employees in excess of the limitations otherwise imposed on the OUS 403(b) plan. The 415(m) plan is offered to highly compensated employees whose contributions would otherwise be limited by Internal Revenue Code Section 415.

K. EMPLOYMENT TERMINATION

OUS has severance agreements with three former employees relating to early termination of their employment contracts. The future payout of these liabilities range from three to eight years. This liability was calculated using a discounted present value of expected future benefit payments, with a discount rate of 3.4 to 3.8 percent.

L. 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, 2010, 13 retirees were participating in the health and benefits option of this plan.

Early retirement liabilities comprised \$126,000 and \$135,000 in Current Portion of Long-Term Liabilities and \$185,000 and \$248,000 in Long-Term Liabilities as of June 30, 2010 and 2009, respectively. This liability was calculated using a discounted present value of expected future benefit payments, with a discount rate of six percent.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

9. UNRESTRICTED NET ASSETS

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2010	June 30, 2009
Budgeted Operating Funds	\$ 161,389	\$ 79,757
Designated Operating Funds	27,268	25,567
Service Department Funds	3,108	2,569
Housing Funds	30,467	23,594
Intercollegiate Athletics Funds	(17,061)	(14,142)
Other Auxiliary Funds and Other Funds	43,808	32,710
Unrestricted Endowment Funds	3,129	2,560
	<u>\$ 252,108</u>	<u>\$ 152,615</u>

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows (in thousands):

	June 30, 2010	June 30, 2009
Interest Income	\$ 4,810	\$ 13,862
Net Appreciation (Depreciation) of Investments	8,985	(14,251)
Royalties and Technology Transfer Income	6,007	5,790
Endowment Income	2,645	2,626
Trust Income Distribution	(2,642)	(2,698)
Dividend Income	2	2
Other	126	-
	<u>\$ 19,933</u>	<u>\$ 5,331</u>

11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement 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, 2010	June 30, 2009
Compensation and Benefits	\$ 1,276,719	\$ 1,255,837
Services and Supplies	456,852	465,293
Scholarships and Fellowships	121,151	99,941
Depreciation and Amortization	103,449	90,938
Other Expenses	4,542	3,926
	<u>\$ 1,962,713</u>	<u>\$ 1,915,935</u>

12. GOVERNMENT APPROPRIATIONS

Government appropriations comprised the following (in thousands):

	June 30, 2010			
	General Operations	Debt Service	Capital Construc- tion	Total
General Fund	\$ 337,852	\$ 31,455	\$ -	\$ 369,307
SFSF (1)	30,000			30,000
Lottery Funding	5,261	6,034		11,295
Harvest Tax	2,455			2,455
Total State	<u>375,568</u>	<u>37,489</u>	<u>-</u>	<u>413,057</u>
Federal Appropriations	9,099			9,099
County Appropriations	6,368			6,368
Total Appropriations	<u>\$ 391,035</u>	<u>\$ 37,489</u>	<u>\$ -</u>	<u>\$ 428,524</u>

	June 30, 2009			
	General Operations	Debt Service	Capital Construc- tion	Total
General Fund	\$ 323,726	\$ 21,548	\$ 11,718	\$ 356,992
SFSF (1)	55,636			55,636
Lottery Funding	6,840	4,207		11,047
Harvest Tax	3,030			3,030
Total State	<u>389,232</u>	<u>25,755</u>	<u>11,718</u>	<u>426,705</u>
Federal Appropriations	8,169			8,169
County Appropriations	5,266			5,266
Total Appropriations	<u>\$ 402,667</u>	<u>\$ 25,755</u>	<u>\$ 11,718</u>	<u>\$ 440,140</u>

(1) OUS's allocation of State Fiscal Stabilization Funds (SFSF). SFSF were provided to the State of Oregon by the Federal Government as one component of the American Recovery and Reinvestment Act. The State of Oregon appropriated the SFSF funds to OUS as part of the 2009-11 biennial appropriation to fund OUS.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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) as required by Chapters 238 and 238A of the 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 but before August 29, 2003 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 rate of 6 percent has been paid by the employer. The employer contribution rate for Tier One and Two was 2.06 percent and 6.54 percent for the fiscal years ended 2010 and 2009, respectively.

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 and is currently at a rate of 5.95 percent. Payroll assessments for the fiscal years ended June 30, 2010 and 2009 were \$27,621,000 and \$26,819,000, 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 28, 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. Beginning July 1, 1979, the employee's contribution rate of 6 percent has been paid by the employer, except for one union at PSU where employees self pay. The employer contribution rate for OPSRP was 2.84 percent and 8.03 percent for the fiscal years ended 2010 and 2009, respectively.

PERS members as of January 1, 2004 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 OPSRP. 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, 2007. The valuation included projected payroll

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

growth at 3.75 percent. 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 actuarial accrued liability at December 31, 2008, for PERS and OPSRP, determined through an actuarial valuation performed as of that date, was \$53.9 billion and \$336.8 million, respectively. PERS and OPSRP net assets available for benefits on that date (valued at market) were \$38.1 billion and \$270.5 million, respectively. Information for OUS as a stand-alone entity is not available.

The System issues a separate, publicly available financial report that contains audited financial statements and required supplementary information. The report includes ten-year historical trend information showing the progress made in accumulating sufficient assets to pay benefits when due. 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/2009_cafr.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, 2010 and 2009 were \$10,761,000 and \$31,512,000, 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 multiple 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:

	2010	2009
ORP Tier One	11.89%	16.01%
ORP Tier Two	11.89%	16.01%
OPSRP Equivalent	5.89%	5.82%

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. This plan was closed to new enrollment at the time the ORP started in 1996.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Summary of Pension Payments

OUS total payroll for the year ended June 30, 2010 was \$872,644,000, of which \$707,392,000 was subject to retirement contributions. The following schedule lists payments made by OUS to pension plans for the fiscal year (dollars in thousands):

	June 30, 2010			
	Employer Contri- bution	As a % of Covered Payroll	Employee Contri- bution	As a % of Covered Payroll
PERS/OPSRP	\$ 10,761	1.52%	\$ 27,597	3.90%
ORP	21,002	2.97%	13,630	1.93%
TIAA-CREF	244	0.03%	244	0.03%
Federal	424	0.06%	156	0.02%
FERS - TSP	119	0.02%	335	0.05%
	\$ 32,550	4.60%	\$ 41,962	5.93%

Of the employee share, the employer paid \$27,319,000 of PERS/OPSRP, \$13,582,000 of ORP, and \$244,000 of TIAA-CREF during the fiscal year ended June 30, 2010. The federal contributions of \$156,000 represent FERS and CSRS employees, and the \$335,000 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 2010.

OUS total payroll for the year ended June 30, 2009 was \$848,772,000, of which \$681,940,000 was subject to retirement contributions. The following schedule lists payments made by OUS to pension plans for the fiscal year (dollars in thousands):

	June 30, 2009			
	Employer Contri- bution	As a % of Covered Payroll	Employee Contri- bution	As a % of Covered Payroll
PERS/OPSRP	\$ 31,512	4.62%	\$ 26,851	3.94%
ORP	25,784	3.78%	13,067	1.91%
TIAA-CREF	245	0.04%	245	0.04%
Federal	432	0.06%	161	0.02%
FERS - TSP	122	0.02%	331	0.05%
	\$ 58,095	8.52%	\$ 40,655	5.96%

Of the employee share, the employer paid \$26,638,000 of PERS/OPSRP, \$13,024,000 of ORP, and \$245,000 of TIAA-CREF during the fiscal year ended June 30, 2009. The federal contributions of \$161,000 represent FERS and CSRS employees, and the \$331,000 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 2009.

14. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. OUS participates in a defined benefit postemployment healthcare plan, administered by the Public Employees Benefit Board (PEBB), which offers medical, dental and vision benefits to eligible retired state employees and their beneficiaries. The PEBB plan is an agent multiple-employer postemployment healthcare plan. Chapter 243 of the ORS assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. As the administrator of the PEBB Plan, PEBB has the authority to determine postretirement benefit increases and decreases. PEBB does not issue a separate, publicly available financial report.

The PEBB plan allows OUS employees retiring under PERS or OPSRP to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. This plan creates an “implicit rate subsidy” because the healthcare insurance premiums paid by OUS for its employees is based on a blended premium of both employees and retirees combined, which is a higher premium than would have been paid for employees alone.

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to OUS’s share, estimated at 26 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2010.

Funding Policy. OUS’s current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2010 and 2009, OUS paid healthcare insurance premiums of \$163,612,000 and \$152,902,000, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be \$2,145,000 and \$4,023,000 for the fiscal years ended 2010 and 2009, respectively.

Annual OPEB Cost and Net OPEB Obligation. OUS’s annual OPEB expense is calculated based on OUS’s annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over thirty years. The following table shows the components of OUS’s annual OPEB expense for the year, the amount actually contributed to the plan, and changes in OUS’s net OPEB obligation (in thousands):

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	June 30, 2010
Annual Required Contribution	\$ 4,259
Interest on Net OPEB Obligation	409
Adjustment to Annual Required Contribution	(580)
Annual OPEB Cost	4,088
Contributions Made	(2,145)
Increase in Net OPEB Obligation	1,943
Net OPEB Obligation - Beginning of Year	10,111
Net OPEB Obligation - End of Year	\$ 12,054

The OUS annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended 2010 and 2009 were as follows (dollars in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2009	\$ 8,984	45%	\$	4,961
2010	4,088	48%		2,145

Funding Status and Funding Progress. The funded status of the OUS OPEB plan for the current year was as follows (dollars in thousands):

	June 30, 2010
Actuarial Accrued Liabilities	\$ 41,250
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$ 41,250
Funded Ratio	0.00%
Covered Payroll (active plan members)	\$ 660,903
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	6.24%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Accrual Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between OUS and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Valuation Date	7/1/2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Amortization Period	30 Years (open)
Investment Rate of Return	4%
Projected Salary Increases	N/A
Initial Healthcare Inflation Rates	8.4% (medical), 5.8% (dental)
Ultimate Healthcare Inflation Rates	4.5% (medical), 4.5% (dental)

Required Supplementary Information (dollars in thousands)

Schedule of Funding Progress						
		Actuarial	Unfunded	Funded		UAAL as a
Fiscal Year Ended	Value of Assets (a)	Liability (AAL)- Entry Age (b)	AAL (UAAL) (b-a)	Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
6/30/2008	\$ -	\$ 81,908	\$ 81,908	0.0%	\$ 535,865	15.3%
6/30/2009	-	81,908	81,908	0.0%	535,865	15.3%
6/30/2010	-	41,250	41,250	0.0%	660,903	6.2%

15. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others, for which OUS is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2010 and 2009, was \$6,360,000 and \$4,882,000, respectively.

16. RISK FINANCING

As a state agency, OUS participates in the state insurance fund managed by the State of Oregon Risk Management Division of the Department of Administrative Services (Division).

By participating, OUS transfers the following risks to the state insurance fund:

- Direct physical loss or damage to OUS property
- Tort liability claims brought against OUS, its officers, employees or agents
- Workers' compensation
- Employee dishonesty

The fund is backed by commercial policies, an excess property policy with a limit of \$400 million, and a blanket commercial excess bond with a limit of \$20 million. The Division purchases commercial insurance for specific insurance needs

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

not covered by the fund. The amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

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

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

17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects authorized by the Oregon State Legislature totaled approximately \$437,795,000 and \$447,274,000 at June 30, 2010 and 2009, respectively. These commitments will be primarily funded from gifts and grants, bond proceeds, and other OUS funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2010.

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, 2010.

Construction Commitments as of June 30, 2010

(In thousands)

Campus/Project Description	Total Commitment	Completed to Date	Outstanding Commitment
Eastern Oregon University:			
Inlow Hall Upgrade	\$ 6,339	\$ 4,278	\$ 2,061
Oregon Institute of Technology:			
Geothermal Power Plant	2,178	5	2,173
Oregon State University:			
Linus Pauling Institute	62,932	20,711	42,221
INTO-OSU Living Learning Ctr	52,000	5,169	46,831
Nash Hall Renovation	14,215	7,912	6,303
Capital Renovations	11,582	10,142	1,440
Education Hall Remodel	8,682	1,337	7,345
Animal Research Pavilion	7,240	141	7,099
Intramural Sports Complex	7,450	715	6,735
New Energy Center	6,500	5,530	970
Reser Stadium	6,060	2,017	4,043
Student Success Center	5,338	1,012	4,326
Hallie Ford Center	5,000	1,937	3,063
HP Building 11 Renovation	4,750	1,567	3,183
Arnold Dining	4,500	794	3,706
McAlexander Field House	3,250	375	2,875
Poling Remodel	3,000	284	2,716
Natl Wave Energy Research Ctr	3,000	501	2,499
Owen Hall Remodel	1,400	604	796
Portland State University:			
Science Buildings I and II	41,337	24,010	17,327
Lincoln Hall Renovation	29,813	23,025	6,788
Market Center Acquisition	24,000	60	23,940
Campas Loop Maintenance	15,635	8,451	7,184
Capital Repair	10,899	7,929	2,970
NW Engineering Center	4,167	2,661	1,506
Office of Information Technology	3,589	1,450	2,139
University of Oregon:			
Basketball Arena Project	192,637	128,890	63,747
Central Power Station Addition	70,780	51,287	19,493
Autzen Stadium Expansion	60,289	59,765	524
East Campus Residence Hall	36,100	2,983	33,117
Lewis Integrative Science Building	30,500	1,206	29,294
Gilbert Hall Remodel	28,543	27,295	1,248
Resident Hall Building Repairs	19,303	18,756	547
Underground Parking Structure	16,600	14,032	2,568
Alumni Center	15,950	10,029	5,921
Erb Memorial Union Renovation	7,671	4,566	3,105
Fenton Hall Renovation	4,961	784	4,177
Barnhart Hall Upgrades	4,600	40	4,560
Living Learning Center	3,775	2,400	1,375
Riverfront Research Park	1,195	192	1,003
Western Oregon University:			
Health Wellness Center	21,151	4,430	16,721
Live and Learn Residence Hall	19,500	14,545	4,955
Math/Nursing Facility	4,005	3,016	989
Humanities and Social Science Bldg	3,736	2,097	1,639
Classroom and Office Building	3,000	1,231	1,769
Projects with <\$500 thousand remaining to be spent			
	246,237	242,120	4,117
Project Budgets <\$1 million			
	126,770	102,083	24,687
	<u>\$ 1,262,159</u>	<u>\$ 824,364</u>	<u>\$ 437,795</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

18. 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.

The financial activity is reported for the years ended June 30, 2010 and 2009, except for Eastern Oregon University Foundation reporting for December 31, 2009 and 2008.

During the years ended June 30, 2010 and 2009, gifts of \$151,293,000 and \$142,973,000, 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 (GAAP); Oregon Tech Foundation financial statements contained a gift of privately held stock that could not be valued by the report date. The effect of these GAAP departures are not material to the total component units.

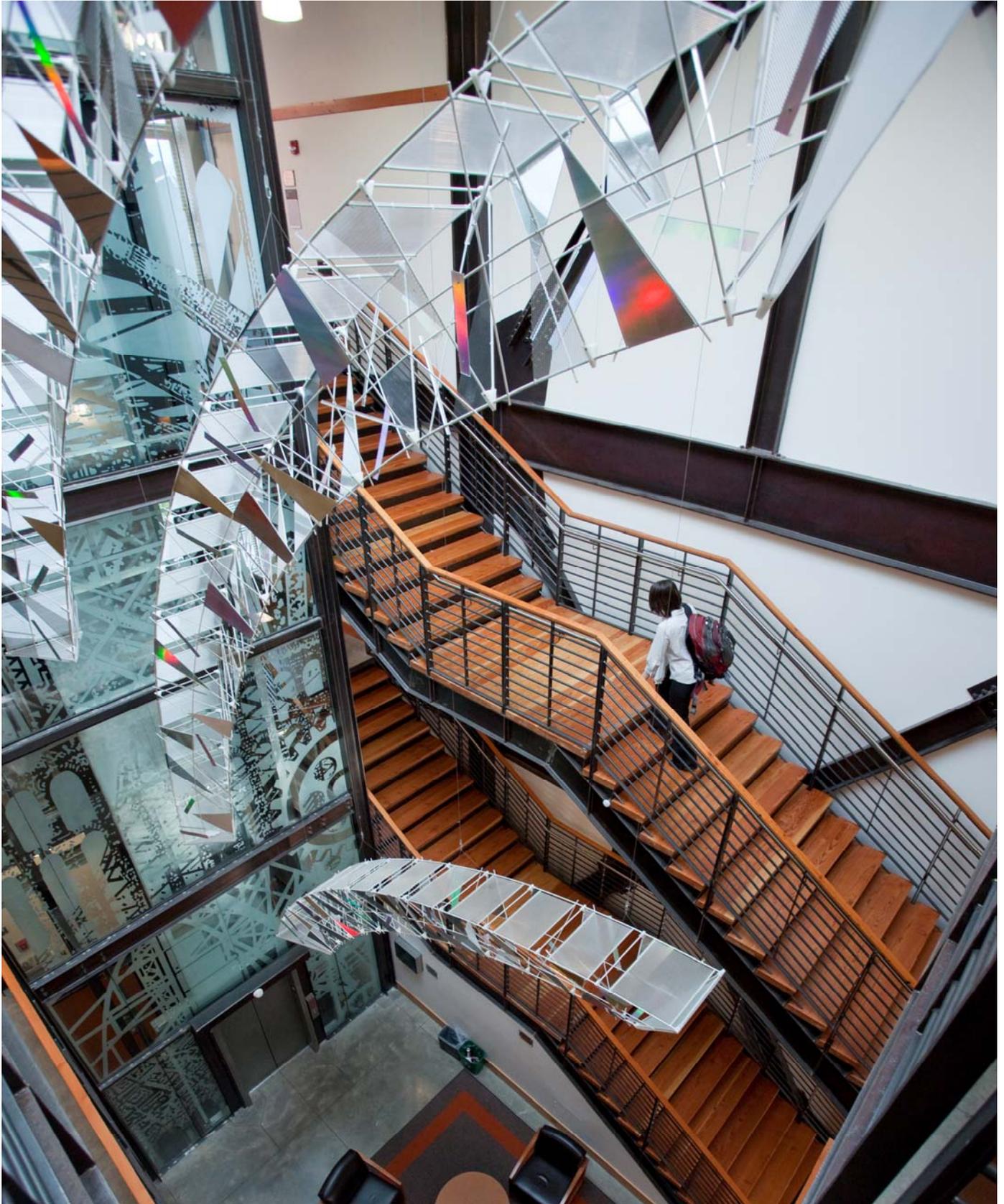
Please see the combining financial statements for the OUS component units on the following pages.

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, 2125 SW Fourth Avenue, Suite 510, Portland, OR 97201
- Southern Oregon University Foundation, 1250 Siskiyou Boulevard, Ashland, OR 97520-5043

- University of Oregon Foundation, 360 E. 10th, Suite 202, Eugene, OR 97401
- 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

COMPONENT UNITS

COMBINING FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2010 (in thousands)

	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	\$ 946	\$ 125	\$ 10,324
Contributions, Pledges and Grants Receivable, Net	230	3,548	47,803
Investments	4,657	16,887	394,277
Prepaid or Deferred Expenses, and Other Assets	3	157	16,099
Property and Equipment, Net	1,314		8,471
Total Assets	\$ 7,150	\$ 20,717	\$ 476,974

LIABILITIES

Accounts Payable and Accrued Liabilities		\$ 229	\$ 9,861
Accounts Payable to Universities			991
Obligations to Beneficiaries of Split-Interest Agreements		71	25,536
Deposits and Deferred Revenue	\$ 103		
Long-Term Liabilities		3,719	
Total Liabilities	\$ 103	\$ 4,019	\$ 36,388

NET ASSETS

Unrestricted (Deficit)	\$ 694	\$ 8,892	\$ (16,125)
Temporarily Restricted	3,757	2,674	176,617
Permanently Restricted	2,596	5,132	280,094
Total Net Assets	\$ 7,047	\$ 16,698	\$ 440,586

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2010 (in thousands)

REVENUES

Grants, Bequests and Gifts	\$ 509	\$ 1,089	\$ 58,447
Interest and Dividends			8,990
Investment Income (Loss), Net	617	1,387	25,770
Change in Value of Life Income Agreements		169	4,157
Other Revenues	174	21	12,726
Total Revenues	1,300	2,666	110,090

EXPENSES

General and Administrative	258	176	15,598
Development Expenses			
University Support	356	1,459	48,560
Other Expenses			6,474
Total Expenses	614	1,635	70,632
Increase In Net Assets Before Other Changes in Net Assets	686	1,031	39,458
Other Changes in Net Assets	1,492	95	
Increase In Net Assets	2,178	1,126	39,458

NET ASSETS

Beginning Balance	4,869	15,572	401,128
Ending Balance	\$ 7,047	\$ 16,698	\$ 440,586

* As of December 31, 2009

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
\$ 760	\$ 1,436	\$ 32,254	\$ 632	\$ 3,418	\$ 49,895
2,010	257	145,939	64		199,851
47,977	14,574	544,571	9,017	15,218	1,047,178
7,737	733	14,289	420		39,438
38,222	1,412		185	19	49,623
\$ 96,706	\$ 18,412	\$ 737,053	\$ 10,318	\$ 18,655	\$ 1,385,985
\$ 1,684	\$ 18	\$ 2,923			\$ 14,715
326	307	2,345			3,969
733	574	42,806	\$ 1,043		70,763
39	161	10,665			10,968
49,817	1,435	24,005			78,976
\$ 52,599	\$ 2,495	\$ 82,744	\$ 1,043	\$ -	\$ 179,391
\$ (6,475)	\$ (2,230)	\$ (6,509)	\$ 777	\$ 1,433	\$ (19,543)
20,985	2,959	342,158	1,882	16,324	567,356
29,597	15,188	318,660	6,616	898	658,781
\$ 44,107	\$ 15,917	\$ 654,309	\$ 9,275	\$ 18,655	\$ 1,206,594
\$ 11,514	\$ 1,597	\$ 78,200	\$ 771	\$ 6,672	\$ 158,799
	304	3,432	324		13,050
3,577	1,134	31,233	472	1,173	65,363
	(62)	3,775			8,039
8,713	409	2,542	262		24,847
23,804	3,382	119,182	1,829	7,845	270,098
1,467	342	5,463	130		23,434
				5,610	5,610
16,250	1,567	113,463	1,039		182,694
	404		24		6,902
17,717	2,313	118,926	1,193	5,610	218,640
6,087	1,069	256	636	2,235	51,458
					1,587
6,087	1,069	256	636	2,235	53,045
38,020	14,848	654,053	8,639	16,420	1,153,549
\$ 44,107	\$ 15,917	\$ 654,309	\$ 9,275	\$ 18,655	\$ 1,206,594

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

COMPONENT UNITS

COMBINING FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
As of June 30, 2009 (in thousands)			
ASSETS			
Cash and Cash Equivalents	\$ 960	\$ 333	\$ 5,572
Contributions, Pledges and Grants Receivable, Net	122	3,514	43,567
Investments	3,908	15,311	360,381
Prepaid or Deferred Expenses, and Other Assets	10	155	14,874
Property and Equipment, Net			8,839
Total Assets	\$ 5,000	\$ 19,313	\$ 433,233
LIABILITIES			
Accounts Payable and Accrued Liabilities		\$ 90	\$ 1,599
Accounts Payable to Universities			6,552
Obligations to Beneficiaries of Split-Interest Agreements		92	23,954
Deposits and Deferred Revenue	\$ 131		
Long-Term Liabilities		3,559	
Total Liabilities	\$ 131	\$ 3,741	\$ 32,105
NET ASSETS			
Unrestricted (Deficit)	\$ 371	\$ 8,181	\$ (22,939)
Temporarily Restricted	1,686	2,512	159,201
Permanently Restricted	2,812	4,879	264,866
Total Net Assets	\$ 4,869	\$ 15,572	\$ 401,128
STATEMENTS OF ACTIVITIES			
For the Year Ended June 30, 2009 (in thousands)			
REVENUES			
Grants, Bequests and Gifts	\$ 2,045	\$ 939	\$ 58,380
Interest and Dividends			8,913
Investment Income (Loss), Net	(844)	(2,096)	(99,138)
Change in Value of Life Income Agreements		(220)	(6,172)
Other Revenues	98	27	12,088
Total Revenues	1,299	(1,350)	(25,929)
EXPENSES			
General and Administrative	114	140	16,722
Development Expenses			
University Support	449	3,203	75,509
Other Expenses			6,975
Total Expenses	563	3,343	99,206
Increase (Decrease) in Net Assets	736	(4,693)	(125,135)
NET ASSETS			
Beginning Balance	4,133	20,265	526,263
Ending Balance	\$ 4,869	\$ 15,572	\$ 401,128

* As of December 31, 2008

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
\$ 567	\$ 1,868	\$ 47,117	\$ 536	\$ 1,383	\$ 58,336
3,193	342	185,853	477		237,068
40,871	13,152	467,921	8,025	15,019	924,588
7,798	680	13,833	101		37,451
39,186	1,412		550	18	50,005
\$ 91,615	\$ 17,454	\$ 714,724	\$ 9,689	\$ 16,420	\$ 1,307,448
\$ 1,825	\$ 347	\$ 7,460			\$ 11,321
386		412			7,350
835	466	37,543	\$ 1,050		63,940
28	158	10,572			10,889
50,521	1,635	4,684			60,399
\$ 53,595	\$ 2,606	\$ 60,671	\$ 1,050	\$ -	\$ 153,899
\$ (8,824)	\$ (2,959)	\$ (127)	\$ 749	\$ 1,515	\$ (24,033)
18,616	2,869	344,356	1,592	14,012	544,844
28,228	14,938	309,824	6,298	893	632,738
\$ 38,020	\$ 14,848	\$ 654,053	\$ 8,639	\$ 16,420	\$ 1,153,549
\$ 9,927	\$ 2,772	\$ 78,481	\$ 1,659	\$ 6,507	\$ 160,710
	531	1,252			10,696
(1,079)	(5,011)	(73,212)	(668)	752	(181,296)
	(58)	(13,415)			(19,865)
1,457	575	3,477	215		17,937
10,305	(1,191)	(3,417)	1,206	7,259	(11,818)
1,495	409	5,663	136		24,679
				5,573	5,573
16,758	1,564	80,179	1,255		178,917
2,713	306				9,994
20,966	2,279	85,842	1,391	5,573	219,163
(10,661)	(3,470)	(89,259)	(185)	1,686	(230,981)
48,681	18,318	743,312	8,824	14,734	1,384,530
\$ 38,020	\$ 14,848	\$ 654,053	\$ 8,639	\$ 16,420	\$ 1,153,549

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2010 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 7,102	\$ 12,250	\$ 145,857
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	5,274	3,007	70,512
Accounts Receivable from Component Units	-	202	991
Notes Receivable, Net	339	581	5,198
Inventories	494	669	1,590
Prepaid Expenses	49	115	1,613
Total Current Assets	13,258	16,824	225,761
Noncurrent Assets			
Cash and Cash Equivalents	707	4,007	151,465
Investments	2,103	217	28,318
Notes Receivable, Net	1,527	2,613	23,365
Due From Other OUS Funds and Entities	-	-	50
Capital Assets, Net of Accumulated Depreciation	58,026	70,875	618,697
Total Noncurrent Assets	62,363	77,712	821,895
TOTAL ASSETS	\$ 75,621	\$ 94,536	\$ 1,047,656
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 2,247	\$ 1,887	\$ 35,361
Deposits	581	435	3,234
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,794	1,459	22,152
Deferred Revenue	1,785	1,754	40,663
Total Current Liabilities	6,407	5,535	101,410
Noncurrent Liabilities			
Long-Term Liabilities	35,084	28,659	207,740
Due to Other OUS Funds and Entities	13,747	28,035	235,610
Total Noncurrent Liabilities	48,831	56,694	443,350
TOTAL LIABILITIES	\$ 55,238	\$ 62,229	\$ 544,760
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 9,672	\$ 18,142	\$ 287,406
Restricted For:			
Nonexpendable Endowments	554	-	2,789
Expendable:			
Gifts, Grants, and Contracts	1,159	470	42,005
Student Loans	1,979	3,931	32,849
Capital Projects	1,393	979	45,392
Debt Service	18	21	201
Unrestricted Net Assets	5,608	8,764	92,254
TOTAL NET ASSETS	\$ 20,383	\$ 32,307	\$ 502,896

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 69,953	\$ 12,115	\$ 126,214	\$ 21,514	\$ 90,594		\$ 485,599
-	-	-	-	366,704		366,704
47,773	6,492	43,852	7,312	6,942		191,164
264	-	9,873	-	-		11,330
1,552	745	3,906	774	3,148		16,243
406	592	2,078	1,053	-		6,882
1,621	15	3,317	182	10,170	\$ (526)	16,556
121,569	19,959	189,240	30,835	477,558	(526)	1,094,478
59,878	1,215	224,141	30,208	26,421		498,042
2,067	2,828	23,420	57	2,150		61,160
6,973	3,347	18,707	3,478	21,004		81,014
-	-	-	-	907,519	(907,569)	-
411,324	79,088	813,358	73,440	1,727		2,126,535
480,242	86,478	1,079,626	107,183	958,821	(907,569)	2,766,751
\$ 601,811	\$ 106,437	\$ 1,268,866	\$ 138,018	\$ 1,436,379	\$ (908,095)	\$ 3,861,229
\$ 27,861	\$ 2,214	\$ 34,542	\$ 10,385	\$ 29,687		\$ 144,184
3,650	856	5,198	949	8,157		23,060
-	-	-	-	366,704		366,704
10,562	2,340	16,630	1,753	42,888		99,578
26,821	2,751	40,431	2,117	50	\$ (526)	115,846
68,894	8,161	96,801	15,204	447,486	(526)	749,372
192,435	44,183	201,033	39,333	949,596		1,698,063
131,893	15,093	437,373	45,818	-	(907,569)	-
324,328	59,276	638,406	85,151	949,596	(907,569)	1,698,063
\$ 393,222	\$ 67,437	\$ 735,207	\$ 100,355	\$ 1,397,082	\$ (908,095)	\$ 2,447,435
\$ 143,212	\$ 20,597	\$ 367,214	\$ 17,386	\$ (46,064)		\$ 817,565
1,285	1,812	7,391	2	2,109		15,942
2,135	935	29,447	1,341	1,085		78,577
8,951	4,574	26,447	6,196	8		84,935
(7,825)	4,145	47,848	(1,838)	1,602		91,696
5	50	22	30	72,624		72,971
60,826	6,887	55,290	14,546	7,933		252,108
\$ 208,589	\$ 39,000	\$ 533,659	\$ 37,663	\$ 39,297	\$ -	\$ 1,413,794

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

For The Year Ended June 30, 2010 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 13,407	\$ 14,089	\$ 152,581
Federal Grants and Contracts	9,211	6,994	176,390
State and Local Grants and Contracts	1,516	1,920	14,262
Nongovernmental Grants and Contracts	34	2,836	22,605
Educational Department Sales and Services	160	216	27,177
Auxiliary Enterprises Revenues, Net	6,201	8,245	91,873
Other Operating Revenues	617	418	5,139
Total Operating Revenues	31,146	34,718	490,027
OPERATING EXPENSES			
Instruction	14,721	19,552	154,394
Research	332	181	183,725
Public Service	1,814	3,079	51,068
Academic Support	5,053	4,445	40,297
Student Services	2,166	2,262	20,570
Auxiliary Programs	7,639	8,921	104,385
Operation and Maintenance of Plant	3,418	2,440	23,802
Institutional Support	4,898	3,816	40,470
Student Aid	4,514	4,762	23,526
Other Operating Expenses	4,849	5,298	33,996
Total Operating Expenses	49,404	54,756	676,233
Operating Loss	(18,258)	(20,038)	(186,206)
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	17,764	19,481	171,644
Investment Activity	202	65	7,760
(Loss) Gain on Sale of Assets, Net	(7)	-	(150)
Interest Expense	(2,386)	(2,680)	(17,376)
Other Nonoperating Items	(178)	1,744	50,473
Net Nonoperating Revenues	15,395	18,610	212,351
Income (Loss) Before Other Nonoperating Revenues	(2,863)	(1,428)	26,145
Capital and Debt Service Appropriations	2,348	1,697	11,020
Capital Grants and Gifts	27	-	12,128
Capital Contributions	-	-	-
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,033	429	855
Total Other Nonoperating Revenues	4,408	2,126	24,003
Increase (Decrease) In Net Assets	1,545	698	50,148
NET ASSETS			
Beginning Balance	18,838	31,609	452,748
Ending Balance	\$ 20,383	\$ 32,307	\$ 502,896

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 157,411	\$ 21,811	\$ 243,054	\$ 25,558			\$ 627,911
79,794	10,407	117,012	17,890	\$ 3,292	\$ (5,864)	415,126
13,190	3,022	7,392	4,116	1,230		46,648
13,201	1,717	991	2,262	153		43,799
4,866	2,452	24,545	962	51	(27)	60,402
61,021	18,213	114,371	17,119	-		317,043
5,760	21	4,816	1,464	2,540	-	20,775
335,243	57,643	512,181	69,371	7,266	(5,891)	1,531,704
138,484	26,744	183,121	27,066	1,202		565,284
44,755	571	78,679	7,616	-	(5,282)	310,577
8,814	2,880	33,502	297	3,518		104,972
28,571	6,497	38,390	6,807	52		130,112
13,029	4,283	25,483	5,393	-		73,186
56,119	17,897	141,991	19,020	-		355,972
25,565	3,945	26,298	3,901	-		89,369
22,018	3,796	54,218	4,667	12,288	(27)	146,144
27,656	6,750	17,122	6,379	-		90,709
18,007	5,808	23,077	3,740	2,195	(582)	96,388
383,018	79,171	621,881	84,886	19,255	(5,891)	1,962,713
(47,775)	(21,528)	(109,700)	(15,515)	(11,989)	-	(431,009)
70,186	17,180	66,794	19,288	8,698		391,035
693	310	5,597	65	5,241		19,933
(664)	17	(100)	29	-		(875)
(13,275)	(2,941)	(22,837)	(3,239)	(2,161)		(66,895)
8,124	3,541	63,316	1,461	2,053		130,534
65,064	18,107	112,770	17,604	13,831	-	473,732
17,289	(3,421)	3,070	2,089	1,842	-	42,723
6,794	3,075	6,422	2,502	3,631		37,489
5,358	504	89,873	367	-		108,257
-	-	-	-	-		-
-	-	-	-	-		-
955	1,252	8,867	44	(14,435)		-
13,107	4,831	105,162	2,913	(10,804)	-	145,746
30,396	1,410	108,232	5,002	(8,962)	-	188,469
178,193	37,590	425,427	32,661	48,259		1,225,325
\$ 208,589	\$ 39,000	\$ 533,659	\$ 37,663	\$ 39,297	\$ -	\$ 1,413,794

SUPPLEMENTARY SCHEDULES

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	\$ 13,723	\$ 14,716	\$ 150,567
Grants and Contracts	8,882	11,267	212,539
Educational Department Sales and Services	147	220	27,242
Auxiliary Enterprise Operations	6,222	8,190	93,747
Student Loan Collections	367	733	4,435
Payments to Employees for Compensation and Benefits	(29,465)	(33,133)	(447,606)
Payments to Suppliers	(8,825)	(17,378)	(145,275)
Student Financial Aid	(4,798)	(4,826)	(33,569)
Student Loan Issuance and Costs	(251)	(752)	(3,441)
Other Operating Receipts	(304)	1,753	4,651
Net Cash Provided (Used) by Operating Activities	(14,302)	(19,210)	(136,710)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	17,764	19,481	171,644
Other Gifts and Private Contracts	318	1,823	46,625
Net Agency Fund Receipts (Payments)	126	(256)	331
Net Transfers from (to) Other Funds and OUS Universities	2,266	656	(1,042)
Net Cash Provided (Used) by Noncapital Financing Activities	20,474	21,704	217,558
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	-
Debt Service Appropriations	2,348	1,697	11,020
Capital Grants and Gifts	27	-	11,217
Capital Contributions	-	-	-
Bond Proceeds on Capital Debt	(380)	2,390	87,637
Sales of Capital Assets	1,345	26	4,348
Purchases of Capital Assets	(4,916)	(11,082)	(87,714)
Interest Payments on Capital Debt	(2,520)	(3,645)	(17,466)
Principal Payments on Capital Debt	(2,428)	(1,588)	(11,167)
Net Cash Used by Capital and Related Financing Activities	(6,524)	(12,202)	(2,125)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Sales (Purchases) of Investments	(820)	-	1,924
Interest on Investments and Cash Balances	85	43	5,450
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	(735)	43	7,374
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,087)	(9,665)	86,097
CASH AND CASH EQUIVALENTS			
Beginning Balance	8,896	25,922	211,225
Ending Balance	\$ 7,809	\$ 16,257	\$ 297,322

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 160,444	\$ 22,346	\$ 237,680	\$ 25,181	\$ (283)		\$ 624,374
110,646	13,340	132,075	24,226	4,569	\$ (5,864)	511,680
4,900	2,454	24,490	911	49		60,413
60,001	17,883	115,209	17,196	(1)		318,447
1,317	615	3,763	718	(1)		11,947
(239,535)	(48,630)	(397,521)	(53,154)	(9,049)		(1,258,093)
(104,774)	(21,835)	(151,572)	(17,083)	40,507	5,864	(420,371)
(28,643)	(6,818)	(33,682)	(7,299)	(1,514)		(121,149)
(1,223)	(742)	(1,613)	(742)	-		(8,764)
(16,691)	1,249	9,787	653	947		2,045
(53,558)	(20,138)	(61,384)	(9,393)	35,224	-	(279,471)
70,186	17,180	66,794	19,288	12,256		394,593
5,284	3,045	53,365	578	72		111,110
(59)	306	502	33	(7,969)		(6,986)
29,715	2,793	11,427	2,122	(47,937)		-
105,126	23,324	132,088	22,021	(43,578)	-	498,717
-	-	18	-	(18)		-
6,794	3,075	6,404	2,502	(1,735)		32,105
4,213	504	43,377	-	-		59,338
-	-	-	-	-		-
47,971	(19)	115,819	23,617	(310)		276,725
8,199	575	7,370	283	-		22,146
(92,043)	(992)	(179,712)	(25,080)	(10)		(401,549)
(9,349)	(3,390)	(29,558)	(8,219)	(5,590)		(79,737)
(9,036)	(2,506)	(9,619)	(1,788)	(6,437)		(44,569)
(43,251)	(2,753)	(45,901)	(8,685)	(14,100)	-	(135,541)
1,140	(1,005)	2,125	-	14,096		17,460
491	124	3,036	59	(850)		8,438
-	-	-	-	554		554
-	-	-	-	(554)		(554)
1,631	(881)	5,161	59	13,246	-	25,898
9,948	(448)	29,964	4,002	(9,208)	-	109,603
119,883	13,778	320,391	47,720	126,223		874,038
\$ 129,831	\$ 13,330	\$ 350,355	\$ 51,722	\$ 117,015	\$ -	\$ 983,641

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF CASH FLOWS—CONTINUED

For the Year Ended June 30, 2010 (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	\$ (18,258)	\$ (20,038)	\$ (186,206)
Adjustments to Reconcile Operating Loss to Net Cash (Used)			
Provided by Operating Activities:			
Depreciation Expense	3,091	2,997	38,832
Changes in Assets and Liabilities:			
Accounts Receivable	(890)	1,541	5,381
Notes Receivable	107	162	796
Inventories	(80)	(229)	63
Prepaid Expenses	1	(129)	1,752
Accounts Payable and Accrued Liabilities	2,201	(3,557)	12,193
Long-Term Liabilities	(724)	(50)	(3,564)
Deposits	-	4	1
Deferred Revenue	250	89	(5,958)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (14,302)	\$ (19,210)	\$ (136,710)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL			
AND RELATED FINANCING TRANSACTIONS			
Capital Assets Acquired by Incurring Capital Lease Obligations	\$ -	\$ -	\$ -
Capital Assets Acquired by Gifts in Kind	-	-	910
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	118	22	2,310

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ (47,775)	\$ (21,528)	\$ (109,700)	\$ (15,515)	\$ (11,989)		\$ (431,009)
19,170	4,243	31,168	3,685	263		103,449
1,033	62	(9,539)	(1,327)	(104)		(3,843)
429	93	9,206	(135)	-		10,658
45	202	32	(70)	-		(37)
(445)	11	(567)	13	345		981
(295)	(2,517)	(19,300)	3,995	12,733		5,453
(25,339)	(669)	27,507	(326)	34,263		31,098
(22)	17	(50)	-	-		(50)
(359)	(52)	9,859	287	(287)		3,829
\$ (53,558)	\$ (20,138)	\$ (61,384)	\$ (9,393)	\$ 35,224	\$ -	\$ (279,471)

\$ -	\$ -	\$ 643	\$ -	\$ -	\$ -	\$ 643
1,145	220	43,528	368	-	-	46,171
202	186	2,351	6	3,790	-	8,985

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2009 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 4,877	\$ 9,430	\$ 95,246
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	4,041	3,634	58,165
Accounts Receivable from Component Units	-	-	9,519
Notes Receivable, Net	359	612	5,342
Inventories	414	440	1,653
Prepaid Expenses	50	20	3,855
Total Current Assets	9,741	14,136	173,780
Noncurrent Assets			
Cash and Cash Equivalents	4,019	16,492	115,979
Investments	1,165	195	27,932
Notes Receivable, Net	1,614	2,754	24,015
Due From Other OUS Funds and Entities	-	-	-
Capital Assets, Net of Accumulated Depreciation	55,695	62,889	566,305
Total Noncurrent Assets	62,493	82,330	734,231
TOTAL ASSETS	\$ 72,234	\$ 96,466	\$ 908,011
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 1,992	\$ 6,877	\$ 26,329
Deposits	540	462	3,146
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,738	1,765	23,023
Deferred Revenue	1,535	1,643	37,241
Total Current Liabilities	5,805	10,747	89,739
Noncurrent Liabilities			
Long-Term Liabilities	47,591	54,025	365,524
Due to Other OUS Funds and Entities	-	85	-
Total Noncurrent Liabilities	47,591	54,110	365,524
TOTAL LIABILITIES	\$ 53,396	\$ 64,857	\$ 455,263
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 11,836	\$ 24,329	\$ 275,176
Restricted For:			
Nonexpendable Endowments	554	-	3,137
Expendable:			
Gifts, Grants, and Contracts	919	528	38,804
Student Loans	2,057	4,212	32,769
Capital Projects	113	(3,274)	48,991
Debt Service	14	41	413
Unrestricted Net Assets	3,345	5,773	53,458
TOTAL NET ASSETS	\$ 18,838	\$ 31,609	\$ 452,748

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 32,257	\$ 10,469	\$ 92,886	\$ 16,714	\$ 72,313		\$ 334,192
-	-	-	-	375,509		375,509
52,778	6,223	42,410	5,981	4,438		177,670
512	2	4,355	-	-		14,388
1,630	758	4,125	750	3,103		16,679
451	795	2,062	981	-		6,796
1,176	26	2,713	195	10,515		18,550
88,804	18,273	148,551	24,621	465,878		943,784
87,626	3,309	227,505	31,006	53,910		539,846
3,005	1,637	23,193	52	10,126		67,305
7,326	3,409	20,052	3,368	24,285		86,823
-	-	-	-	386	\$ (386)	-
335,718	81,500	611,045	51,249	35		1,764,436
433,675	89,855	881,795	85,675	88,742	(386)	2,458,410
\$ 522,479	\$ 108,128	\$ 1,030,346	\$ 110,296	\$ 554,620	\$ (386)	\$ 3,402,194
\$ 26,226	\$ 2,504	\$ 41,705	\$ 4,468	\$ 39,873		\$ 149,974
3,335	351	5,067	854	4,882		18,637
-	-	-	-	375,509		375,509
9,821	2,549	14,013	1,718	46,257		100,884
27,082	3,109	32,551	1,827	345		105,333
66,464	8,513	93,336	8,867	466,866		750,337
277,671	61,925	511,533	68,768	39,495		1,426,532
151	100	50	-	-	\$ (386)	-
277,822	62,025	511,583	68,768	39,495	(386)	1,426,532
\$ 344,286	\$ 70,538	\$ 604,919	\$ 77,635	\$ 506,361	\$ (386)	\$ 2,176,869
\$ 116,066	\$ 22,812	\$ 313,025	\$ 11,600	\$ (45,462)		\$ 729,382
1,285	1,812	7,388	2	2,109		16,287
2,623	1,151	43,515	654	1,825		90,019
9,436	4,774	26,286	6,074	8		85,616
9,803	2,825	6,006	3,202	4,333		71,999
161	113	11	81	78,573		79,407
38,819	4,103	29,196	11,048	6,873		152,615
\$ 178,193	\$ 37,590	\$ 425,427	\$ 32,661	\$ 48,259	\$ -	\$ 1,225,325

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

For The Year Ended June 30, 2009 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 11,953	\$ 12,936	\$ 132,258
Federal Grants and Contracts	6,676	7,860	147,561
State and Local Grants and Contracts	1,987	247	16,232
Nongovernmental Grants and Contracts	35	456	24,804
Educational Department Sales and Services	155	277	27,554
Auxiliary Enterprises Revenues, Net	5,776	7,280	87,259
Other Operating Revenues	627	488	4,936
Total Operating Revenues	27,209	29,544	440,604
OPERATING EXPENSES			
Instruction	14,300	20,584	160,264
Research	384	207	181,485
Public Service	1,922	3,196	57,696
Academic Support	4,772	4,524	41,706
Student Services	2,295	2,534	20,781
Auxiliary Programs	7,094	8,871	103,150
Operation and Maintenance of Plant	2,993	2,811	25,279
Institutional Support	5,148	4,075	42,009
Student Aid	3,754	2,561	18,884
Other Operating Expenses	3,216	3,814	33,454
Total Operating Expenses	45,878	53,177	684,708
Operating Loss	(18,669)	(23,633)	(244,104)
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	16,334	19,445	171,513
Investment Activity	39	108	3,908
(Loss) Gain on Sale of Assets, Net	(47)	2	428
Interest Expense	(2,189)	(1,991)	(16,665)
Other Nonoperating Items	142	2,961	46,323
Net Nonoperating Revenues	14,279	20,525	205,507
Income (Loss) Before Other Nonoperating Revenues	(4,390)	(3,108)	(38,597)
Capital and Debt Service Appropriations	2,200	685	8,671
Capital Grants and Gifts	20	1,656	43,598
Capital Contributions	-	-	-
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,116	4,698	(2,989)
Total Other Nonoperating Revenues	4,336	7,039	49,280
Increase (Decrease) In Net Assets	(54)	3,931	10,683
NET ASSETS, BEGINNING BALANCE			
Beginning Balance	18,892	27,678	442,065
Ending Balance	\$ 18,838	\$ 31,609	\$ 452,748

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 137,394	\$ 20,246	\$ 203,974	\$ 23,515			\$ 542,276
64,691	7,916	108,395	14,305	\$ 1,457	\$ (5,731)	353,130
13,752	3,070	8,821	4,711	522		49,342
13,566	988	10,007	1,930	190		51,976
5,410	3,426	22,105	834	28		59,789
53,827	18,096	100,911	16,081	-		289,230
5,471	1,134	6,421	1,545	2,316	-	22,938
294,111	54,876	460,634	62,921	4,513	(5,731)	1,368,681
138,054	26,953	179,363	26,560	1,465		567,543
39,608	476	76,231	7,502	-	(4,762)	301,131
8,935	2,173	32,125	461	1,605		108,113
26,598	7,040	39,290	6,412	53		130,395
13,092	4,430	24,787	5,295	-		73,214
52,417	19,056	119,759	19,572	-		329,919
22,619	4,049	22,268	4,134	-		84,153
24,453	5,109	51,353	5,670	14,048		151,865
22,006	5,030	15,315	5,307	-		72,857
23,145	6,668	23,862	3,519	36	(969)	96,745
370,927	80,984	584,353	84,432	17,207	(5,731)	1,915,935
(76,816)	(26,108)	(123,719)	(21,511)	(12,694)	-	(547,254)
72,954	17,244	73,121	19,761	12,295		402,667
868	58	3,149	173	(2,972)		5,331
(190)	6	2,760	9	-		2,968
(11,414)	(2,557)	(26,580)	(2,454)	(658)		(64,508)
2,638	3,304	40,731	483	85		96,667
64,856	18,055	93,181	17,972	8,750	-	443,125
(11,960)	(8,053)	(30,538)	(3,539)	(3,944)	-	(104,129)
14,174	2,958	7,639	1,087	59		37,473
9,927	104	19,902	500	-		75,707
-	-	-	-	-		-
-	-	-	-	-		-
9,315	(295)	4,531	1,805	(19,181)		-
33,416	2,767	32,072	3,392	(19,122)	-	113,180
21,456	(5,286)	1,534	(147)	(23,066)	-	9,051
156,737	42,876	423,893	32,808	71,325		1,216,274
\$ 178,193	\$ 37,590	\$ 425,427	\$ 32,661	\$ 48,259	\$ -	\$ 1,225,325

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	\$ 11,802	\$ 12,820	\$ 141,212
Grants and Contracts	9,374	9,180	183,735
Educational Department Sales and Services	155	275	27,658
Auxiliary Enterprise Operations	5,636	7,360	86,372
Student Loan Collections	295	651	4,371
Payments to Employees for Compensation and Benefits	(29,414)	(35,196)	(447,100)
Payments to Suppliers	(1,710)	(10,246)	(179,689)
Student Financial Aid	(4,048)	(2,649)	(28,676)
Student Loan Issuance and Costs	(291)	(427)	(2,150)
Other Operating Receipts	(1,129)	(480)	4,742
Net Cash (Used) Provided by Operating Activities	(9,330)	(18,712)	(209,525)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	16,334	19,445	171,513
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	332	2,006	41,895
Net Agency Fund Receipts (Payments)	50	-	112
Net Transfers from (to) Other Funds and OUS Universities	(3,902)	4,804	1,154
Net Cash Provided by Noncapital Financing Activities	12,814	26,255	214,674
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	500
Debt Service Appropriations	2,200	685	8,171
Capital Grants and Gifts	12	1,570	41,898
Capital Contributions	-	-	-
Bond Proceeds on Capital Debt	1,875	29,624	72,530
Sales of Capital Assets	200	182	6,117
Purchases of Capital Assets	(3,038)	(26,732)	(67,801)
Interest Payments on Capital Debt	(1,708)	(838)	(10,673)
Principal Payments on Capital Debt	(2,341)	(976)	(9,966)
Net Cash (Used) Provided by Capital and Related Financing Activities	(2,800)	3,515	40,776
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Sales (Purchases) of Investments	-	-	-
Interest on Investments and Cash Balances	143	127	6,572
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	143	127	6,572
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	827	11,185	52,497
CASH AND CASH EQUIVALENTS			
Beginning Balance	8,069	14,737	158,728
Ending Balance	\$ 8,896	\$ 25,922	\$ 211,225

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 139,424	\$ 20,309	\$ 203,413	\$ 22,942	\$ (120)		\$ 551,802
87,727	14,313	127,852	21,675	2,126	(5,731)	450,251
5,428	3,436	21,941	843	29		59,765
52,987	17,881	104,456	16,302	(6)		290,988
1,158	809	4,813	1,009	(1)		13,105
(236,356)	(50,797)	(386,302)	(52,933)	(9,701)		(1,247,799)
(97,695)	(14,332)	(121,080)	(31,142)	11,555	5,731	(438,608)
(22,590)	(5,289)	(30,288)	(6,280)	(119)		(99,939)
(2,114)	(904)	(2,965)	(846)	-		(9,697)
6,600	1,014	2,212	944	2,317		16,220
(65,431)	(13,560)	(75,948)	(27,486)	6,080	-	(413,912)
72,954	17,244	73,121	19,761	13,269		403,641
-	-	-	-	-		-
5,433	3,432	43,723	709	69		97,599
296	(1,649)	(582)	96	6,587		4,910
7,698	(7,682)	2,239	10,065	(14,376)		-
86,381	11,345	118,501	30,631	5,549	-	506,150
9,662	-	1,583	-	(27)		11,718
4,512	2,958	6,056	1,087	1,160		26,829
9,004	104	19,172	427	-		72,187
-	-	-	-	-		-
88,571	3,356	57,442	28,348	(38,736)		243,010
2,219	401	11,525	482	-		21,126
(71,673)	(3,445)	(124,364)	(5,473)	(4)		(302,530)
(6,610)	(1,945)	(27,145)	(2,016)	(18,337)		(69,272)
(7,913)	(2,544)	(12,305)	(1,442)	(19,434)		(56,921)
27,772	(1,115)	(68,036)	21,413	(75,378)	-	(53,853)
-	-	(2)	-	176		174
1,041	222	5,230	178	6,018		19,531
-	-	-	-	1,173		1,173
-	-	-	-	(1,173)		(1,173)
1,041	222	5,228	178	6,194	-	19,705
49,763	(3,108)	(20,255)	24,736	(57,555)	-	58,090
70,120	16,886	340,646	22,984	183,778		815,948
\$ 119,883	\$ 13,778	\$ 320,391	\$ 47,720	\$ 126,223	\$ -	\$ 874,038

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF CASH FLOWS—CONTINUED

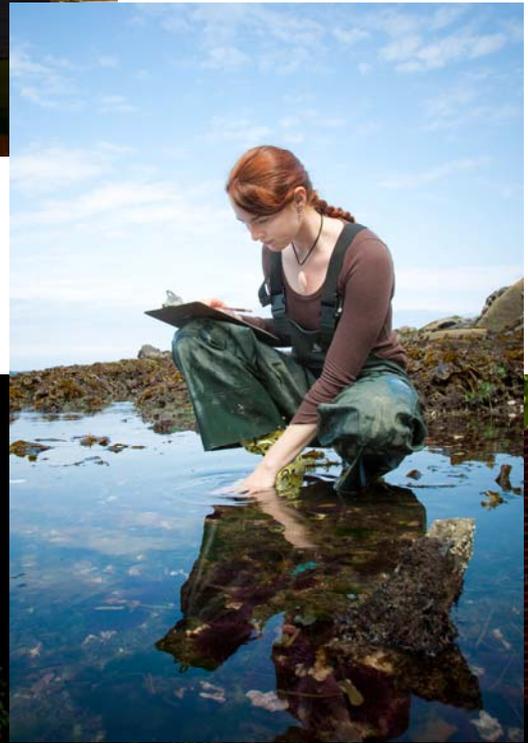
For the Year Ended June 30, 2009 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED			
BY OPERATING ACTIVITIES			
Operating Loss	\$ (18,669)	\$ (23,633)	\$ (244,104)
Adjustments to Reconcile Operating Loss to Net Cash (Used)			
Provided by Operating Activities:			
Depreciation Expense	2,907	1,553	35,144
Changes in Assets and Liabilities:			
Accounts Receivable	(754)	(282)	3,361
Notes Receivable	(38)	177	2,442
Inventories	(40)	(12)	250
Prepaid Expenses	(18)	33	(750)
Accounts Payable and Accrued Liabilities	501	4,606	(4,794)
Long-Term Liabilities	6,529	(1,508)	(1,816)
Deposits	3	12	(16)
Deferred Revenue	249	342	758
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (9,330)	\$ (18,712)	\$ (209,525)

**NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL
AND RELATED FINANCING TRANSACTIONS**

Capital Assets Acquired by Incurring Capital Lease Obligations	\$ 16	\$ -	\$ 6
Capital Assets Acquired by Gifts in Kind	-	86	1,683
Decrease 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
\$ (76,816)	\$ (26,108)	\$ (123,719)	\$ (21,511)	\$ (12,694)		\$ (547,254)
15,454	4,178	28,261	3,434	7		90,938
(8,482)	1,317	(11,824)	(11)	172		(16,503)
(45)	47	8,508	(246)	-		10,845
35	(83)	(177)	(52)	-		(79)
208	44	358	(8)	(1,313)		(1,446)
9,546	(887)	15,070	(625)	8,351		31,768
(9,826)	7,408	3,177	(8,756)	11,897		7,105
(6)	(37)	77	-	-		33
4,501	561	4,321	289	(340)		10,681
\$ (65,431)	\$ (13,560)	\$ (75,948)	\$ (27,486)	\$ 6,080	\$ -	\$ (413,912)

\$ 268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 290
750	104	757	-	-	-	3,380
-	-	-	-	-	(14,251)	(14,251)



**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) and its aggregate discretely presented component units as of and for the year ended June 30, 2010 which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 30, 2010. 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. Other auditors audited the financial statements of 7 of the 8 discretely presented component units as described in our report on the System's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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 *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 30, 2010

For information about the financial data included in this report, contact:

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Oregon University System
PO Box 488
Corvallis, OR 97339-0488
541-737-3636

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OFFICE OF THE CHANCELLOR

CONTROLLER'S DIVISION

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