

Oregon

Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2010

Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010



Theodore R. Kulongoski
Governor

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2010**

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Introductory Section



Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

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December 22, 2010

To the Honorable Governor Theodore R. Kulongoski and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the State of Oregon for the fiscal year ended June 30, 2010. This report is published to fulfill the requirement for annual financial statements in Oregon Revised Statute 291.040.

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

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the State's financial statements for the fiscal year ended June 30, 2010. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. Based on the audit, the auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for fiscal year 2010 are fairly presented in accordance with GAAP. The audit report is the first component in the financial section of this report.

The audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the needs of federal agencies that provide aid to the State. The standards governing single audit engagements require the auditor to report on the State's internal controls and compliance with legal requirements, particularly as they relate to federal awards. This information, also prepared by the Audits Division, will be available in a separately issued report on or about March 31, 2011.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

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

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

Local Economy

Oregon is the least populous of the three west coast states that also include California and Washington. Oregon had almost 2 million of the three states' 23.8 million workers in November 2010. Oregon's largest metro area is the Portland-Vancouver-Hillsboro metropolitan statistical area. The Portland area has the sixth largest number of workers of the seven metro areas with one million or more workers in the three states. The Oregon portion of the Portland metro area includes almost half of Oregon's jobs.

Employment grew more rapidly in Oregon than in most neighboring states in the mid-1990s due largely to a combination of high net in-migration and a boom in high technology (primarily computer chips), transportation equipment (such as recreational vehicles and heavy trucks), and construction. The Asian financial crisis in 1997 led to weaker manufacturing employment and slower overall job growth in Oregon. Between late 2000 and the middle of 2003, employment fell by as much as 4 percent, much worse than in neighboring states. From late 2003 to mid-2006, Oregon gained jobs at roughly 3 percent per year. Oregon's nonfarm payroll jobs peaked in February 2008, two months after the start of the national recession, and lost 7.6 percent of those jobs by November 2010. Eight of Oregon's 11 major industries have begun recovering jobs lost during the recession, and the State posted its first year-over-year jobs gain in November. The construction, financial activities, and manufacturing sectors continued to show over-the-year job losses in November 2010.

During the rapid job growth of the mid-1990s, Oregon's unemployment rate ranked in the middle of all states and lower than its neighboring states. However, the rate rose with the Asian financial crisis. During the economic boom of the late 1990s and in 2000, Oregon's unemployment rate remained above the rates in neighboring states. The nation and Oregon went into a recession after the burst of the information technology bubble. With the onset of the recession, Oregon's unemployment rate soared from just over 5 percent in late 2000 to a peak of 8.5 percent in the middle of 2003. The state's population continued to grow despite the high unemployment rate. Oregon had the nation's highest or second-highest state unemployment rate for 39 of the 40 months from May 2001 to August 2004. Rapid job growth from late 2003 to mid-2006 pulled the unemployment rate down to a low of 5 percent in early 2007. In the summer of 2008, the rate began rising rapidly in response to job losses in many industries. It hit a recent peak of 11.6 percent in spring 2009, the second highest in the nation. As of November 2010, it was 10.6 percent.

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

Oregon's annual employment level in 2010 is expected to be about 1 percent less than in 2009, but nonfarm employment is expected to grow 0.9 percent in 2011. Annual employment should rise 2.2 percent in 2012 and again in 2013 before slowing to 2 percent in 2014 and 2015. The State should mirror the nation's growth rate in 2011 and 2012 and then grow faster through 2015. Job growth over this period is expected to be fastest in construction, professional and business services, and transportation and warehousing as these industries recover from some of the jobs cut during the recession. Professional and business services, health care and social assistance, and manufacturing will likely add the most jobs between 2010 and 2015. The State's population should increase slightly faster than the nation's. Overall, employment should grow faster than population in Oregon between 2010 and 2015.

Spending for education reported by the State's governmental funds during fiscal year 2010 was up \$79.2 million, or 1.9 percent, compared to fiscal year 2009 and was 35.2 percent higher than the amount spent on education ten years ago. However, as a percentage of total expenditures, the amount devoted to education was 4.7 percent lower in the current fiscal year than it was in fiscal year 2001. Governmental fund expenditures for administration in fiscal year 2010 were up 17.8 million dollars, or 4.3 percent compared to fiscal year 2009. However, the amount spent on administration in the current year was 2.8 percent lower than in fiscal year 2001 and, as a percentage of total expenditures, was 1.6 percent lower. The decrease in expenditures for education and administration as a percentage of total expenditures reflects a shift in the allocation of expenditures to other program areas such as human services and debt service. Governmental fund expenditures related to debt service, for example, have increased as the State expands its use of low-cost capital financing. Debt service expenditures in fiscal year 2010 were eight times higher than the amount spent on debt service in fiscal year 2001 and, as a percentage of total expenditures, were 2.7 percent higher than ten years ago.

During this same ten-year period, tax revenues, while increasing in amount overall, decreased 11.7 percent as a percentage of total governmental fund revenues. The reason for this decline is twofold. First, tax revenues remained at lower levels in fiscal year 2010 due to the recession and the State's jobless rate. Secondly, there has been a relative increase in governmental fund expenditures for federally supported programs (e.g., human services) versus governmental activities funded by taxes. As a percentage of total revenues, federal revenues were 13.9 percent higher than they were ten years ago, evidence of the State's increased participation in federal assistance programs.

The December 2010 revenue forecast projects \$12.5 billion of General Fund revenues for the 2009-11 biennium. This amount represents a decrease of \$1.1 billion from the 2009 close of session forecast. The prolonged plunge in personal income taxes, particularly those related to non-wage forms of income, accounts for most of the decrease. The projected General Fund ending balance for the 2009-11 biennium is \$61.9 million. The December 2010 revenue forecast projects an increase in General Fund revenues for the next two biennia, up 11.5 percent to \$13.9 billion in 2011-13 and 13.5 percent to \$15.7 billion in 2013-15.

Legislative Response to Worsening Economic Conditions

The fiscal effects of the current recession presented major challenges for Oregon's Legislature when it convened in regular session in February 2009. Those challenges included declining revenues for both the 2007-09 and 2009-11 biennia and record double-digit unemployment levels.

The Legislature immediately took action by passing an economic stimulus package known as *Go Oregon!* The bill authorized 547 deferred-maintenance projects to create new jobs through the infusion of \$175 million into the local economy. Through the end of June 2010, 488 projects had been started and a total of 8,115 jobs had been created or retained. The last project is scheduled for completion in October 2011.

After taking steps to rebalance the remainder of the 2007-09 budget, the Legislature turned its attention to balancing the 2009-11 budget. Legislators relied on a combination of actions that included one-time resources as part of the overall plan. The largest resource came in the form of federal funding through the American Recovery and Reinvestment Act of 2009 (over \$1 billion in direct General Fund offset). In addition, the Legislature authorized budget reductions, fund shifts, and transfers to the General Fund, including a \$225 million transfer from the Oregon Rainy Day Fund.

Other actions taken to fill the General Fund budget gap included passage of a bill that increases the State's corporate income tax rate, establishes a new corporate minimum tax based on Oregon sales, and increases the Secretary of State filing fees. A second bill increases the State's personal income tax rate on high income filers and phases out the subtraction for federal taxes. Both of these bills were approved by the voters in January 2010.

In spite of the steps taken by the Legislature during the 2009 regular session to balance the 2009-11 budget, subsequent revenue forecasts continued to decline. The March 2010 forecast projected a General Fund deficit of \$106 million, causing the Legislature to call itself into special session. As a result of actions taken by the 2010 special session, other funding resources totaling \$19.2 million and emergency funds of \$44.3 million were redirected to the General Fund. State agencies identified additional reductions and savings of \$10.3 million. The State's business energy tax credit program was reformed, gaining

approximately \$54.4 million for the General Fund. The Legislature also approved a second transfer from the Rainy Day Fund of \$10 million.

Long-term Financial Planning

The 2009-11 legislatively adopted budget authorized capital construction projects totaling \$1.3 billion. This total included \$629 million of capital construction and deferred maintenance projects for the Oregon University System (OUS) and an additional \$128.6 million in similar projects for local community colleges. Funding for these projects will derive from a variety of sources, including various categories of bonds, certificates of participation, gifts, grants and other revenues, such as community college matching funds. Unlike in prior biennia, no General Fund moneys were appropriated to support OUS projects.

In addition, the Legislature authorized the issuance of \$110 million in bonds and \$90 million in other revenues for the construction of a life sciences facility in downtown Portland. The facility will house education and research programs in life sciences, bioengineering, and basic and translational biomedical research. Participants in the undertaking include the Oregon Health and Science University, Portland State University, Oregon State University, University of Oregon, and the Oregon Institute of Technology. Debt service on the bonds will be paid from a combination of resources, including the General Fund and revenues from student tuition, rents paid by research and retail occupants, charges for service, parking, and general university operating funds.

Other major projects funded by the 2009-11 budget include \$279.2 million to continue work on replacement of the current Oregon State Hospital with two new facilities in Salem and Junction City and \$44.7 million to complete pre-engineering studies and design, wetland mitigation, and construction of off-site infrastructure for correctional facilities at Junction City. Certificates of participation will fund both of these projects.

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

During the 2010 special session, the Legislature approved an additional \$196 million in capital construction projects. The University of Oregon received approval to build a new residence hall that will house 400-450 students for \$75 million. Debt service on the related bonds will be paid from housing revenues. Portland State University's capital construction expenditure limitation was increased by \$24 million to allow the university to purchase a nine-story office building with two additional floors of parking in downtown Portland. The building is located near Portland State's Urban Center building, just outside the University District. Rent and parking revenues charged to occupants of the facility will be used to pay debt service.

Previously, the 2007 Legislature had authorized \$4.7 million for planning and design costs for renovation of the Transportation Headquarters Building on the Capitol Mall in Salem. During the 2010 special session, the Legislature approved an additional \$64.7 million to cover building renovation costs, project management services, and the costs of employee relocation and leased space for the duration of the construction phase.

Relevant Financial Policies

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

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

Withdrawals from the Rainy Day Fund require one of three triggers, including a decline in employment, a projected budgetary shortfall, or declaration of a state of emergency, plus approval by three-fifths of both chambers of the Legislature. Withdrawals are capped at two-thirds of the balance as of the beginning of the

biennium in question. During the 2009 legislative session, two bills were passed that affected the Rainy Day Fund. The first bill transferred \$225 million to the General Fund for the 2009-11 biennium. The second bill directs revenue collected from corporate income and excise tax rates above 6.6 percent be deposited to the Rainy Day Fund beginning with the 2013-15 biennium. During the 2010 special session, the Legislature approved an additional \$10 million transfer to the General Fund.

The Education Stability Fund is the State's second general reserve fund. Its current reserve structure and mechanics are the result of a constitutional amendment in 2002. This fund receives 18 percent of lottery earnings, deposited on a quarterly basis. The fund does not retain interest earnings. The withdrawal triggers are similar to the Rainy Day Fund, except for the two-thirds cap on withdrawals. Fund balance is capped at five percent of General Fund revenues collected in the prior biennium.

As the result of two additional bills, one passed by the 2009 regular session and the other by the 2010 special session, a total of \$200 million will be transferred from the two reserve funds to the State School Fund during 2009-11. The most recent economic forecast projects the Rainy Day Fund will transfer \$115.7 million with \$84.3 million coming from the Education Stability Fund. After taking these transfers into account, the December 2010 forecast projects the Rainy Day Fund balance will reach \$10.6 million by the end of 2009-11. The Education Stability Fund, which had been completely drawn down in 2009 to fill the 2007-09 budget gap, is expected to end the 2009-11 biennium with a balance of \$102.1 million.

The projected ending General Fund balance for 2009-11 is \$61.9 million, all of which under current law would be transferred to the Rainy Day Fund.

Major Initiatives

Certificates of participation authorized by the 2009 Legislature will provide up to \$187.8 million to fund phases 2 and 3 of the Oregon Wireless Interoperability Network project. This project is intended to provide a single emergency response wireless communication infrastructure that supports the communication needs of all state agencies and ensures communications interoperability among all state, local, tribal, and federal public safety agencies. It will also meet the Federal Communications Commission mandates for the conversion of public safety communications frequencies and spectrum allocation by 2013. The fourth and final stage of this project is scheduled for completion during the 2011-13 biennium.

The 2009-11 budget also includes incentives to increase the production and use of renewable energy and alternative fuels. The investment in this area is expected to produce long-term environmental and economic benefits and establish Oregon as a national leader. The initiative includes issuance of \$80 million in bonds to build a new research facility, the Oregon Center for Sustainability, in partnership with the Portland Development Commission to develop and promote sustainable technologies in energy, transportation, building construction, and water resources and management.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Oregon for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the eighteenth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The State Controller's Division takes great pride in the preparation of the Oregon Comprehensive Annual Financial Report. We greatly appreciate the professionalism, commitment, and effort of Statewide Accounting and Reporting Services and the other individuals involved. We also want to thank all state agencies for their continuing support in planning and conducting the financial operations of the State in a professionally responsible manner. Without the participation and cooperation of the agencies' fiscal units,

the preparation of this report would not have been possible. In addition, we appreciate the contributions of the Office of Economic Analysis, the Budget and Management Division, the Office of the State Treasurer, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John J. Radford". The signature is fluid and cursive, with a prominent vertical line at the end.

John J. Radford, Administrator
State Controller's Division
State of Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

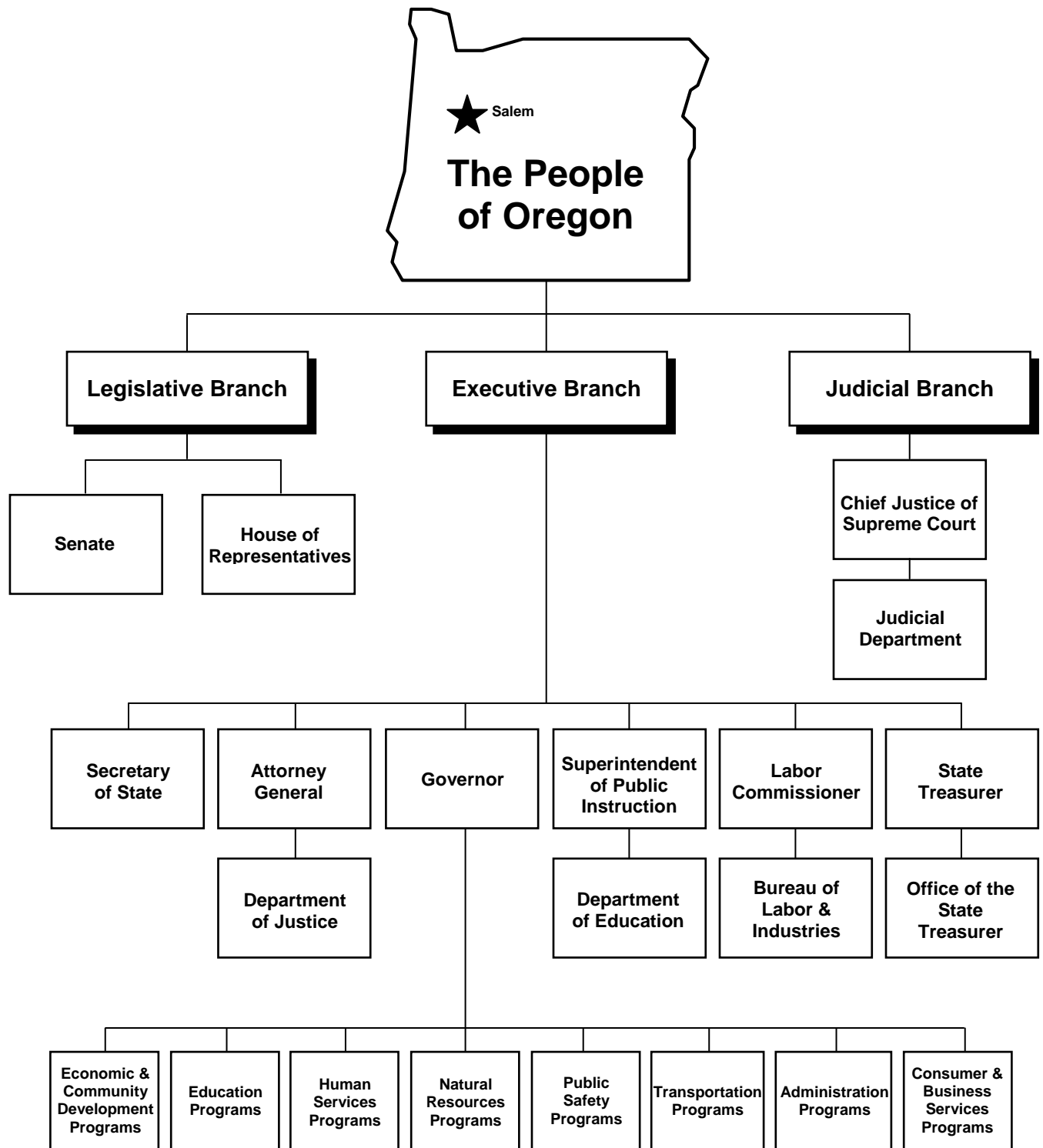
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

STATE OF OREGON ORGANIZATION CHART



Principal State Officials



EXECUTIVE

Theodore R. Kulongoski, Governor

Kate Brown, Secretary of State

Ted Wheeler, State Treasurer

John R. Kroger, Attorney General

Brad Avakian, Commissioner, Labor and Industries

Susan Castillo, Superintendent of Public Instruction

LEGISLATIVE

Peter Courtney, Senate President

Dave Hunt, Speaker of the House of Representatives

JUDICIAL

Paul J. DeMuniz, Chief Justice of the Supreme Court



Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
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The Honorable Theodore R. Kulongoski
Governor of Oregon

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of and for the year ended June 30, 2010, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. We also did not audit the financial statements of the University System or the Veterans' Loan Fund, which represent 49 percent, 41 percent, and 28 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, the University System, and the Veterans' Loan Fund, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1.D., the Pension and Other Employee Benefit Trust financial statements, within the Statement of Fiduciary Net Assets, include investments valued at \$15.6 billion (30.2 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. These investments consist of 100 percent of private equity, 100 percent of opportunity portfolio, and 77 percent of real estate reported investment balances. Management's estimates are based on information provided by the general partners or fund managers. Our opinion is not qualified with respect to this matter.

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

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

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

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read 'Kate Brown', with a long, sweeping horizontal line extending to the right.

Kate Brown
Secretary of State

December 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State's Comprehensive Annual Financial Report presents our discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2010. This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

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

FINANCIAL HIGHLIGHTS

- On June 30, 2010, the assets of the State exceeded its liabilities by \$13.6 billion (net assets). Of this amount, \$2.1 billion were classified as unrestricted net assets, while \$1.8 billion were restricted for specific uses.
- The State's total net assets decreased by \$482.5 million compared to the prior year. The net assets for governmental activities decreased by 2.4 percent of total governmental net assets, while the net assets for business-type activities decreased by 6 percent of total business-type net assets.
- As of June 30, 2010, the State's governmental funds reported combined ending fund balances of \$4.5 billion. Of this amount, approximately 32.4 percent was reserved for nonspendable items, such as inventories and permanent fund principal, or for specific purposes, such as debt service. The remainder was classified as unreserved, undesignated fund balance and was available for spending, subject to statutory, constitutional, regulatory, or contractual spending constraints.
- At fiscal year end, unreserved, undesignated fund balance for the General Fund was negative \$542.7 million.
- Outstanding debt (bonds and certificates of participation) increased by \$610.3 million during fiscal year 2010. In March 2010, the State issued \$544.7 million of Build America Bonds to finance projects under the Oregon Transportation Investment Act program. The bonds will be repaid with highway user taxes. The State also issued certificates of participation in the amount of \$213.8 million to fund the Oregon State Hospital replacement project.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements*, *required supplementary information*, and an optional presentation of *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. The basic financial statements contain three components: government-wide financial statements, fund financial statements, and notes to the financial statements. A *statistical section* is presented following the combining fund statements.

Government-wide Financial Statements

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

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

These two government-wide financial statements report the State's *net assets* and the change in net assets. Net assets, which represent the difference between assets and liabilities, are one measure of the State's financial health, or financial position. Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether its financial position is improving or deteriorating. However, to assess the overall health of the State, the reader needs to consider additional non-financial factors such as changes in Oregon's income tax base and changes in Oregon's economy.

The government-wide financial statements of the State are divided into the following three categories:

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

The government-wide financial statements can be found on pages 26–30 of this report.

Fund Financial Statements

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

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

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

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

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

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

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

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

Discretely Presented Component Units

Combining statements that report activities of the State's discretely presented component units, SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations, can be found on pages 53–55 of this report. Although activity for component units is reported in the government-wide statements in an aggregate column, the combining statements provide greater detail for each component unit.

Notes to the Financial Statements

The basic financial statements also include notes, which provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57–146 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a section of *required supplementary information* (RSI), beginning on page 147, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds as well as accompanying notes to the RSI. This section also includes a Schedule of Funding Progress and accompanying notes for the Retiree Health Insurance Premium Account, a defined benefit single-employer other postemployment benefit plan, and the Public Employees Benefit Board Plan, an agent multiple-employer other postemployment benefit plan.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 159 of this report. These combining statements provide details about our nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, each of which are added together and presented in single columns in the basic financial statements. The combining financial statements also provide details about the fiduciary funds when data has been aggregated in a single column in the basic financial statements.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The State's *combined* net assets at June 30, 2010, were approximately \$13.6 billion as shown in Table 1. Most of this balance was invested in capital assets, with infrastructure being the largest component; the amount invested in capital assets, net of related debt, was \$9.6 billion. Restricted net assets represent resources that are subject to external restrictions on how they may be used. At June 30, 2010, restricted net assets totaled \$1.8 billion. The remaining \$2.1 billion were classified as unrestricted net assets.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------------------------|----------------------------|--------------------|-----------------------------|-------------------|--------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other assets | \$ 9,956.1 | \$ 10,252.1 | \$ 6,862.3 | \$ 7,636.1 | \$ 16,818.4 | \$ 17,888.2 |
| Capital assets | 11,271.1 | 10,903.2 | 2,293.1 | 1,940.3 | 13,564.2 | 12,843.5 |
| Total assets | 21,227.2 | 21,155.3 | 9,155.4 | 9,576.4 | 30,382.6 | 30,731.7 |
| Long-term liabilities | 8,178.0 | 7,398.6 | 4,015.0 | 4,121.7 | 12,193.0 | 11,520.3 |
| Other liabilities | 3,171.7 | 3,634.7 | 1,405.1 | 1,481.4 | 4,576.8 | 5,116.1 |
| Total liabilities | 11,349.7 | 11,033.3 | 5,420.1 | 5,603.1 | 16,769.8 | 16,636.4 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 8,672.4 | 9,094.5 | 977.2 | 897.2 | 9,649.6 | 9,991.7 |
| Restricted | 1,287.4 | 1,126.9 | 556.6 | 2,399.1 | 1,844.0 | 3,526.0 |
| Unrestricted | (82.3) | (99.4) | 2,201.5 | 677.0 | 2,119.2 | 577.6 |
| Total net assets | \$ 9,877.5 | \$ 10,122.0 | \$ 3,735.3 | \$ 3,973.3 | \$ 13,612.8 | \$ 14,095.3 |

Changes in net assets. The State's total net assets decreased by \$482.5 million compared to the prior year. The net assets for governmental activities decreased by 2.4 percent of total governmental net assets, while the net assets for business-type activities decreased by 6 percent of total business-type net assets.

Total ending net assets of governmental activities for fiscal year 2010 were \$9.9 billion, down from the \$10.1 billion reported in the prior year. As shown in Table 2, operating grants and contributions jumped \$1.7 billion. This increase was largely attributable to one-time federal stimulus dollars received under the American Recovery and Reinvestment Act (ARRA). Corporate income tax revenues were significantly higher in fiscal year 2010, due to the passage of a bill in 2009 that increased the State's corporate income tax rate and established a new corporate minimum tax based on Oregon sales. Conversely, unrestricted investment earnings saw a sharp decline for the second year in a row. Fewer bonds were issued for capital construction projects that required matching funds, which explains the 47.6 percent drop in capital grants and contributions.

Spending for education remained steady. However, the prolonged recession and the State's high rate of unemployment increased the need for spending in the area of human services, up \$805 million, or 13.3 percent. The State also increased its spending to boost the local economy and to support community development projects. Transportation expenses were down \$390.9 million due to capitalization of costs associated with major highway/bridge construction and improvements. The 13.4 percent rise in consumer and business services expenses was due in part to an increase in the State's liabilities for supplemental workers' compensation benefit programs.

For business-type activities, ending net assets were \$3.7 billion, down from \$4 billion reported for fiscal year 2009. The major contributor to this decrease was the rise in unemployment. Although operating grants and

contributions more than doubled, year over year, unemployment benefit payments jumped 61 percent. The veterans' loan program saw a 26.8 percent reduction in expenses due to a \$7.2 million decrease in bond interest expense following the retirement of \$291.5 million of general obligation bonds.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------------------------------------------------------------------|----------------------------|--------------------|-----------------------------|-------------------|--------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,309.4 | \$ 1,378.5 | \$ 3,737.3 | \$ 3,421.2 | \$ 5,046.7 | \$ 4,799.7 |
| Operating grants & contributions | 7,691.1 | 6,017.3 | 2,238.2 | 1,064.4 | 9,929.3 | 7,081.7 |
| Capital grants & contributions | 45.4 | 86.6 | 108.3 | 87.5 | 153.7 | 174.1 |
| General revenues: | | | | | | |
| Personal income taxes | 4,958.6 | 5,182.7 | - | - | 4,958.6 | 5,182.7 |
| Corporate income taxes | 387.6 | 253.7 | - | - | 387.6 | 253.7 |
| Other taxes | 1,786.6 | 1,649.4 | 16.8 | 16.3 | 1,803.4 | 1,665.7 |
| Unrestricted investment earnings | 3.2 | 17.7 | - | - | 3.2 | 17.7 |
| Total revenues | 16,181.9 | 14,585.9 | 6,100.6 | 4,589.4 | 22,282.5 | 19,175.3 |
| Expenses: | | | | | | |
| Education | 4,303.1 | 4,225.0 | - | - | 4,303.1 | 4,225.0 |
| Human services | 6,862.0 | 6,057.0 | - | - | 6,862.0 | 6,057.0 |
| Public safety | 1,199.6 | 1,185.5 | - | - | 1,199.6 | 1,185.5 |
| Economic & community development | 455.5 | 397.0 | - | - | 455.5 | 397.0 |
| Natural resources | 593.1 | 658.6 | - | - | 593.1 | 658.6 |
| Transportation | 1,858.7 | 2,249.6 | - | - | 1,858.7 | 2,249.6 |
| Consumer and business services | 463.5 | 408.8 | - | - | 463.5 | 408.8 |
| Administration | 474.6 | 470.6 | - | - | 474.6 | 470.6 |
| Legislative | 33.0 | 44.7 | - | - | 33.0 | 44.7 |
| Judicial | 308.6 | 307.9 | - | - | 308.6 | 307.9 |
| Interest on long-term debt | 299.5 | 297.3 | - | - | 299.5 | 297.3 |
| Housing and community services | - | - | 84.3 | 91.0 | 84.3 | 91.0 |
| Veterans' loan | - | - | 19.7 | 26.9 | 19.7 | 26.9 |
| Lottery operations | - | - | 518.1 | 537.3 | 518.1 | 537.3 |
| Unemployment compensation | - | - | 3,020.4 | 1,875.3 | 3,020.4 | 1,875.3 |
| University system | - | - | 2,003.7 | 1,948.8 | 2,003.7 | 1,948.8 |
| State hospitals | - | - | 222.3 | 215.6 | 222.3 | 215.6 |
| Liquor control | - | - | 312.9 | 314.6 | 312.9 | 314.6 |
| Other business-type activities | - | - | 89.5 | 87.9 | 89.5 | 87.9 |
| Total expenses | 16,851.2 | 16,302.0 | 6,270.9 | 5,097.4 | 23,122.1 | 21,399.4 |
| Increase (decrease) before contributions, special and extraordinary items, and transfers | (669.3) | (1,716.1) | (170.3) | (508.0) | (839.6) | (2,224.1) |
| Contributions to permanent funds | 0.3 | 0.2 | - | - | 0.3 | 0.2 |
| Transfers | 129.0 | 157.7 | (129.0) | (157.7) | - | - |
| Increase (decrease) in net assets | (540.0) | (1,558.2) | (299.3) | (665.7) | (839.3) | (2,223.9) |
| Net assets – beginning | 10,122.0 | 10,459.4 | 3,973.3 | 4,642.3 | 14,095.3 | 15,101.7 |
| Prior period adjustments | 295.5 | 1,221.0 | 61.3 | (3.3) | 356.8 | 1,217.7 |
| Cumulative effect of accounting change | - | (0.2) | - | - | - | (0.2) |
| Net assets – beginning – as restated | 10,417.5 | 11,680.2 | 4,034.6 | 4,639.0 | 14,452.1 | 16,319.2 |
| Net assets – ending | \$ 9,877.5 | \$ 10,122.0 | \$ 3,735.3 | \$ 3,973.3 | \$ 13,612.8 | \$ 14,095.3 |

Figure 1 below illustrates fiscal year 2010 revenues of the State as a whole, by source. Approximately 44.6 percent of total revenue comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 24 percent comes from personal and corporate income taxes and 22.6 percent comes from charges for services provided.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2010

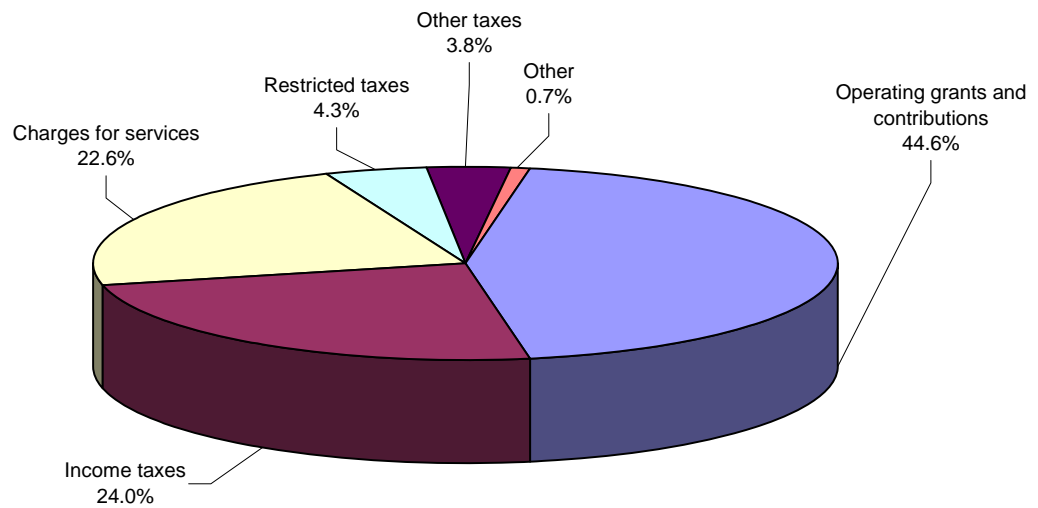
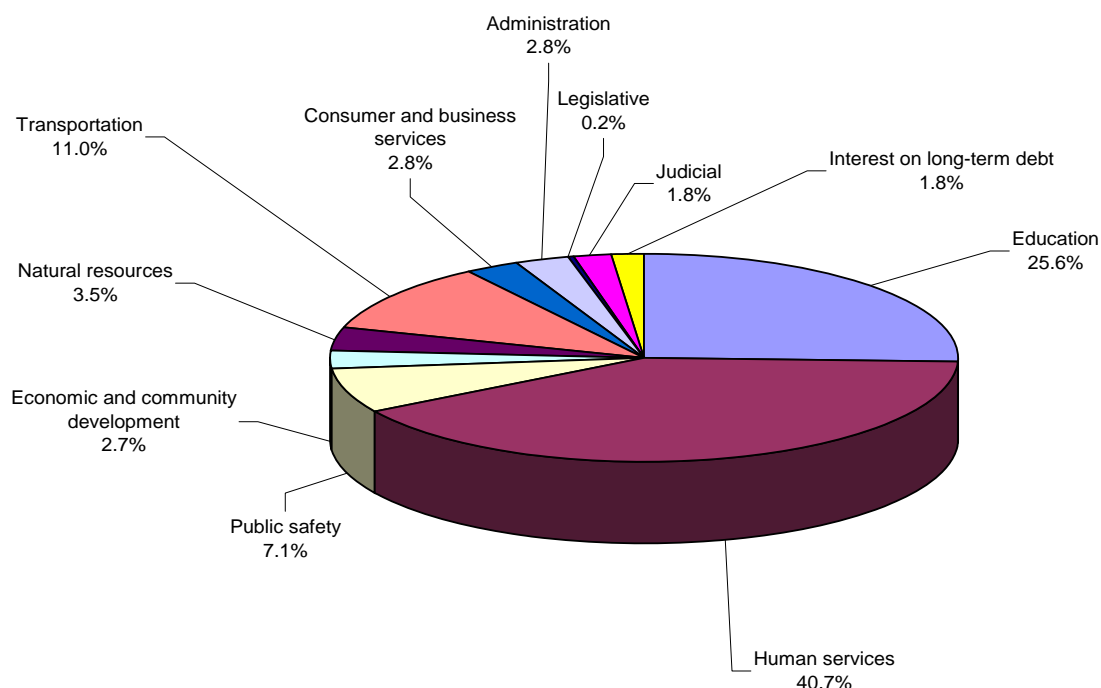


Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest area of expenses is human services provided for Oregon's citizens in need of assistance at 40.7 percent, with elementary and secondary education the second largest at 25.6 percent of total governmental activity expenses.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2010



FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Governmental funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* financial resources. In governmental funds, *unreserved, undesignated fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2010, approximately 67.6 percent of the total fund balances of governmental funds was classified as unreserved, undesignated fund balance and was available for spending on governmental programs subject to statutory, constitutional, regulatory, or contractual constraints. The remainder of the fund balances was classified as reserved and was not available for new spending. For example, portions of the total fund balances of governmental funds reported as of June 30, 2010, were reserved to pay debt service and claims and judgments.

For fiscal year 2010, the combined ending fund balances of governmental funds increased \$86.7 million compared to fiscal year 2009. In the General Fund, which is the operating fund of the State, ending fund balance for fiscal year 2010 was down \$202.6 million, or 66.5 percent, from the prior year. General Fund operating revenues and expenditures were essentially unchanged year over year. However, transfers to other funds during fiscal year 2010, which included \$371.7 million transferred to the University System Fund,

exceeded transfers from other funds by \$200 million. As a result, the General Fund's unreserved, undesignated fund balance reported as of June 30, 2010, was negative \$542.7 million.

Total revenues in the Health and Social Services Fund increased \$539.3 million over the prior year, with federal revenues up 16 percent, including \$493 million in funding received under ARRA. This increase in revenues was fully offset by the growing demand for human services caused by the prolonged economic recession. The issuance of \$219.8 million of long-term debt, primarily in the form of certificates of participation, contributed to the \$161.4 million increase in ending fund balance.

In the Public Transportation Fund, the issuance of \$580.3 million of long-term debt during fiscal year 2010, including \$544.7 million in Build America Bonds, contributed to the \$107.2 million, or 11.6 percent, increase in ending fund balance. In the Environmental Fund, operating revenues for fiscal year 2010 were up 10.7 percent, while expenditures were down 8.5 percent. Combining these changes with positive net transfers of \$96.2 million increased ending fund balance by \$80.7 million, or 11.6 percent.

Fund balance in the Common School Fund was up 51.9 percent for fiscal year 2010. Two factors played a major role. First, strong financial asset performance resulted in investment income of \$120.1 million in fiscal year 2010 versus a loss of \$200.3 million in the prior year. Secondly, the fund corrected the way it accounts for unclaimed property. The fund reported revenue related to unclaimed property of \$13.7 million for fiscal year 2010 and a prior period adjustment of \$172.4 million.

Finally, the Oregon Rainy Day Fund saw a \$212 million, or 62.8 percent, decrease in ending fund balance for fiscal year 2010. The Legislature authorized two separate transfers to the General Fund totaling \$235 million.

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

Housing and Community Services finances home ownership and multi-family units for elderly, disabled, and low to moderate income persons through the issuance of bonds. The Veterans' Loan Program provides home purchase and home improvement loans at favorable interest rates to eligible veterans. For fiscal year 2010, both funds saw increases in net assets. The Housing and Community Services Fund had operating income of \$1.8 million which, along with investment income of \$11.8 million, resulted in an increase in net assets of \$13.4 million. The Veterans' Loan Fund experienced an operating loss of \$4.9 million that was more than offset by investment income of \$7 million, resulting in a \$1.5 million increase to ending net assets.

Net assets of the Lottery Operations Fund decreased by \$24.4 million, or 13.2 percent. Lottery sales were down 6.6 percent as a result of current economic conditions, while transfers to other funds of \$545.8 million exceeded both current year income from operations and investment earnings. For fiscal year 2010, the Unemployment Compensation Fund reported federal revenues of \$1.6 billion, more than triple the \$466 million reported in fiscal year 2009. However, as in fiscal year 2009, benefit payments to unemployed Oregonians during fiscal year 2010 exceeded all revenue sources, both operating and nonoperating. As a result, net assets in the Unemployment Compensation Fund declined \$452.7 million, or 27.7 percent.

The University System Fund saw an 11.9 percent increase in total operating revenues, while operating expenses increased only 2.4 percent. As a result, the fund's operating loss for fiscal year 2010 was \$404.2 million, an improvement of 22.5 percent over the prior year's loss. Even with the operating loss, the University System Fund saw an increase in net assets of \$188.5 million, due in large part to capital contributions of \$108.3 million plus transfers from other funds, including a transfer of \$371.7 million from the General Fund.

At the end of fiscal year 2010, approximately 59 percent of the total net assets reported by the State's proprietary funds was classified as unrestricted and was available for spending on business-activities subject to statutory, constitutional, regulatory, or contractual constraints. However, restrictions significantly affected the availability of resources in the Housing and Community Services Fund with 96.4 percent of the fund's net assets restricted for debt service. In the University System Fund, 57.8 percent of its net assets was invested in capital assets, net of related debt, while 24.3 percent was restricted for capital construction, education, debt service, and for purposes stipulated by donors.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the Pension and Other Employee Benefit Trust Fund, which accounts for resources held in trust for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the Public Employees Retirement System, increased by \$5.7 billion, or 12.4 percent. The net appreciation in fair value of investments was the primary factor contributing to this increase. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

The State budgets on a biennial basis rather than an annual basis. Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the budgetary statements represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budgeted expenditures represent the original appropriated budget modified by legally authorized legislative and executive changes, as well as Emergency Board actions take during the year. For the 2009-11 biennium, final estimated revenues for the General Fund decreased 9.7 percent compared to the original estimate. The bulk of this \$1.3 billion reduction was a \$1.2 billion reduction to estimated personal income taxes. The General Fund's final budgeted expenditures on the other hand, were increased by \$127.6 million, or 1 percent.

Because of Oregon's biennial process, budget to actual comparisons are not final until the second year of the biennium. For the first year of the 2009-2011 biennium, actual expenditures and other financing uses exceeded actual General Fund revenues and other financing sources by \$806.2 million, leaving a negative ending budget balance of \$306.7 million. Actual revenues for the first year of the biennium were 46.1 percent of those forecasted, or \$5.4 billion. Actual expenditures were 49.6 percent of those budgeted, or \$6.7 billion. To manage differences in the timing of cash flows, the State issued \$837.4 million of tax anticipation notes in July 2010. These notes will be repaid with income tax revenue prior to the end of fiscal year 2011.

DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises the Governor and the legislative assembly regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low cost capital financing. As of June 30, 2010, the State's debt credit ratings, which are an indication of the State's ability to repay its debt, were AA+ by Fitch, AA by Standard & Poor's, and Aa1 by Moody's. While the ratings by Fitch and Moody's are higher than last year, they do not reflect an upgrade, but rather each rating agency's "recalibration" to its own single global rating scale.

Debt outstanding for the years ended June 30, 2010, and 2009, is summarized in Table 3. For governmental activities, the majority of revenue bonds issued in fiscal year 2010 were Build America Bonds (BABs) to be used to fund transportation infrastructure improvement projects. BABs were authorized under ARRA and allow state governments to access the broader market for taxable bonds at competitive rates through use of a federal interest subsidy. Net present value savings from issuance of BABs are estimated at \$4.6 million.

Other revenue bonds were issued for residential assistance for low income families, the acquisition of state forest land, and community college capital construction projects. The majority of new revenue bonds issued for business-type activities in fiscal year 2010 were single-family mortgage revenue bonds.

During the fiscal year, general obligation bonds were issued to finance acquisition and construction of new higher education facilities. Certificates of participation were issued to finance the costs of replacing the current Oregon State Hospital with two new facilities and to finance the Oregon Wireless Interoperability Network (a project undertaken to increase public safety sharing and enhance voice interoperability). In addition, the State refinanced some of its existing debt to take advantage of favorable interest rates. Additional information on the State's long-term debt may be found in Note 10 of this report.

Table 3
State of Oregon's Outstanding Debt
For the Years Ended June 30, 2010 and 2009
(dollars in millions)

| | 2010 | 2009 | 2010 Over (Under) 2009 | |
|-------------------------------|--------------------|--------------------|------------------------|-------------|
| | | | Amount | Percent |
| General Obligation Bonds | \$ 4,599.3 | \$ 4,697.3 | \$ (98.0) | -2.1% |
| Revenue Bonds | 4,972.0 | 4,440.2 | 531.8 | 12.0% |
| Certificates of Participation | 1,621.8 | 1,385.2 | 236.6 | 17.1% |
| General Appropriation Bonds | 235.9 | 296.0 | (60.1) | -20.3% |
| Total | \$ 11,429.0 | \$ 10,818.7 | \$ 610.3 | 5.6% |

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2010, was \$13.6 billion (net of accumulated depreciation) as summarized in Table 4. Capital assets include land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and other nondepreciable assets. The State's investment in capital assets for fiscal year 2010 increased by \$720.7 million, or 5.6 percent.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------------------|-------------------------|--------------------|--------------------------|-------------------|--------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 1,724.4 | \$ 1,701.4 | \$ 121.3 | \$ 112.2 | \$ 1,845.7 | \$ 1,813.6 |
| Buildings, property and equipment | 1,740.1 | 1,700.1 | 1,711.9 | 1,494.6 | 3,452.0 | 3,194.7 |
| Construction in progress | 2,071.3 | 2,393.7 | 354.2 | 251.0 | 2,425.5 | 2,644.7 |
| Infrastructure | 5,733.6 | 5,106.7 | 41.3 | 20.4 | 5,774.9 | 5,127.1 |
| Works of art and other nondepreciable assets | 1.7 | 1.3 | 64.4 | 62.1 | 66.1 | 63.4 |
| Total | \$ 11,271.1 | \$ 10,903.2 | \$ 2,293.1 | \$ 1,940.3 | \$ 13,564.2 | \$ 12,843.5 |

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

- Commitments of \$1.4 billion have been made for highway and bridge construction.
- Work on the Oregon State Hospital replacement project added \$145.6 million to construction in progress during the year.

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

ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET

The unemployment rate for Oregon was 10.6 percent in November 2010 compared to 10.7 percent the previous year. The U.S. unemployment rate in November was 9.8 percent. The third quarter preliminary job numbers in Oregon were down after posting job gains in the first and second quarters of 2010. The job losses in the third quarter are reflective of the slowdown seen at the national level. On a year-over-year basis, jobs decreased in the third quarter by 0.4 percent, a considerable improvement from the 5.5 percent year-over-year decline in the third quarter of 2009. Oregon's annual average employment decline for 2010 is expected

to be 1 percent. Job growth for 2011 is expected to be at 0.9 percent with modest job gains starting in the second quarter through the end of the year.

The December 2010 forecast for General Fund revenues for the 2009-11 biennium is \$12.5 billion. This figure is \$1.1 billion below the amount forecasted at the close of the 2009 legislative session. The projected General Fund ending balance for the 2009-11 biennium is \$61.9 million. The December 2010 revenue forecast also projects an increase in General Fund revenues for the next two biennia, up 11.5 percent to \$13.9 billion in 2011-13 and 13.5 percent to \$15.7 billion in 2013-15.



Basic Financial Statements

State of Oregon

Statement of Net Assets

June 30, 2010

(In Thousands)

| | Primary Government | | | |
|-----------------------------------------------------|----------------------------|-----------------------------|--------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| ASSETS AND DEFERRED OUTFLOWS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 977,323 | \$ 1,801,864 | \$ 2,779,187 | \$ 182,589 |
| Cash and Cash Equivalents - Restricted | - | 16,947 | 16,947 | - |
| Investments | 1,010,036 | 24,083 | 1,034,119 | 3,898,864 |
| Investments - Restricted | - | 170,571 | 170,571 | - |
| Securities Lending Collateral | 1,288,566 | 709,073 | 1,997,639 | 375,964 |
| Accounts and Interest Receivable (net) | 925,651 | 667,804 | 1,593,455 | 594,424 |
| Taxes Receivable (net) | 418,182 | - | 418,182 | - |
| Pledges, Contributions, and Grants Receivable (net) | - | - | - | 219,234 |
| Internal Balances | 154,609 | (154,609) | - | - |
| Due from Component Units | - | 13,581 | 13,581 | - |
| Due from Other Governments | - | 9,294 | 9,294 | - |
| Due from Primary Government | - | - | - | 16,787 |
| Inventories | 83,173 | 34,873 | 118,046 | 13,455 |
| Prepaid Items | 4,400 | 18,181 | 22,581 | 59,531 |
| Foreclosed and Deeded Property | - | 9,479 | 9,479 | - |
| Total Current Assets | 4,861,940 | 3,321,141 | 8,183,081 | 5,360,848 |
| Noncurrent Assets: | | | | |
| Cash and Cash Equivalents - Restricted | 1,658,555 | 798,282 | 2,456,837 | - |
| Investments | 75,132 | 108,908 | 184,040 | 567,198 |
| Investments - Restricted | 287,873 | 271,074 | 558,947 | 1,497,535 |
| Custodial Assets | 33,771 | - | 33,771 | - |
| Taxes Receivable (net) | 392,412 | - | 392,412 | - |
| Deferred Charges | 34,426 | 16,338 | 50,764 | 3,909 |
| Interfund Loans | (1,380) | 1,380 | - | - |
| Advances to Component Units | - | 19,849 | 19,849 | - |
| Net Contracts, Notes, and Other Receivables | 280,320 | 92,106 | 372,426 | 2,862 |
| Loans Receivable (net) | 597,251 | 2,199,802 | 2,797,053 | - |
| Pledges, Contributions, and Grants Receivable (net) | - | - | - | 84,260 |
| Net Pension Asset | 1,735,800 | - | 1,735,800 | - |
| Capital Assets: | | | | |
| Land | 1,724,396 | 121,340 | 1,845,736 | 60,499 |
| Buildings, Property, and Equipment | 2,977,163 | 3,207,747 | 6,184,910 | 2,118,126 |
| Construction in Progress | 2,071,340 | 354,174 | 2,425,514 | 29,021 |
| Infrastructure | 15,216,359 | 86,058 | 15,302,417 | - |
| Works of Art and Other Nondepreciable Assets | 1,746 | 64,429 | 66,175 | - |
| Less Accumulated Depreciation and Amortization | (10,719,949) | (1,540,641) | (12,260,590) | (924,755) |
| Total Noncurrent Assets | 16,365,215 | 5,800,846 | 22,166,061 | 3,438,655 |
| Deferred Outflows | - | 33,458 | 33,458 | 12,750 |
| Total Assets and Deferred Outflows | 21,227,155 | 9,155,445 | 30,382,600 | 8,812,253 |

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

Statement of Net Assets

June 30, 2010

(In Thousands)

(continued from previous page)

| | Primary Government | | | |
|----------------------------------------------|----------------------------|-----------------------------|-------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts and Interest Payable | 839,161 | 229,839 | 1,069,000 | 333,751 |
| Reserve for Loss and Loss Adjustment Expense | - | - | - | 206,333 |
| Obligations Under Securities Lending | 1,288,566 | 709,073 | 1,997,639 | 376,400 |
| Due to Component Units | 16,654 | - | 16,654 | - |
| Due to Other Governments | 152,503 | 14,236 | 166,739 | 18,632 |
| Due to Primary Government | - | - | - | 18,473 |
| Matured Bonds/COPS and Coupons Payable | - | 4,527 | 4,527 | - |
| Obligations Under Capital Lease | 4,632 | 97 | 4,729 | 1,825 |
| Bonds/COPS Payable | 315,116 | 201,962 | 517,078 | 10,985 |
| Claims and Judgments Payable | 126,789 | - | 126,789 | 29,337 |
| Custodial Liabilities | 278,625 | 29,197 | 307,822 | 9,088 |
| Unearned Revenue | 33,106 | 119,275 | 152,381 | 216,512 |
| Lottery Prize Awards Payable | - | 35,503 | 35,503 | - |
| Compensated Absences Payable | 107,927 | 50,770 | 158,697 | 52,036 |
| Arbitrage Rebate Payable | 440 | 960 | 1,400 | - |
| Contracts, Mortgages, and Notes Payable | 4,572 | 9,362 | 13,934 | 1,691 |
| Pollution Remediation Obligation | 3,573 | 282 | 3,855 | - |
| Total Current Liabilities | 3,171,664 | 1,405,083 | 4,576,747 | 1,275,063 |
| Noncurrent Liabilities: | | | | |
| Bonds/COPS Payable | 7,077,406 | 3,830,362 | 10,907,768 | 697,082 |
| Obligations Under Capital Lease | 8,618 | 600 | 9,218 | 5,238 |
| Obligations Under Life Income Agreements | - | - | - | 87,669 |
| Advances from Primary Government | - | - | - | 19,849 |
| Reserve for Loss and Loss Adjustment Expense | - | - | - | 2,752,578 |
| Claims and Judgments Payable | 983,354 | - | 983,354 | 41,406 |
| Custodial Liabilities | 2,337 | 10,065 | 12,402 | - |
| Lottery Prize Awards Payable | - | 101,063 | 101,063 | - |
| Compensated Absences Payable | 55,574 | 8,604 | 64,178 | - |
| Arbitrage Rebate Payable | 1,175 | 10,675 | 11,850 | - |
| Net OPEB Obligation | 32,179 | 15,220 | 47,399 | 5,108 |
| Contracts, Mortgages, and Notes Payable | 6,509 | 5,051 | 11,560 | 67,653 |
| Pollution Remediation Obligation | 10,866 | - | 10,866 | - |
| Derivative Instrument Liabilities | - | 33,458 | 33,458 | 12,750 |
| Total Noncurrent Liabilities | 8,178,018 | 4,015,098 | 12,193,116 | 3,689,333 |
| Total Liabilities | 11,349,682 | 5,420,181 | 16,769,863 | 4,964,396 |

(continued on next page)

Statement of Net Assets

June 30, 2010

(In Thousands)

(continued from previous page)

| | Primary Government | | | Component Units |
|-------------------------------------------------|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| NET ASSETS | | | | |
| Invested in Capital Assets, Net of Related Debt | 8,672,407 | 977,224 | 9,649,631 | 571,582 |
| Expendable Restricted Net Assets: | | | | |
| Restricted for Residential Assistance | 131,663 | 1,836 | 133,499 | - |
| Restricted for Debt Service | - | 283,603 | 283,603 | - |
| Restricted for Capital Construction | - | 91,696 | 91,696 | - |
| Restricted for Workers' Compensation | 7 | - | 7 | 927,342 |
| Restricted for Education | 554,249 | 163,512 | 717,761 | 912,085 |
| Restricted for Natural Resource Programs | 540,288 | - | 540,288 | - |
| Restricted for Health Services | 32,797 | - | 32,797 | - |
| Restricted for War Veterans' Programs | 1,402 | - | 1,402 | - |
| Nonexpendable Restricted Net Assets: | | | | |
| Restricted for Donor Purposes | - | 15,942 | 15,942 | 658,781 |
| Restricted for Education | 1,696 | - | 1,696 | 142,686 |
| Restricted for Residential Assistance | 23,551 | - | 23,551 | - |
| Restricted for Natural Resource Programs | 1,500 | - | 1,500 | - |
| Restricted for Workers' Compensation | 250 | - | 250 | - |
| Unrestricted | (82,337) | 2,201,451 | 2,119,114 | 635,381 |
| Total Net Assets | \$ 9,877,473 | \$ 3,735,264 | \$ 13,612,737 | \$ 3,847,857 |

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

State of Oregon

Statement of Activities
For the Year Ended June 30, 2010
(In Thousands)

| | Program Revenues | | | | Net (Expense) Revenue |
|--------------------------------------|------------------|-------------------------|------------------------------------------|----------------------------------------|-----------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Functions/Programs | | | | | |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| Education | \$ 4,303,106 | \$ 10,981 | \$ 754,160 | \$ 2,000 | \$ (3,535,965) |
| Human Services | 6,861,998 | 237,722 | 4,891,838 | - | (1,732,438) |
| Public Safety | 1,199,579 | 75,511 | 169,869 | 42,395 | (911,804) |
| Economic and Community Development | 455,453 | 23,805 | 429,667 | - | (1,981) |
| Natural Resources | 593,122 | 313,587 | 303,812 | 75 | 24,352 |
| Transportation | 1,858,705 | 115,507 | 666,371 | 928 | (1,075,899) |
| Consumer and Business Services | 463,489 | 276,359 | 25,260 | - | (161,870) |
| Administration | 474,624 | 107,625 | 449,084 | - | 82,085 |
| Legislative | 33,012 | 2,721 | 57 | - | (30,234) |
| Judicial | 308,574 | 145,548 | 958 | - | (162,068) |
| Interest on Long-term Debt | 299,467 | - | - | - | (299,467) |
| Total Governmental Activities | 16,851,129 | 1,309,366 | 7,691,076 | 45,398 | (7,805,289) |
| Business-type Activities: | | | | | |
| Housing and Community Services | 84,337 | 86,058 | 11,814 | - | 13,535 |
| Veterans' Loan | 19,685 | 14,451 | 6,965 | - | 1,731 |
| Lottery Operations | 518,076 | 1,027,735 | 11,276 | - | 520,935 |
| Unemployment Compensation | 3,020,372 | 859,790 | 1,678,282 | - | (482,300) |
| University System | 2,003,668 | 1,156,843 | 524,676 | 108,257 | (213,892) |
| State Hospitals | 222,311 | 90,820 | - | - | (131,491) |
| Liquor Control | 312,980 | 425,374 | - | - | 112,394 |
| Other Business-type Activities | 89,505 | 76,256 | 5,253 | - | (7,996) |
| Total Business-type Activities | 6,270,934 | 3,737,327 | 2,238,266 | 108,257 | (187,084) |
| Total Primary Government | \$ 23,122,063 | \$ 5,046,693 | \$ 9,929,342 | \$ 153,655 | \$ (7,992,373) |
| Component Units: | | | | | |
| SAIF Corporation | \$ 563,296 | \$ 357,184 | \$ 557,369 | \$ - | \$ 351,257 |
| Oregon Health and Science University | 1,858,986 | 1,447,934 | 539,620 | 2,431 | 130,999 |
| Oregon University System Foundations | 218,640 | 24,847 | 245,251 | - | 51,458 |
| Total Component Units | \$ 2,640,922 | \$ 1,829,965 | \$ 1,342,240 | \$ 2,431 | \$ 533,714 |

(continued on next page)

Statement of Activities
For the Year Ended June 30, 2010
(In Thousands)
(continued from previous page)

| | Primary Government | | | Component Units |
|---------------------------------------------------------------------------------------------|----------------------------|---------------------------------|----------------------|---------------------|
| | Governmental Activities | Business- type Activities | Total | |
| Changes in Net Assets: | | | | |
| Net (Expense) Revenue | \$ (7,805,289) | \$ (187,084) | \$ (7,992,373) | \$ 533,714 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Personal Income Taxes | 4,958,569 | - | 4,958,569 | - |
| Corporate Income Taxes | 387,639 | - | 387,639 | - |
| Tobacco Taxes | 250,135 | - | 250,135 | - |
| Healthcare Provider Taxes | 192,077 | - | 192,077 | - |
| Inheritance Taxes | 91,845 | - | 91,845 | - |
| Public Utilities Taxes | 80,790 | - | 80,790 | - |
| Insurance Premium Taxes | 70,291 | - | 70,291 | - |
| Other Taxes | 144,931 | 16,754 | 161,685 | - |
| Restricted for Transportation Purposes: | | | | |
| Motor Fuels Taxes | 406,179 | - | 406,179 | - |
| Weight Mile Taxes | 208,573 | - | 208,573 | - |
| Vehicle Registration Taxes | 245,699 | - | 245,699 | - |
| Restricted for Workers' Compensation and Workplace Safety Programs: | | | | |
| Workers' Compensation Insurance Taxes | 30,065 | - | 30,065 | - |
| Employer-Employee Taxes | 65,977 | - | 65,977 | - |
| Total Taxes | 7,132,770 | 16,754 | 7,149,524 | - |
| Unrestricted Investment Earnings | 3,193 | - | 3,193 | - |
| Contributions to Permanent Funds | 288 | - | 288 | - |
| Transfers - Internal Activities | 129,016 | (129,016) | - | - |
| Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers | 7,265,267 | (112,262) | 7,153,005 | - |
| Change in Net Assets | (540,022) | (299,346) | (839,368) | 533,714 |
| Net Assets - Beginning | 10,122,039 | 3,973,276 | 14,095,315 | 3,318,343 |
| Prior Period Adjustments | 295,456 | 61,299 | 356,755 | 95 |
| Cumulative Effect of a Change in Accounting Principles | - | 35 | 35 | (4,295) |
| Net Assets - Beginning - As Restated | 10,417,495 | 4,034,610 | 14,452,105 | 3,314,143 |
| Net Assets - Ending | \$ 9,877,473 | \$ 3,735,264 | \$ 13,612,737 | \$ 3,847,857 |

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

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State of Oregon

Balance Sheet
Governmental Funds
June 30, 2010
(In Thousands)

| | General | Health and Social Services | Public Transportation | Environmental Management |
|---------------------------------------------|-------------------|-------------------------------|--------------------------|-----------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ - | \$ 442,922 | \$ 571,886 | \$ 196,616 |
| Investments | - | - | 150,938 | - |
| Custodial Assets | - | - | 21,647 | 914 |
| Securities Lending Collateral | - | 160,999 | 397,945 | 119,416 |
| Accounts and Interest Receivable (net) | 9,548 | 320,175 | 96,748 | 43,948 |
| Taxes Receivable (net) | 722,374 | 20,323 | 58,094 | - |
| Due from Other Funds | 91,897 | 166,651 | 332,394 | 150,610 |
| Inventories | 26,529 | 807 | 25,647 | 22,352 |
| Prepaid Items | 2,576 | 12 | 36 | 28 |
| Advances to Other Funds | - | - | - | - |
| Net Contracts, Notes, and Other Receivables | 31,356 | 6,591 | 4,021 | 6,691 |
| Loans Receivable (net) | - | 866 | 28,244 | 433,142 |
| Total Assets | \$ 884,280 | \$ 1,119,346 | \$ 1,687,600 | \$ 973,717 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts and Interest Payable | \$ 150,840 | \$ 201,429 | \$ 140,816 | \$ 23,219 |
| Obligations Under Securities Lending | - | 160,999 | 397,945 | 119,416 |
| Due to Other Funds | 684,579 | 63,484 | 21,319 | 6,789 |
| Due to Component Units | - | 16,654 | - | - |
| Due to Other Governments | 93 | 9,347 | 61,185 | 18,806 |
| Advances from Other Funds | 718 | - | - | 300 |
| Custodial Liabilities | 8,547 | 34,370 | 29,280 | 7,240 |
| Deferred Revenue | 546,847 | 26,621 | 9,270 | 21,519 |
| Contracts, Mortgages, and Notes Payable | - | - | - | - |
| Total Liabilities | 1,391,624 | 512,904 | 659,815 | 197,289 |
| Fund Balances: | | | | |
| Reserved for Encumbrances | 6,295 | 7,889 | - | 3,691 |
| Reserved for Inventories | 26,529 | 807 | 25,647 | 22,352 |
| Reserved for Loans Receivable | - | 866 | 28,244 | 433,142 |
| Reserved for Advances to Other Funds | - | - | - | - |
| Reserved for Prepaid Items | 2,576 | 12 | 36 | 28 |
| Reserved for Debt Service | - | - | - | - |
| Reserved for Permanent Fund Principal | - | - | - | - |
| Reserved for Claims and Judgments Payable | - | - | - | - |
| Reserved for Revolving Accounts | 3 | 242 | 40 | 353 |
| Reserved for Unclaimed Property | - | - | - | - |
| Unreserved, Undesignated | (542,747) | 596,626 | 973,818 | 316,862 |
| Unreserved, Undesignated, Reported in: | | | | |
| Special Revenue Funds | - | - | - | - |
| Capital Projects Funds | - | - | - | - |
| Permanent Funds | - | - | - | - |
| Total Fund Balances | (507,344) | 606,442 | 1,027,785 | 776,428 |
| Total Liabilities and Fund Balances | \$ 884,280 | \$ 1,119,346 | \$ 1,687,600 | \$ 973,717 |

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

State of Oregon

| Common School | Oregon Rainy Day | Other | Total |
|--------------------------|-----------------------------|---------------------|---------------------|
| \$ 29,863 | \$ 125,522 | \$ 1,098,542 | \$ 2,465,351 |
| 884,835 | - | 281,005 | 1,316,778 |
| 8,916 | - | 2,294 | 33,771 |
| 52,796 | 48,720 | 349,714 | 1,129,590 |
| 16,837 | - | 310,850 | 798,106 |
| - | - | 9,802 | 810,593 |
| 258 | 57 | 526,102 | 1,267,969 |
| 3 | - | 6,374 | 81,712 |
| - | - | 1,148 | 3,800 |
| 300 | - | - | 300 |
| - | - | 230,859 | 279,518 |
| 1,657 | - | 133,341 | 597,250 |
| \$ 995,465 | \$ 174,299 | \$ 2,950,031 | \$ 8,784,738 |
| | | | |
| \$ 10,181 | \$ - | \$ 207,600 | \$ 734,085 |
| 52,796 | 48,720 | 349,714 | 1,129,590 |
| 787 | - | 333,400 | 1,110,358 |
| - | - | - | 16,654 |
| - | - | 63,073 | 152,504 |
| - | - | 1,108 | 2,126 |
| 192,941 | - | 4,597 | 276,975 |
| - | - | 236,210 | 840,467 |
| - | - | 35 | 35 |
| 256,705 | 48,720 | 1,195,737 | 4,262,794 |
| | | | |
| - | - | 40,823 | 58,698 |
| 3 | - | 6,374 | 81,712 |
| 1,657 | - | 133,341 | 597,250 |
| 300 | - | - | 300 |
| - | - | 1,148 | 3,800 |
| - | - | 358,710 | 358,710 |
| - | - | 26,997 | 26,997 |
| - | - | 149,691 | 149,691 |
| - | - | 217 | 855 |
| 186,406 | - | - | 186,406 |
| 550,394 | 125,579 | - | 2,020,532 |
| | | | |
| - | - | 981,589 | 981,589 |
| - | - | 50,420 | 50,420 |
| - | - | 4,984 | 4,984 |
| 738,760 | 125,579 | 1,754,294 | 4,521,944 |
| \$ 995,465 | \$ 174,299 | \$ 2,950,031 | \$ 8,784,738 |

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010
(In Thousands)

| | | |
|--------------------------------------------------|-----------|------------------|
| Total fund balances of governmental funds | \$ | 4,521,944 |
|--------------------------------------------------|-----------|------------------|

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

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

| | | |
|-------------------------------------------|---------------------|------------|
| Land | 1,714,311 | |
| Buildings, property, and equipment | 2,405,243 | |
| Construction in progress | 2,060,505 | |
| Infrastructure | 15,215,722 | |
| Works of art and historical treasures | 1,579 | |
| Accumulated depreciation and amortization | <u>(10,445,275)</u> | |
| Total capital assets | | 10,952,085 |

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|
| The net pension asset resulting from contributions in excess of the annual required contribution in 2004 is not a financial resource and, therefore, is not reported in the funds. (See Note 15) | | 1,735,800 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------|
| Some of the State's revenues will be collected after year-end but are not available soon enough to pay the current year liabilities and, therefore, are deferred in the funds. | | 826,427 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------|

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------|
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. | | 209,085 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------|

| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------|
| Unamortized debt issuance costs are reported as deferred charges for governmental activities in the Statement of Net Assets but are reported as expenditures in the funds. | | 33,603 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------|

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

| | | |
|-----------------------------------------|-----------------|--------------------|
| Bonds and COPS | (7,237,975) | |
| Accrued interest on bonds and COPS | (49,201) | |
| Claims and judgments | (900,590) | |
| Compensated absences | (154,167) | |
| Obligations under capital lease | (1,800) | |
| Net OPEB obligation | (30,785) | |
| Arbitrage rebate | (1,468) | |
| Contracts, mortgages, and notes payable | (11,046) | |
| Pollution remediation obligation | <u>(14,439)</u> | |
| Total long-term liabilities | | <u>(8,401,471)</u> |

| | | |
|----------------------------------------------|-----------|-------------------------|
| Net assets of governmental activities | \$ | <u>9,877,473</u> |
|----------------------------------------------|-----------|-------------------------|

State of Oregon

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2010

(In Thousands)

| | General | Health and Social Services | Public Transportation | Environmental Management |
|-----------------------------------------------------------|---------------------|-------------------------------|--------------------------|-----------------------------|
| Revenues: | | | | |
| Personal Income Taxes | \$ 4,947,334 | \$ - | \$ - | \$ - |
| Corporate Income Taxes | 380,950 | - | - | - |
| Tobacco Taxes | 56,648 | 192,168 | - | - |
| Healthcare Provider Taxes | - | 192,077 | - | - |
| Inheritance Taxes | 101,410 | - | - | - |
| Public Utilities Taxes | - | - | - | - |
| Insurance Premium Taxes | 45,238 | 12,247 | - | - |
| Motor Fuels Taxes | - | - | 405,727 | - |
| Weight Mile Taxes | - | - | 209,121 | - |
| Vehicle Registration Taxes | - | - | 245,922 | - |
| Employer-Employee Taxes | - | - | - | - |
| Workers' Compensation Insurance Taxes | - | - | - | - |
| Other Taxes | 1,585 | 72,082 | 1,628 | 21,774 |
| Licenses and Fees | 42,249 | 96,945 | 69,775 | 130,912 |
| Federal | - | 3,851,554 | 732,253 | 141,588 |
| Charges for Services | 4,100 | 132,829 | 25,789 | 37,036 |
| Fines and Forfeitures | 4,057 | 675 | 4,997 | 634 |
| Rents and Royalties | 4 | 33 | 5,043 | 2,680 |
| Investment Income | 3,193 | 3,856 | 16,046 | 18,000 |
| Sales | 605 | 4,199 | 6,733 | 86,233 |
| Donations and Grants | 5 | 3,781 | - | 796 |
| Contributions to Permanent Funds | - | - | - | - |
| Tobacco Settlement Proceeds | - | 82,327 | - | - |
| Pension Bond Debt Service Assessments | - | - | - | - |
| Unclaimed Property Revenue | - | - | - | - |
| Other | 18,627 | 178,999 | 10,665 | 16,257 |
| Total Revenues | 5,606,005 | 4,823,772 | 1,733,699 | 455,910 |
| Expenditures: | | | | |
| Current: | | | | |
| Education | 2,790,608 | - | - | - |
| Human Services | 1,362,410 | 4,619,533 | - | - |
| Public Safety | 803,527 | - | - | - |
| Economic and Community Development | 8,892 | - | - | - |
| Natural Resources | 61,930 | - | - | 484,149 |
| Transportation | 4,979 | 8,002 | 1,875,588 | - |
| Consumer and Business Services | 5,496 | 167,620 | - | - |
| Administration | 126,857 | 26,591 | 103,739 | - |
| Legislative | 29,636 | - | - | - |
| Judicial | 252,951 | 1,046 | - | - |
| Capital Improvements and Capital Construction | - | - | - | - |
| Debt Service: | | | | |
| Principal | 62,472 | - | - | 64 |
| Interest | 52,720 | - | 641 | 110 |
| Other Debt Service | 831 | 1,630 | 4,315 | 246 |
| Total Expenditures | 5,563,309 | 4,824,422 | 1,984,283 | 484,569 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 42,696 | (650) | (250,584) | (28,659) |
| Other Financing Sources (Uses): | | | | |
| Transfers from Other Funds | 419,080 | 103,089 | 1,833 | 145,908 |
| Transfers to Other Funds | (619,016) | (209,382) | (231,385) | (49,666) |
| Insurance Recoveries | 162 | - | 2,053 | 24 |
| Long-term Debt Issued | - | 219,810 | 580,285 | 8,690 |
| Debt Issuance Premium | - | 8,967 | 3,721 | 579 |
| Debt Issuance Discount | - | - | - | (30) |
| Refunding Debt Issued | - | - | - | - |
| Leases Incurred | - | - | - | 558 |
| Refunded Debt Payment to Escrow Agent | - | - | - | - |
| Total Other Financing Sources (Uses) | (199,774) | 122,484 | 356,507 | 106,063 |
| Net Change in Fund Balances | (157,078) | 121,834 | 105,923 | 77,404 |
| Fund Balances - Beginning | (304,756) | 445,065 | 920,595 | 695,762 |
| Prior Period Adjustments | (44,555) | 43,526 | (1,738) | 1,318 |
| Fund Balances - Beginning - As Restated | (349,311) | 488,591 | 918,857 | 697,080 |
| Change in Reserve for Inventories | (955) | (3,983) | 3,005 | 1,944 |
| Fund Balances - Ending | \$ (507,344) | \$ 606,442 | \$ 1,027,785 | \$ 776,428 |

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

State of Oregon

| Common School | Oregon Rainy Day | Other | Total |
|------------------|---------------------|--------------|--------------|
| \$ - | \$ - | \$ - | \$ 4,947,334 |
| - | - | - | 380,950 |
| - | - | - | 248,816 |
| - | - | - | 192,077 |
| - | - | 5,205 | 106,615 |
| - | - | 80,790 | 80,790 |
| - | - | 12,807 | 70,292 |
| - | - | - | 405,727 |
| - | - | - | 209,121 |
| - | - | - | 245,922 |
| - | - | 67,170 | 67,170 |
| - | - | 30,065 | 30,065 |
| - | - | 41,257 | 138,326 |
| 748 | - | 145,530 | 486,159 |
| - | - | 2,687,877 | 7,413,272 |
| 158 | - | 75,973 | 275,885 |
| 109 | - | 78,246 | 88,718 |
| 3,400 | - | 3,268 | 14,428 |
| 120,102 | 877 | 36,079 | 198,153 |
| 3,027 | - | 5,603 | 106,400 |
| 11 | - | 19,959 | 24,552 |
| - | - | 288 | 288 |
| - | - | - | 82,327 |
| - | - | 6,216 | 6,216 |
| 13,716 | - | - | 13,716 |
| 1,460 | - | 72,053 | 298,061 |
| 142,731 | 877 | 3,368,386 | 16,131,380 |
| - | - | 1,513,491 | 4,304,099 |
| - | - | 1,049,478 | 7,031,421 |
| - | - | 373,855 | 1,177,382 |
| - | - | 447,277 | 456,169 |
| 15,605 | - | 38,786 | 600,470 |
| - | - | 9,508 | 1,898,077 |
| - | - | 273,878 | 446,994 |
| - | 108 | 177,869 | 435,164 |
| - | - | 2,400 | 32,036 |
| - | - | 56,471 | 310,468 |
| - | - | 121,440 | 121,440 |
| - | - | 202,143 | 264,679 |
| - | - | 262,179 | 315,650 |
| - | - | 2,226 | 9,248 |
| 15,605 | 108 | 4,531,001 | 17,403,297 |
| 127,126 | 769 | (1,162,615) | (1,271,917) |
| 10,006 | 22,295 | 1,748,190 | 2,450,401 |
| (57,096) | (235,030) | (875,973) | (2,277,548) |
| - | - | 237 | 2,476 |
| - | - | 208,673 | 1,017,458 |
| - | - | 27,998 | 41,265 |
| - | - | - | (30) |
| - | - | 106,354 | 106,354 |
| - | - | - | 558 |
| - | - | (182,531) | (182,531) |
| (47,090) | (212,735) | 1,032,948 | 1,158,403 |
| 80,036 | (211,966) | (129,667) | (113,514) |
| 486,320 | 337,545 | 1,854,690 | 4,435,221 |
| 172,411 | - | 32,029 | 202,991 |
| 658,731 | 337,545 | 1,886,719 | 4,638,212 |
| (7) | - | (2,758) | (2,754) |
| \$ 738,760 | \$ 125,579 | \$ 1,754,294 | \$ 4,521,944 |

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**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2010
(In Thousands)**

Net change in fund balances of total governmental funds \$ (113,514)

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

Capital outlay is reported as an expenditure in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

| | | |
|---------------------------------------------|-----------|---------|
| Capital outlay | 1,050,143 | |
| Depreciation expense | (755,382) | |
| | | |
| Excess of capital outlays over depreciation | | 294,761 |

The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net assets. (1,176)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing. In the Statement of Net Assets, a lease obligation is reported as a liability. (558)

Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Assets. (1,165,047)

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Assets. 447,210

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these items are deferred and amortized in the Statement of Activities. 14,703

Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds.

| | | |
|-----------------------------------------|----------|----------|
| Accrued interest on long-term debt | 13,836 | |
| Claims and judgments payable | (13,126) | |
| Compensated absences | (5,130) | |
| Net pension asset | (52,900) | |
| Net OPEB obligation | (4,879) | |
| Contracts, mortgages, and notes payable | (3,668) | |
| Pollution remediation obligation | (656) | |
| | | |
| Total | | (66,523) |

Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the governmental funds. 952

Some revenues will not be collected for several months after the State's fiscal year ends. Therefore, they are not considered "available" revenues and are deferred in the governmental funds. 52,265

The change in inventory is reported as a separate line after the change in fund balances in governmental funds but is included in expenses in the Statement of Activities. (2,754)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities. (341)

Change in net assets of governmental activities \$ (540,022)

Balance Sheet
Proprietary Funds
June 30, 2010
(In Thousands)

| | Business-type Activities - Enterprise Funds | | |
|------------------------------------------------|----------------------------------------------------|---------------------------|-------------------------------|
| | Housing and Community Services | Veterans' Loan | Lottery Operations |
| ASSETS AND DEFERRED OUTFLOWS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 4,368 | \$ 89,880 | \$ 234,659 |
| Cash and Cash Equivalents - Restricted | 10,245 | 4,601 | - |
| Investments | - | 10,904 | 13,179 |
| Investments - Restricted | 155,566 | 15,005 | - |
| Securities Lending Collateral | 37,016 | 91,913 | 134,788 |
| Accounts and Interest Receivable (net) | 8,435 | 2,069 | 12,205 |
| Due from Other Funds | 10 | 67 | - |
| Due from Component Units | - | - | - |
| Due from Other Governments | - | - | - |
| Inventories | - | - | 2,318 |
| Prepaid Items | - | 9 | 723 |
| Foreclosed and Deeded Property | 8,050 | 1,429 | - |
| Total Current Assets | 223,690 | 215,877 | 397,872 |
| Noncurrent Assets: | | | |
| Cash and Cash Equivalents - Restricted | 81,248 | 166,349 | - |
| Investments | - | 7,845 | 101,063 |
| Investments - Restricted | 196,787 | 13,127 | - |
| Deferred Charges | 11,129 | 1,914 | - |
| Advances to Other Funds | - | - | - |
| Advances to Component Units | - | - | - |
| Net Contracts, Notes, and Other Receivables | - | 2,580 | 2,744 |
| Loans Receivable (net) | 1,327,272 | 272,820 | - |
| Capital Assets: | | | |
| Land | - | - | - |
| Buildings, Property, and Equipment | 182 | 8,912 | 182,779 |
| Construction in Progress | - | - | 710 |
| Infrastructure | - | - | - |
| Works of Art and Other Nondepreciable Assets | - | 85 | - |
| Less Accumulated Depreciation and Amortization | (179) | (4,892) | (94,236) |
| Total Noncurrent Assets | 1,616,439 | 468,740 | 193,060 |
| Deferred Outflows | 31,208 | 2,250 | - |
| Total Assets and Deferred Outflows | \$ 1,871,337 | \$ 686,867 | \$ 590,932 |

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

State of Oregon

| Business-type Activities - Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|----------------------------------------------------|------------------------------|--------------|--------------|------------|-------------------------------------------------------------------|
| Unemployment Compensation | University System | Other | Total | | |
| \$ 773,854 | \$ 485,599 | \$ 213,504 | \$ 1,801,864 | \$ 73,276 | |
| - | 2,037 | 64 | 16,947 | - | |
| - | - | - | 24,083 | - | |
| - | - | - | 170,571 | - | |
| - | 366,704 | 78,652 | 709,073 | 158,973 | |
| 412,127 | 198,481 | 34,487 | 667,804 | 127,542 | |
| - | 6,676 | 628 | 7,381 | 2,107 | |
| - | 13,581 | - | 13,581 | - | |
| 9,294 | - | - | 9,294 | - | |
| - | 6,883 | 25,672 | 34,873 | 1,461 | |
| - | 16,557 | 892 | 18,181 | 600 | |
| - | - | - | 9,479 | - | |
| 1,195,275 | 1,096,518 | 353,899 | 3,483,131 | 363,959 | |
| - | 496,005 | 54,680 | 798,282 | 97,255 | |
| - | - | - | 108,908 | - | |
| - | 61,160 | - | 271,074 | 56,263 | |
| - | - | 3,295 | 16,338 | 823 | |
| 1,108 | - | 57,698 | 58,806 | 705 | |
| - | 19,849 | - | 19,849 | - | |
| 25,547 | 61,164 | 71 | 92,106 | 804 | |
| - | - | 599,710 | 2,199,802 | - | |
| - | 115,858 | 5,482 | 121,340 | 10,085 | |
| - | 2,895,633 | 120,241 | 3,207,747 | 571,920 | |
| - | 353,405 | 59 | 354,174 | 10,835 | |
| - | 85,178 | 880 | 86,058 | 637 | |
| - | 64,304 | 40 | 64,429 | 167 | |
| - | (1,387,843) | (53,491) | (1,540,641) | (274,674) | |
| 26,655 | 2,764,713 | 788,665 | 5,858,272 | 474,820 | |
| - | - | - | 33,458 | - | |
| \$ 1,221,930 | \$ 3,861,231 | \$ 1,142,564 | \$ 9,374,861 | \$ 838,779 | |

(continued on next page)

Balance Sheet
Proprietary Funds
June 30, 2010
(In Thousands)
(continued from previous page)

| | Business-type Activities - Enterprise Funds | | |
|-------------------------------------------------|----------------------------------------------------|---------------------------|-------------------------------|
| | Housing and Community Services | Veterans' Loan | Lottery Operations |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts and Interest Payable | \$ 33,389 | \$ 1,518 | \$ 4,398 |
| Obligations Under Securities Lending | 37,016 | 91,913 | 134,788 |
| Due to Other Funds | 44 | - | 151,872 |
| Due to Other Governments | - | - | - |
| Matured Bonds/COPS and Coupons Payable | - | 2,426 | - |
| Obligations under Capital Lease | - | - | - |
| Bonds/COPS Payable | 133,435 | 2,065 | - |
| Claims and Judgments Payable | - | - | - |
| Custodial Liabilities | - | 2,175 | 126 |
| Unearned Revenue | 913 | - | 304 |
| Lottery Prize Awards Payable | - | - | 35,503 |
| Compensated Absences Payable | 229 | 290 | 1,787 |
| Arbitrage Rebate Payable | 86 | 488 | - |
| Contracts, Mortgages, and Notes Payable | - | - | 23 |
| Pollution Remediation Obligation | - | - | - |
| Total Current Liabilities | 205,112 | 100,875 | 328,801 |
| Noncurrent Liabilities: | | | |
| Bonds/COPS Payable | 1,426,614 | 438,829 | - |
| Obligations Under Capital Lease | - | - | - |
| Advances from Other Funds | - | - | - |
| Claims and Judgments Payable | - | - | - |
| Custodial Liabilities | - | - | - |
| Lottery Prize Awards Payable | - | - | 101,063 |
| Compensated Absences Payable | 118 | 149 | 921 |
| Arbitrage Rebate Payable | - | 10,487 | - |
| Net OPEB Obligation | 60 | 76 | 452 |
| Contracts, Mortgages, and Notes Payable | 1,500 | - | 15 |
| Derivative Instrument Liabilities | 31,208 | 2,250 | - |
| Total Noncurrent Liabilities | 1,459,500 | 451,791 | 102,451 |
| Total Liabilities | 1,664,612 | 552,666 | 431,252 |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 3 | 4,105 | 89,253 |
| Expendable Restricted Net Assets: | | | |
| Restricted for Residential Assistance | 1,836 | - | - |
| Restricted for Education | - | - | - |
| Restricted for Debt Service | 199,185 | - | - |
| Restricted for Capital Construction | - | - | - |
| Nonexpendable Restricted Net Assets: | | | |
| Restricted for Donor Purposes | - | - | - |
| Unrestricted | 5,701 | 130,096 | 70,427 |
| Total Net Assets | 206,725 | 134,201 | 159,680 |
| Total Liabilities and Net Assets | \$ 1,871,337 | \$ 686,867 | \$ 590,932 |

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

| Business-type Activities - Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|---------------------------------------------|----------------------|--------------|--------------|------------|---------------------------------------------------------|
| Unemployment Compensation | University System | Other | Total | | |
| \$ 23,932 | \$ 133,611 | \$ 32,991 | \$ 229,839 | \$ 55,876 | |
| - | 366,704 | 78,652 | 709,073 | 158,973 | |
| 1,769 | 170 | 12,858 | 166,713 | 383 | |
| 14,211 | - | 25 | 14,236 | - | |
| - | 2,037 | 64 | 4,527 | - | |
| - | 97 | - | 97 | 3,827 | |
| - | 41,472 | 24,990 | 201,962 | 21,629 | |
| - | - | - | - | 30,679 | |
| - | 24,446 | 2,450 | 29,197 | 1,652 | |
| - | 117,825 | 233 | 119,275 | 19,066 | |
| - | - | - | 35,503 | - | |
| - | 41,254 | 7,210 | 50,770 | 6,160 | |
| - | 386 | - | 960 | 127 | |
| - | 9,339 | - | 9,362 | - | |
| - | 282 | - | 282 | - | |
| 39,912 | 737,623 | 159,473 | 1,571,796 | 298,372 | |
| - | 1,622,622 | 342,297 | 3,830,362 | 132,918 | |
| - | 599 | 1 | 600 | 7,623 | |
| - | 57,326 | 100 | 57,426 | 259 | |
| - | - | - | - | 178,874 | |
| - | 9,700 | 365 | 10,065 | 2,337 | |
| - | - | - | 101,063 | - | |
| - | 3,789 | 3,627 | 8,604 | 3,174 | |
| - | 188 | - | 10,675 | 20 | |
| - | 12,054 | 2,578 | 15,220 | 1,394 | |
| - | 3,536 | - | 5,051 | - | |
| - | - | - | 33,458 | - | |
| - | 1,709,814 | 348,968 | 4,072,524 | 326,599 | |
| 39,912 | 2,447,437 | 508,441 | 5,644,320 | 624,971 | |
| - | 817,565 | 66,298 | 977,224 | 152,989 | |
| - | - | - | 1,836 | - | |
| - | 163,512 | - | 163,512 | - | |
| - | 72,971 | 11,447 | 283,603 | - | |
| - | 91,696 | - | 91,696 | - | |
| - | 15,942 | - | 15,942 | - | |
| 1,182,018 | 252,108 | 556,378 | 2,196,728 | 60,819 | |
| 1,182,018 | 1,413,794 | 634,123 | 3,730,541 | 213,808 | |
| \$ 1,221,930 | \$ 3,861,231 | \$ 1,142,564 | \$ 9,374,861 | \$ 838,779 | |

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

| | |
|----------------------------------------|---------------------|
| Net assets of business-type activities | 4,723 |
| | <u>\$ 3,735,264</u> |

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2010

(In Thousands)

| | Business-type Activities - Enterprise Funds | | |
|------------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------|-------------------------------|
| | Housing and Community Services | Veterans' Loan | Lottery Operations |
| Operating Revenues: | | | |
| Assessments | \$ - | \$ - | \$ - |
| Licenses and Fees | 4,458 | 132 | - |
| Federal | - | - | - |
| Charges for Services | 1,268 | 1,983 | - |
| Fines and Forfeitures | - | - | - |
| Rents and Royalties | - | 649 | - |
| Sales | - | 1 | 1,027,569 |
| Loan Interest Income | 79,035 | 11,655 | - |
| Gifts, Grants, and Contracts | - | - | - |
| Other | 1,312 | 318 | 252 |
| Gain (Loss) on Foreclosed Property | 66 | 35 | - |
| Total Operating Revenues | 86,139 | 14,773 | 1,027,821 |
| Operating Expenses: | | | |
| Salaries and Wages | 4,960 | 5,642 | 34,609 |
| Services and Supplies | 8,557 | 4,312 | 235,876 |
| Cost of Goods Sold | - | - | - |
| Distributions to Other Governments | 448 | - | - |
| Loan Interest Expense | 50 | - | - |
| Special Payments | 734 | 55 | 210,895 |
| Bond and COP Interest | 68,618 | 8,495 | - |
| Other Debt Service | 937 | 111 | - |
| Depreciation and Amortization | 1 | 117 | 30,900 |
| Bad Debt Expense | - | 937 | - |
| Total Operating Expenses | 84,305 | 19,669 | 512,280 |
| Operating Income (Loss) | 1,834 | (4,896) | 515,541 |
| Nonoperating Revenues (Expenses): | | | |
| Bond and COP Interest | - | - | - |
| Investment Income (Loss) | 11,813 | 6,965 | 11,276 |
| Other Taxes | - | - | - |
| Gain (Loss) on Disposition of Assets | - | - | (5,324) |
| Insurance Recoveries | - | - | 108 |
| Loan Interest Income | - | - | - |
| Loan Interest Expense | - | - | - |
| Other Nonoperating Items | (81) | (321) | (193) |
| Total Nonoperating Revenues (Expenses) | 11,732 | 6,644 | 5,867 |
| Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers | 13,566 | 1,748 | 521,408 |
| Capital Contributions | - | - | - |
| Transfers from Other Funds | - | - | - |
| Transfers to Other Funds | (208) | (226) | (545,771) |
| Change in Net Assets | 13,358 | 1,522 | (24,363) |
| Net Assets - Beginning | 193,367 | 132,679 | 184,043 |
| Prior Period Adjustments | - | - | - |
| Cumulative Effect of Change in Accounting Principles | - | - | - |
| Net Assets - Beginning - As Restated | 193,367 | 132,679 | 184,043 |
| Net Assets - Ending | \$ 206,725 | \$ 134,201 | \$ 159,680 |

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

State of Oregon

| Business-type Activities - Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|----------------------------------------------------|------------------------------|--------------|--------------|------------|-------------------------------------------------------------------|
| Unemployment Compensation | University System | Other | Total | | |
| \$ 773,454 | \$ - | \$ - | \$ 773,454 | \$ - | - |
| - | - | 7,806 | 12,396 | 2,634 | - |
| 1,634,664 | 415,126 | 3,651 | 2,053,441 | - | - |
| - | 627,911 | 116,713 | 747,875 | 688,929 | - |
| 1,528 | - | 647 | 2,175 | - | - |
| - | - | 40 | 689 | 43,760 | - |
| - | 377,445 | 436,278 | 1,841,293 | 10,368 | - |
| - | - | 28,042 | 118,732 | - | - |
| - | 89,617 | - | 89,617 | - | - |
| 84,818 | 20,775 | 3,022 | 110,497 | 2,610 | - |
| - | - | - | 101 | - | - |
| 2,494,464 | 1,530,874 | 596,199 | 5,750,270 | 748,301 | - |
| - | 1,249,098 | 211,369 | 1,505,678 | 121,180 | - |
| - | 456,852 | 111,930 | 817,527 | 534,386 | - |
| - | - | 217,166 | 217,166 | 10,167 | - |
| - | - | 48,424 | 48,872 | 933 | - |
| - | - | 1 | 51 | - | - |
| 3,018,012 | 125,693 | 6,812 | 3,362,201 | - | - |
| - | - | 16,793 | 93,906 | 6,764 | - |
| - | - | 455 | 1,503 | 167 | - |
| - | 103,449 | 3,198 | 137,665 | 39,065 | - |
| 1,595 | - | 8,585 | 11,117 | - | - |
| 3,019,607 | 1,935,092 | 624,733 | 6,195,686 | 712,662 | - |
| (525,143) | (404,218) | (28,534) | (445,416) | 35,639 | - |
| - | (66,894) | - | (66,894) | - | - |
| 43,618 | 19,934 | 1,602 | 95,208 | 4,231 | - |
| - | - | 16,754 | 16,754 | - | - |
| - | (875) | (64) | (6,263) | 3,468 | - |
| - | 830 | 6 | 944 | 263 | - |
| - | - | - | - | 43 | - |
| - | - | - | - | (47) | - |
| (10) | 129,882 | (2,663) | 126,614 | (107) | - |
| 43,608 | 82,877 | 15,635 | 166,363 | 7,851 | - |
| (481,535) | (321,341) | (12,899) | (279,053) | 43,490 | - |
| - | 108,257 | 966 | 109,223 | 35 | - |
| 646 | 432,332 | 191,908 | 624,886 | 2,216 | - |
| (33,918) | (30,778) | (141,411) | (752,312) | (48,172) | - |
| (514,807) | 188,470 | 38,564 | (297,256) | (2,431) | - |
| 1,634,715 | 1,225,324 | 596,335 | 3,966,463 | 220,644 | - |
| 62,110 | - | (811) | 61,299 | (4,405) | - |
| - | - | 35 | 35 | - | - |
| 1,696,825 | 1,225,324 | 595,559 | 4,027,797 | 216,239 | - |
| \$ 1,182,018 | \$ 1,413,794 | \$ 634,123 | \$ 3,730,541 | \$ 213,808 | - |

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

| | |
|--------------------------------------------------|---------------------|
| Change in net assets of business-type activities | (2,090) |
| | <u>\$ (299,346)</u> |

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2010

(In Thousands)

Cash Flows from Operating Activities:

| |
|----------------------------------------|
| Receipts from Customers |
| Receipts from Other Funds for Services |
| Loan Principal Repayments |
| Loan Interest Received |
| Taxes and Assessments Received |
| Payments to Employees for Services |
| Payments to Suppliers |
| Payments to Other Funds for Services |
| Payments to Prize Winners |
| Claims Paid |
| Loans Made |
| Distributions to Other Governments |
| Other Receipts (Payments) |

Net Cash Provided (Used) in Operating Activities

Cash Flows from Noncapital Financing Activities:

| |
|----------------------------------------------------|
| Proceeds from Bond/COP Sales |
| Principal Payments on Bonds/COPS |
| Interest Payments on Bonds/COPS |
| Interest Payments on Loans |
| Bond/COP Issuance Costs |
| Taxes and Assessments Received |
| Other Gifts and Private Contracts |
| Insurance Recoveries for Other than Capital Assets |
| Transfers from Other Funds |
| Transfers to Other Funds |

Net Cash Provided (Used) in Noncapital Financing Activities

Cash Flows from Capital and Related Financing Activities:

| |
|---------------------------------------------|
| Proceeds from Bond/COP Sales |
| Principal Payments on Bonds/COPS |
| Interest Payments on Bonds/COPS |
| Bond/COP Issuance Costs |
| Principal Payments on Advances |
| Repayments on Advances Received |
| Interest on Advances |
| Principal Payments on Loans |
| Interest Payments on Loans |
| Acquisition of Capital Assets |
| Payments on Capital Leases |
| Proceeds from Disposition of Capital Assets |
| Insurance Recoveries for Capital Assets |
| Capital Contributions |
| Transfers from Other Funds |

Net Cash Provided (Used) in Capital and Related Financing Activities

Cash Flows from Investing Activities:

| |
|---------------------------------------------------|
| Purchases of Investments |
| Proceeds from Sales and Maturities of Investments |
| Interest on Investments and Cash Balances |
| Interest Income from Securities Lending |
| Interest Expense from Securities Lending |

Net Cash Provided (Used) in Investing Activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning

Prior Period Adjustments Restating Beginning Cash Balances

Cash and Cash Equivalents - Ending

Business-type Activities - Enterprise Funds

| Housing and Community Services | Veterans' Loan | Lottery Operations |
|--------------------------------------|-------------------|-----------------------|
| \$ 5,507 | \$ 1,410 | \$ 1,039,737 |
| - | 1,614 | - |
| 106,971 | 33,960 | - |
| 79,021 | 17,206 | - |
| - | - | - |
| (4,990) | (5,613) | (34,529) |
| (7,393) | (2,209) | (247,356) |
| - | (1,019) | - |
| - | - | (205,204) |
| - | - | - |
| (28,337) | (13,498) | - |
| - | - | - |
| 2,651 | 722 | 537 |
| 153,430 | 32,573 | 553,185 |
| 120,000 | - | - |
| (141,465) | (292,272) | - |
| (72,217) | (8,641) | - |
| (51) | - | - |
| (252) | (1,025) | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| (208) | (226) | (527,574) |
| (94,193) | (302,164) | (527,574) |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | (29,772) |
| - | - | - |
| - | - | 23 |
| - | - | 107 |
| - | - | - |
| - | - | - |
| - | - | (29,642) |
| (1,028,086) | (10,287) | (6,282) |
| 960,202 | 53,349 | 13,364 |
| 5,026 | 4,912 | 1,275 |
| 127 | 500 | 386 |
| (81) | (321) | (193) |
| (62,812) | 48,153 | 8,550 |
| (3,575) | (221,438) | 4,519 |
| 99,436 | 482,268 | 230,140 |
| - | - | - |
| \$ 95,861 | \$ 260,830 | \$ 234,659 |

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

State of Oregon

| Business-type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|----------------------------------------------------|------------------------------|--------------|--------------|-------------------------------------------------------------------|
| Unemployment Compensation | University System | Other | Total | |
| \$ - | \$ 1,514,084 | \$ 555,197 | \$ 3,115,935 | \$ 67,079 |
| - | - | 138 | 1,752 | 663,157 |
| - | 11,947 | 70,097 | 222,975 | - |
| - | - | 27,616 | 123,843 | - |
| 724,257 | - | - | 724,257 | - |
| - | (1,230,472) | (209,904) | (1,485,508) | (129,755) |
| - | (420,370) | (323,251) | (1,000,579) | (385,243) |
| - | - | (7,655) | (8,674) | (28,846) |
| - | - | - | (205,204) | - |
| (3,110,516) | - | - | (3,110,516) | (14,859) |
| - | (121,149) | (111,302) | (274,286) | - |
| - | - | (45,454) | (45,454) | (933) |
| 1,619,553 | (6,719) | 1,993 | 1,618,737 | 2,767 |
| (766,706) | (252,679) | (42,525) | (322,722) | 173,367 |
| - | - | 50,983 | 170,983 | - |
| - | - | (24,079) | (457,816) | - |
| - | - | (16,046) | (96,904) | - |
| - | - | - | (51) | - |
| - | - | (136) | (1,413) | - |
| - | - | 16,825 | 16,825 | - |
| - | 111,109 | - | 111,109 | - |
| - | 6 | 5 | 11 | 1 |
| - | 394,593 | 208,646 | 603,239 | 4,817 |
| (31,668) | (34,607) | (140,473) | (734,756) | (45,431) |
| (31,668) | 471,101 | 95,725 | (388,773) | (40,613) |
| - | 276,725 | - | 276,725 | 17,884 |
| - | (44,569) | (1,144) | (45,713) | (44,521) |
| - | (79,737) | (346) | (80,083) | (7,735) |
| - | - | - | - | (215) |
| - | - | - | - | (32) |
| - | - | - | - | 27 |
| - | - | - | - | 65 |
| - | - | - | - | (4,500) |
| - | - | - | - | (47) |
| - | (401,549) | (3,217) | (434,538) | (11,073) |
| - | - | - | - | (542) |
| - | 22,146 | 9 | 22,178 | 6,029 |
| - | 824 | 1 | 932 | 264 |
| - | 59,338 | - | 59,338 | - |
| - | 32,105 | - | 32,105 | - |
| - | (134,717) | (4,697) | (169,056) | (44,396) |
| - | - | - | (1,044,655) | (21,151) |
| - | 17,460 | 374 | 1,044,749 | 47,529 |
| 40,755 | 8,123 | 1,291 | 61,382 | 3,675 |
| 15 | 858 | 165 | 2,051 | 168 |
| (9) | (543) | (106) | (1,253) | (108) |
| 40,761 | 25,898 | 1,724 | 62,274 | 30,113 |
| (757,613) | 109,603 | 50,227 | (818,277) | 118,471 |
| 1,424,675 | 874,038 | 224,632 | 3,335,189 | 52,173 |
| 106,792 | - | (6,611) | 100,181 | (113) |
| \$ 773,854 | \$ 983,641 | \$ 268,248 | \$ 2,617,093 | \$ 170,531 |

(continued on next page)

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2010

(In Thousands)

(continued from previous page)

| | Business-type Activities - Enterprise Funds | | |
|------------------------------------------------------------------------------|----------------------------------------------------|---------------------------|-------------------------------|
| | Housing and Community Services | Veterans' Loan | Lottery Operations |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) | | | |
| by Operating Activities: | | | |
| Operating Income (Loss) | \$ 1,834 | \$ (4,896) | \$ 515,541 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided | | | |
| (Used) by Operating Activities: | | | |
| Depreciation and Amortization | 1 | 117 | 30,900 |
| Amortization of Bond/COP Issuance Costs | 909 | - | - |
| Amortization of Bond/COP Premium and Discount | (462) | 169 | - |
| Amortization of Deferred Charges | (973) | - | - |
| Bad Debt Expense | - | - | - |
| Interest Payments Reported as Operating Expense | 68,938 | 8,642 | - |
| Bond/COP Issuance Costs Reported as Operating Expense | - | 1,026 | - |
| Net Changes in Assets and Liabilities: | | | |
| Accounts and Interest Receivable | (41) | 93 | 12,686 |
| Due from Other Funds | - | 5 | - |
| Due from Other Governments | - | - | - |
| Inventories | - | - | (455) |
| Prepaid Items | - | (3) | 214 |
| Foreclosed and Deeded Property | (6,389) | (838) | - |
| Deferred Charges | - | - | - |
| Advances to Other Funds | - | - | - |
| Loans Receivable | 89,670 | 22,958 | - |
| Net Contracts, Notes, and Other Receivables | - | - | - |
| Accounts and Interest Payable | 106 | (82) | (10,937) |
| Due to Other Funds | - | - | - |
| Due to Other Governments | (75) | - | - |
| Custodial Liabilities | - | (112) | (209) |
| Unearned Revenue | (49) | - | (253) |
| Claims and Judgments Payable | - | - | - |
| Arbitrage Payable | - | 5,466 | - |
| Contracts, Mortgages, and Notes Payable | - | - | - |
| Compensated Absences Payable | (48) | 16 | 7 |
| Lottery Prize Awards Payable | - | - | 5,618 |
| Net OPEB Obligation | 9 | 12 | 73 |
| Total Adjustments | 151,596 | 37,469 | 37,644 |
| Net Cash Provided (Used) by Operating Activities | \$ 153,430 | \$ 32,573 | \$ 553,185 |
| Noncash Investing and Capital and Related Financing Activities: | | | |
| Net Change in Fair Value of Investments | \$ 5,940 | \$ 943 | \$ 9,616 |
| Capital Assets Transferred from Governmental Funds | - | - | - |
| Capital Leases Entered into During the Year | - | - | - |
| Capital Assets Transferred to Governmental Funds | - | - | - |
| Capital Assets Contributed | - | - | - |
| Foreclosed Property | 18,989 | 1,429 | - |
| Loan Modifications | 135 | - | - |
| Capital Assets Traded for Other Capital Assets | - | - | 36 |
| Advanced Debt Refunding Deposited with Escrow Agent | - | - | - |
| Intangible Assets Acquired through Long-term Contracts | - | - | 37 |
| Total Noncash Investing and Capital and Related Financing Activities | \$ 25,064 | \$ 2,372 | \$ 9,689 |

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

State of Oregon

| Business-type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|----------------------------------------------------|------------------------------|--------------|--------------|-------------------------------------------------------------------|
| Unemployment Compensation | University System | Other | Total | |
| \$ (525,143) | \$ (404,218) | \$ (28,534) | \$ (445,416) | \$ 35,639 |
| - | 103,449 | 3,198 | 137,665 | 39,066 |
| - | - | 503 | 1,412 | 83 |
| - | - | (165) | (458) | (914) |
| - | - | 114 | (859) | 267 |
| - | - | 8,585 | 8,585 | - |
| - | - | 16,391 | 93,971 | 7,735 |
| - | - | 169 | 1,195 | 215 |
| (159,978) | (3,842) | (11,612) | (162,694) | (42,821) |
| - | - | 450 | 455 | 447 |
| 6,668 | - | - | 6,668 | - |
| - | (37) | (2,096) | (2,588) | 182 |
| - | 981 | (438) | 754 | (464) |
| - | - | - | (7,227) | - |
| - | - | (207) | (207) | (103) |
| - | - | (30,084) | (30,084) | - |
| - | - | (3,995) | 108,633 | - |
| (10,407) | 10,657 | 102 | 352 | 527 |
| (83,120) | 5,454 | 4,049 | (84,530) | 26,946 |
| - | - | (283) | (283) | (49) |
| 5,274 | - | 22 | 5,221 | - |
| - | (50) | 216 | (155) | 115 |
| - | 3,829 | (75) | 3,452 | 18,851 |
| - | - | - | - | 87,388 |
| - | - | - | 5,466 | - |
| - | 31,098 | - | 31,098 | (208) |
| - | - | 742 | 717 | 240 |
| - | - | - | 5,618 | - |
| - | - | 423 | 517 | 225 |
| (241,563) | 151,539 | (13,991) | 122,694 | 137,728 |
| \$ (766,706) | \$ (252,679) | \$ (42,525) | \$ (322,722) | \$ 173,367 |
| \$ - | \$ 8,985 | \$ - | \$ 25,484 | \$ 500 |
| - | - | 966 | 966 | 35 |
| - | 643 | - | 643 | 12,244 |
| - | - | 2,557 | 2,557 | - |
| - | 48,919 | - | 48,919 | - |
| - | - | - | 20,418 | - |
| - | - | - | 135 | - |
| - | - | - | 36 | - |
| - | 9,883 | - | 9,883 | - |
| - | - | - | 37 | - |
| \$ - | \$ 68,430 | \$ 3,523 | \$ 109,078 | \$ 12,779 |

State of Oregon

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(In Thousands)

| | Pension and Other Employee Benefit Trust | Private Purpose Trust | Investment Trust | Agency |
|---------------------------------------------------|---------------------------------------------------------|--------------------------------------|-----------------------------|------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 2,411,630 | \$ 28,542 | \$ 3,855,041 | \$ - |
| Investments: | | | | |
| Fixed Income | 13,433,477 | 374 | - | - |
| Equity | 19,417,181 | 385 | - | - |
| Real Estate | 4,738,538 | - | - | - |
| Annuity Contracts | - | 370 | - | - |
| Private Equity | 10,914,771 | - | - | - |
| Opportunity Portfolio | 1,050,239 | - | - | - |
| Total Investments | 49,554,206 | 1,129 | - | - |
| Custodial Assets | - | 5,231 | - | 1,848,940 |
| Securities Lending Collateral | 3,997,357 | 10,959 | 1,230,743 | - |
| Receivables: | | | | |
| Employer Contributions | 17,133 | - | - | - |
| Plan Member Contributions | 12,301 | - | - | - |
| Interest and Dividends | 341,911 | - | 10,706 | - |
| Member Loans | 7,238 | - | - | - |
| Investment Sales | 444,242 | - | - | - |
| Accounts | - | 69 | - | 8,767 |
| From Other Funds | 1,054 | - | - | - |
| Total Receivables | 823,879 | 69 | 10,706 | 8,767 |
| Prepaid Items | 9,683 | - | - | - |
| Net Contracts, Notes and Other Receivables | - | - | - | 104,496 |
| Receivership Assets | - | - | - | 67,036 |
| Loans Receivable (net) | - | - | 1,289 | - |
| Capital Assets (net of accumulated depreciation): | | | | |
| Land | 944 | 14 | - | - |
| Buildings, Property and Equipment | 34,062 | - | - | - |
| Total Assets | 56,831,761 | 45,944 | 5,097,779 | 2,029,239 |
| LIABILITIES | | | | |
| Accounts and Interest Payable | 1,017,771 | 133 | 23 | 537 |
| Obligations Under Securities Lending | 3,997,357 | 10,959 | 1,230,743 | - |
| Due to Other Funds | 1,054 | 3 | - | - |
| Due to Other Governments | - | 10 | - | 8,345 |
| Bonds/COPS Payable | 4,112 | - | - | - |
| Custodial Liabilities | 62,306 | 1,724 | - | 2,020,357 |
| Deferred Revenue | 883 | - | - | - |
| Contracts, Mortgages and Notes Payable | - | 2,207 | - | - |
| Net OPEB Obligation | 333 | - | - | - |
| Total Liabilities | 5,083,816 | 15,036 | 1,230,766 | 2,029,239 |
| NET ASSETS | | | | |
| Held in Trust for: | | | | |
| Pension Benefits | 50,613,222 | - | - | - |
| Other Postemployment Benefits | 214,491 | - | - | - |
| Other Employee Benefits | 920,232 | - | - | - |
| External Investment Pool Participants | - | - | 3,867,013 | - |
| Individuals, Organizations and Other Governments | - | 30,908 | - | - |
| Total Net Assets | \$ 51,747,945 | \$ 30,908 | \$ 3,867,013 | \$ - |

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010
(In Thousands)

| | Pension and Other Employee Benefit Trust | Private Purpose Trust | Investment Trust |
|-----------------------------------------------------------------|---------------------------------------------------------|--------------------------------------|-----------------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$ 457,117 | \$ - | \$ - |
| Plan Members | 713,161 | - | - |
| Total Contributions | 1,170,278 | - | - |
| Investment Income: | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 6,454,413 | - | - |
| Interest, Dividends and Other Investment Income | 1,668,129 | 270 | 57,608 |
| Total Investment Income | 8,122,542 | 270 | 57,608 |
| Less Investment Expense | 334,564 | 21 | 5,511 |
| Net Investment Income | 7,787,978 | 249 | 52,097 |
| Gifts, Grants and Contracts | - | 2,564 | - |
| Veterans' Income | - | 8,115 | - |
| Other Income | 2,190 | 1,716 | - |
| Share Transactions: | | | |
| Participant Contributions | - | - | 19,522,260 |
| Participant Withdrawals | - | - | 19,633,428 |
| Net Share Transactions | - | - | (111,168) |
| Transfers from Other Funds | - | 529 | - |
| Total Additions | 8,960,446 | 13,173 | (59,071) |
| DEDUCTIONS | | | |
| Pension Benefits | 2,984,955 | - | - |
| Death Benefits | 3,415 | - | - |
| Contributions Refunded | 25,692 | - | - |
| Healthcare Premium Subsidies | 31,129 | - | - |
| Distributions to Other Governments | - | 55 | - |
| Distributions to Participants | - | - | 30,798 |
| Retiree Healthcare Expenses | 124,449 | - | - |
| Deferred Compensation Benefits | 45,902 | - | - |
| Administrative Expenses | 40,353 | 7,918 | - |
| Payments in Accordance with Trust Agreements | - | 3,736 | - |
| Total Deductions | 3,255,895 | 11,709 | 30,798 |
| Change in Net Assets Held in Trust For: | | | |
| Pension Benefits | 5,576,085 | - | - |
| Other Postemployment Benefits | 23,726 | - | - |
| Other Employee Benefits | 104,740 | - | - |
| External Investment Pool Participants | - | - | (89,869) |
| Individuals, Organizations and Other Governments | - | 1,464 | - |
| Net Assets - Beginning | 46,020,175 | 29,444 | 3,956,882 |
| Prior Period Adjustments | 23,219 | - | - |
| Net Assets - Beginning - As Restated | 46,043,394 | 29,444 | 3,956,882 |
| Net Assets - Ending | \$ 51,747,945 | \$ 30,908 | \$ 3,867,013 |

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

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State of Oregon

Combining Balance Sheet
Discretely Presented Component Units
June 30, 2010
(In Thousands)

| | SAIF Corporation | Oregon Health and Science University | Oregon University System Foundations | Total |
|-----------------------------------------------------|-----------------------------|-----------------------------------------------------|---------------------------------------------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 33,065 | \$ 99,629 | \$ 49,895 | \$ 182,589 |
| Investments | 3,878,263 | 20,601 | - | 3,898,864 |
| Securities Lending Collateral | 375,964 | - | - | 375,964 |
| Accounts and Interest Receivable (net) | 338,907 | 255,517 | - | 594,424 |
| Pledges, Contributions, and Grants Receivable (net) | - | 19,383 | 199,851 | 219,234 |
| Due from Primary Government | 133 | 16,654 | - | 16,787 |
| Inventories | 83 | 13,372 | - | 13,455 |
| Prepaid Items | 6,932 | 13,161 | 39,438 | 59,531 |
| Total Current Assets | 4,633,347 | 438,317 | 289,184 | 5,360,848 |
| Noncurrent Assets: | | | | |
| Investments | - | 567,198 | - | 567,198 |
| Investments - Restricted | - | 450,357 | 1,047,178 | 1,497,535 |
| Deferred Charges | - | 3,909 | - | 3,909 |
| Net Contracts, Notes and Other Receivables | - | 2,862 | - | 2,862 |
| Pledges, Contributions, and Grants Receivable (net) | - | 84,260 | - | 84,260 |
| Capital Assets: | | | | |
| Land | 3,029 | 57,470 | - | 60,499 |
| Buildings, Property, and Equipment | 43,274 | 2,013,686 | 61,166 | 2,118,126 |
| Construction in Progress | - | 29,021 | - | 29,021 |
| Less Accumulated Depreciation and Amortization | (28,056) | (885,156) | (11,543) | (924,755) |
| Total Noncurrent Assets | 18,247 | 2,323,607 | 1,096,801 | 3,438,655 |
| Deferred Outflows | - | 12,750 | - | 12,750 |
| Total Assets and Deferred Outflows | \$ 4,651,594 | \$ 2,774,674 | \$ 1,385,985 | \$ 8,812,253 |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities: | | | | |
| Accounts and Interest Payable | \$ 170,070 | \$ 148,966 | \$ 14,715 | \$ 333,751 |
| Reserve for Loss and Loss Adjustment Expense | 206,333 | - | - | 206,333 |
| Obligations Under Securities Lending | 376,400 | - | - | 376,400 |
| Due to Other Governments | 2,773 | 15,859 | - | 18,632 |
| Due to Primary Government | 12,253 | 2,251 | 3,969 | 18,473 |
| Obligations Under Capital Lease | - | 1,825 | - | 1,825 |
| Bonds/COPS Payable | - | 10,985 | - | 10,985 |
| Claims and Judgments Payable | - | 29,337 | - | 29,337 |
| Custodial Liabilities | 9,088 | - | - | 9,088 |
| Unearned Revenue | 172,180 | 33,364 | 10,968 | 216,512 |
| Compensated Absences Payable | 3,437 | 48,599 | - | 52,036 |
| Contracts, Mortgages, and Notes Payable | - | 1,691 | - | 1,691 |
| Total Current Liabilities | 952,534 | 292,877 | 29,652 | 1,275,063 |
| Noncurrent Liabilities: | | | | |
| Bonds/COPS Payable | - | 650,037 | 47,045 | 697,082 |
| Obligations Under Capital Lease | - | 5,238 | - | 5,238 |
| Obligations Under Life Income Agreements | - | 16,906 | 70,763 | 87,669 |
| Advances from Primary Government | - | 19,849 | - | 19,849 |
| Reserve for Loss and Loss Adjustment Expense | 2,752,578 | - | - | 2,752,578 |
| Claims and Judgments Payable | - | 41,406 | - | 41,406 |
| Net OPEB Obligation | 893 | 4,215 | - | 5,108 |
| Contracts, Mortgages, and Notes Payable | - | 35,722 | 31,931 | 67,653 |
| Derivative Instrument Liability | - | 12,750 | - | 12,750 |
| Total Noncurrent Liabilities | 2,753,471 | 786,123 | 149,739 | 3,689,333 |
| Total Liabilities | 3,706,005 | 1,079,000 | 179,391 | 4,964,396 |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 18,247 | 553,335 | - | 571,582 |
| Expendable Restricted Net Assets: | | | | |
| Restricted for Workers' Compensation | 927,342 | - | - | 927,342 |
| Restricted for Education | - | 344,729 | 567,356 | 912,085 |
| Nonexpendable Restricted Net Assets: | | | | |
| Restricted for Donor Purposes | - | - | 658,781 | 658,781 |
| Restricted for Education | - | 142,686 | - | 142,686 |
| Unrestricted | - | 654,924 | (19,543) | 635,381 |
| Total Net Assets | 945,589 | 1,695,674 | 1,206,594 | 3,847,857 |
| Total Liabilities and Net Assets | \$ 4,651,594 | \$ 2,774,674 | \$ 1,385,985 | \$ 8,812,253 |

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

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Discretely Presented Component Units
For the Year Ended June 30, 2010
(In Thousands)

| | SAIF Corporation | Oregon Health and Science University | Oregon University System Foundations |
|----------------------------------------------------------|---------------------|--------------------------------------------|--------------------------------------------|
| Operating Revenues: | | | |
| Charges for Services | \$ - | \$ 1,348,201 | \$ - |
| Sales | - | 27,330 | - |
| Premiums Earned (net) | 339,494 | - | - |
| Investment Income (net) | - | - | 86,452 |
| Gifts, Grants, and Contracts | - | 436,207 | 158,799 |
| Auxiliary Enterprises (net) | - | 15,345 | - |
| Other Revenues | 17,690 | 52,326 | 24,847 |
| Total Operating Revenues | 357,184 | 1,879,409 | 270,098 |
| Operating Expenses: | | | |
| Salaries and Wages | - | 1,041,271 | - |
| Services and Supplies | - | 625,059 | 211,738 |
| Loss and Loss Adjustment Expense | 377,118 | - | - |
| Policyholders' Dividends | 100,565 | - | - |
| Underwriting Expenses | 82,961 | - | - |
| Bond and COP Interest | - | 37,048 | - |
| Depreciation and Amortization | 1,553 | 101,801 | - |
| Bad Debt Expense | - | 53,807 | - |
| Other Expenses | 1,099 | - | 6,902 |
| Total Operating Expenses | 563,296 | 1,858,986 | 218,640 |
| Operating Income (Loss) | (206,112) | 20,423 | 51,458 |
| Nonoperating Revenues (Expenses): | | | |
| Investment Income | 557,369 | 65,560 | - |
| Other | - | 4,732 | - |
| State Appropriations | - | 37,853 | - |
| Total Nonoperating Revenues (Expenses) | 557,369 | 108,145 | - |
| Income (Loss) Before Capital Contributions and Transfers | 351,257 | 128,568 | 51,458 |
| Capital Contributions | - | 2,431 | - |
| Change in Net Assets | 351,257 | 130,999 | 51,458 |
| Net Assets - Beginning | 594,332 | 1,570,462 | 1,153,549 |
| Prior Period Adjustments | - | - | 95 |
| Cumulative Effect of Change in Accounting Principles | - | (5,787) | 1,492 |
| Net Assets - Beginning - As Restated | 594,332 | 1,564,675 | 1,155,136 |
| Net Assets - Ending | \$ 945,589 | \$ 1,695,674 | \$ 1,206,594 |

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

| Total | Adjustments to Recast | Statement of Activities |
|--------------|--------------------------|----------------------------|
| \$ 1,348,201 | \$ 481,764 | \$ 1,829,965 |
| 27,330 | (27,330) | - |
| 339,494 | (339,494) | - |
| 86,452 | (86,452) | - |
| 595,006 | 747,234 | 1,342,240 |
| 15,345 | (15,345) | - |
| 94,863 | (94,863) | - |
| 2,506,691 | 665,514 | 3,172,205 |
| 1,041,271 | - | 1,041,271 |
| 836,797 | - | 836,797 |
| 377,118 | - | 377,118 |
| 100,565 | - | 100,565 |
| 82,961 | - | 82,961 |
| 37,048 | - | 37,048 |
| 103,354 | - | 103,354 |
| 53,807 | - | 53,807 |
| 8,001 | - | 8,001 |
| 2,640,922 | - | 2,640,922 |
| (134,231) | 665,514 | 531,283 |
| 622,929 | (622,929) | - |
| 4,732 | (4,732) | - |
| 37,853 | (37,853) | - |
| 665,514 | (665,514) | - |
| 531,283 | - | 531,283 |
| 2,431 | - | 2,431 |
| 533,714 | - | 533,714 |
| 3,318,343 | - | 3,318,343 |
| 95 | - | 95 |
| (4,295) | - | (4,295) |
| 3,314,143 | - | 3,314,143 |
| \$ 3,847,857 | \$ - | \$ 3,847,857 |

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Discretely Presented Component Units

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

SAIF Corporation (SAIF) is a public corporation created by an act of the Legislature. SAIF is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF is governed by a board of directors appointed by the Governor and is financed solely through policyholder premiums and investment income. The term of office for a Board member is four years, but a member serves at the pleasure of the Governor. SAIF reports on a fiscal year ended December 31 and uses proprietary fund accounting principles. The December 31, 2009, financial information of SAIF is included in this report.

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

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

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

Related Organizations

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

State of Oregon
Notes to the Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, fines, forfeitures, and federal revenues. Income tax revenue, net of estimated refunds, is recognized in the fiscal year in which the underlying exchange has occurred and it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant eligibility requirements have been met. Revenue items not susceptible to accrual, such as licenses, fees, and the cash sales of goods and services, are considered measurable and available only when cash is received.

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

State of Oregon
Notes to the Financial Statements

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund.

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

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

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

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

The *Oregon Rainy Day Fund* accounts for resources that have been transferred from the General Fund in accordance with state law. These resources, along with investment income generated, can be appropriated by the Legislature only when certain criteria related to economic or revenue conditions have been met.

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

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

The *Veterans' Loan Fund* accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of general obligation bonds that are repaid from the interest and principal payments made on mortgages.

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

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

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

State of Oregon
Notes to the Financial Statements

Additionally, the State reports the following fund types:

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

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

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

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

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

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

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

D. Deposits and Investments

Deposits

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

Investments

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

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.

State of Oregon
Notes to the Financial Statements

- Investments in the Oregon Short-term Fund with remaining maturities of up to 90 days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets, but as investments in Note 2.

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

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

Investments in private equities are recorded at fair value, as determined by the general partner, within the Public Employees Retirement System (PERS) Fund. Investments in private equities are recorded at cost within state agency funds. Valuations provided by the general partner as of March 31 are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publically traded REITS for which observable market prices in active markets do not exist, are reported at fair value as determined in good faith by the general partner. Valuations provided by the general partner as of March 31 are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity Portfolio are recorded at fair value by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities.) Certain Opportunity Portfolio investments, accounting for 52 percent of the year end Opportunity Portfolio, are June 30 values. The remaining 48 percent of the year end Opportunity Portfolio are March 31 values that are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Investments in the Opportunity Portfolio representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

State of Oregon
Notes to the Financial Statements

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

Derivatives

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

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

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

G. Inventories. Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental funds, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are not available for appropriation. In proprietary funds, inventories are expended when consumed rather than when purchased.

H. Prepaid Items. Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items. In governmental funds and proprietary funds, prepaid items are accounted for using the consumption method. In governmental funds, a portion of fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

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

State of Oregon
Notes to the Financial Statements

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

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

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

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

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

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

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

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

O. Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. No portion of the unreserved fund balance in the accompanying financial statements has been designated.

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

State of Oregon
Notes to the Financial Statements

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available for use, the individual state agencies decide whether to use restricted resources first, then unrestricted resources as they are needed, or to use unrestricted resources first, then restricted resources.

P. Changes in Accounting Principles. For the fiscal year ended June 30, 2010, the State implemented two new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies between state and local governments and to enhance comparability of the accounting and financial reporting of such assets. This Statement provides guidance specific for the recognition, initial measurement, and amortization of intangible assets. The most significant type of intangible asset held by the State is computer software. Because the State's current accounting policies require agencies to capitalize the costs of both purchased and internally generated computer software, implementation of this accounting standard had no material effect on the State's financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, establishes criteria for the measurement, recognition, and disclosure of information regarding derivative instruments entered into by state and local governments. Most of the derivatives held by the State are classified as investment derivatives. However, the State also holds hedging derivative instruments. Statement No. 53 requires that effective hedging derivative instruments be reported on the face of the balance sheet and statement of net assets as assets and liabilities with an offsetting deferred inflow or outflow, respectively. Prior to issuance of Statement No. 53, the State reported changes in the fair value of investment derivatives in the statement of changes in fund balances and the statement of changes in fund net assets. Because Statement No. 53 continues this requirement, implementation of this accounting standard had no material effect on the State's financial statements.

Q. Pending Accounting Changes. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes accounting and financial reporting standards for all governments that report governmental funds. The Statement provides more clearly defined categories for classifying fund balance to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies existing governmental fund type definitions to improve the comparability, usefulness, and understandability of governmental fund balance information. Statement No. 54 is effective in fiscal year 2011. The State is currently evaluating the impact of this standard on the financial statements.

2. DEPOSITS AND INVESTMENTS

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

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

<http://www.ost.state.or.us/divisions/investment/index.htm#fund>.

State of Oregon
Notes to the Financial Statements

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

A. Custodial Credit Risk

Custodial Credit Risk for Deposits

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

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

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

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

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

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

All deposits in the OSTF at June 30, 2010, were with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the entire bank balance of the OSTF was fully insured.

State of Oregon
Notes to the Financial Statements

As of June 30, 2010, \$1.4 billion in other bank balances of the primary government and its discretely presented component units were exposed to custodial credit risk (in thousands):

| | Primary Government | Discretely Presented Component Units | Balance at June 30, 2010 |
|---------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------|-----------------------------|
| Uninsured and uncollateralized | \$ 1,398,368 | \$ 13,163 | \$ 1,411,531 |
| Uninsured and collateralized by the pledging bank's trust department, but not in the State's name | 13,032 | - | 13,032 |
| Total | <u>\$ 1,411,400</u> | <u>\$ 13,163</u> | <u>\$ 1,424,563</u> |

Custodial Credit Risk for Investments

Custodial credit risk for investments of the primary government is the risk that, in the event of the failure of the counterparty to a transaction, the State will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Council has no formal policy regarding the holding of securities by a custodian or counterparty. For the year ended June 30, 2010, no investment holdings of the primary government, SAIF Corporation, or Oregon Health and Science University, were exposed to custodial credit risk.

B. Investments – Primary Government (Excluding the OPERF)

Investments Held at Treasury

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

Interest Rate Risk

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

For variable rate securities, the next interest rate reset date is used instead of the maturity date. The weighted average duration is reported *in years* for all applicable funds.

Credit Risk

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

State of Oregon
Notes to the Financial Statements

The credit rating and weighted average duration for the investments at Treasury, held within the governmental funds, excluding the Common School Fund, at June 30, 2010 (dollars in thousands):

| Reporting Fund ¹ | Investment Type | Credit Rating | Balance at June 30, 2010 | Weighted Average Duration |
|-----------------------------|---------------------------------------|---------------|--------------------------|---------------------------|
| Public Transportation | U.S. Agency securities | AAA | \$ 36,059 | 0.76 |
| | Corporate bonds | AA | 26,485 | 0.89 |
| | | A | 58,034 | 1.44 |
| | | BBB | 29,372 | 2.27 |
| | Lehman Brothers | N/A | 988 | N/A |
| | | | <u>150,938</u> | |
| Employment Services | U.S. Agency securities | AAA | 46,313 | 1.55 |
| | Corporate bonds | AA | 27,125 | 2.62 |
| | | A | 66,311 | 1.51 |
| | | BBB | 27,870 | 2.42 |
| | Lehman Brothers and Washington Mutual | N/A | 2,498 | N/A |
| | | | <u>170,117</u> | |
| Business Development | Alternative equities | N/A | 4,563 | N/A |
| Education Support | Alternative equities | N/A | 25,653 | N/A |
| Residential Assistance | U.S. Agency securities | AAA | 17,266 | 2.62 |
| Total | | | <u><u>\$ 368,537</u></u> | |

¹See separate Common School Fund schedule.

State of Oregon
Notes to the Financial Statements

The credit rating and weighted average duration for the Common School Fund's investments, held at Treasury, at June 30, 2010 (dollars in thousands):

| Investment Type | Credit Rating ¹ | Balance at June 30, 2010 | Weighted Average Duration |
|---------------------------------------|----------------------------|--------------------------------|---------------------------------|
| U.S. Treasury securities | AAA | \$ 23,065 | 12.89 |
| U.S. Treasury strips | AAA | 161 | 11.86 |
| U.S. Agency securities | AAA | 6,675 | 0.75 |
| U.S. Agency mortgages | AAA | 19,077 | 1.09 |
| Corporate bonds | AAA | 48 | |
| | AA | 1,039 | |
| | A | 14,611 | |
| | BBB | 10,861 | |
| | BB | 5,376 | |
| | B | 2,315 | |
| | CCC and Below | 1,040 | |
| | Not rated | 423 | |
| | | <u>35,713</u> | 5.72 |
| International debt securities | AA | 317 | |
| | A | 1,877 | |
| | BBB | 3,798 | |
| | BB | 702 | |
| | B | 129 | |
| | CCC and Below | 164 | |
| | | <u>6,987</u> | 5.85 |
| Collateralized mortgage obligations | AAA | 2,864 | |
| | AA | 2,038 | |
| | A | 1,199 | |
| | BBB | 1,114 | |
| | BB | 1,013 | |
| | B | 2,038 | |
| | CCC and Below | 3,546 | |
| | Not rated | 882 | |
| | | <u>14,694</u> | 5.28 |
| Asset-backed securities - other | AAA | 1,538 | |
| | AA | 63 | |
| | BBB | 471 | |
| | BB | 359 | |
| | B | 525 | |
| | CCC and Below | 707 | |
| | Not rated | 10 | |
| | | <u>3,673</u> | 2.24 |
| Domestic equity securities | N/A | 120,565 | N/A |
| International equity securities | N/A | 194,398 | N/A |
| Domestic mutual funds - debt | Not rated | 158,917 | 3.52 |
| Domestic mutual funds - equity | N/A | 90,861 | N/A |
| International mutual funds - debt | Not rated | 3,807 | 6.42 |
| International mutual funds - equity | N/A | 157,647 | N/A |
| Real estate and real estate mortgages | N/A | 2,578 | N/A |
| Alternative equities | N/A | 44,916 | N/A |
| Total ² | | <u>\$ 883,734</u> | |

¹Within investments rated AAA are \$23,065 in U.S. Treasury Securities, \$161 in U.S. Treasury Strips, and \$1,642 in U.S. Agency securities invested in the Government National Mortgage Association (GNMA). These investments are explicitly guaranteed by the U.S. government.

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

State of Oregon
Notes to the Financial Statements

The credit rating and weighted average duration for the investments at Treasury, held within the proprietary funds, at June 30, 2010 (dollars in thousands):

| Reporting Fund | Investment Type | Credit Rating ³ | Balance at June 30, 2010 | Weighted Average Duration |
|---------------------------------------------|-----------------------------------------------------|----------------------------|--------------------------|---------------------------|
| Housing and Community Services ¹ | U.S. Treasury securities | AAA | \$ 12,291 | 9.06 |
| | U.S. Agency securities | AAA | 13,130 | 11.09 |
| | | | <u>25,421</u> | |
| Veterans' Loan | U.S. Agency securities | AAA | 10,405 | 1.06 |
| | Corporate bonds | AA | 2,448 | 0.15 |
| | | A | 23,160 | 0.15 |
| | Guaranteed investment contracts (GICs) ² | N/A | 8,152 | |
| | Lehman Brothers and Washington Mutual | N/A | 2,716 | N/A |
| | | | <u>46,881</u> | |
| Lottery Operations | U.S. Treasury strips | AAA | 80,318 | 8.47 |
| | U.S. Agency strips | Not rated | 33,924 | 3.45 |
| | | | <u>114,242</u> | |
| University System | U.S. Treasury securities | AAA | 66 | 5.20 |
| | Domestic mutual funds - debt | AA | 18,404 | 4.49 |
| | Money market fund | Not rated | 746 | 0.50 |
| | GICs | N/A | 2,844 | 4.00 |
| | Domestic mutual funds - equity | N/A | 16,216 | N/A |
| | International mutual funds - equity | N/A | 16,097 | N/A |
| | Real estate and real estate mortgages | N/A | 1,806 | N/A |
| | Alternative equities | N/A | 5,727 | N/A |
| | Less: University System amounts recorded as cash | | (746) | |
| | | | <u>61,160</u> | |
| Central Services | U.S. Agency securities | AAA | 15,067 | 1.07 |
| | Corporate bonds | AA | 9,597 | 1.94 |
| | | A | 21,277 | 1.63 |
| | | BBB | 9,432 | 2.50 |
| | Lehman Brothers and Washington Mutual | N/A | 890 | N/A |
| | | | <u>56,263</u> | |
| Total | | | <u>\$ 303,967</u> | |

¹\$326,932 in investments are held outside of Treasury. See separate schedule.

²Mature in 2029 and beyond.

³Within investments rated AAA are \$12,357 in U.S. Treasury securities and \$80,318 in U.S. Treasury strips which are explicitly guaranteed by the U.S. government.

Investments Held Outside of the Treasury

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

State of Oregon
Notes to the Financial Statements

The credit rating and segmented time distribution for investments held outside Treasury as of June 30, 2010 (in thousands):

| Reporting Fund | Investment Type | Credit Rating ² | Investment Maturities (in years) | | | | Balance at June 30, 2010 |
|--------------------------------|-------------------------------------------|----------------------------|----------------------------------|------------|------------|----------------------|--------------------------|
| | | | Less than 1 | 1 to 5 | 6 to 10 | More than 10 or none | |
| Consumer Protection | U.S. Agency securities ¹ | AAA | \$ - | \$ 550 | \$ - | \$ - | \$ 550 |
| Common School | Corporate bonds ¹ | BBB | - | 9 | 3 | 1 | 13 |
| | Municipal bonds ¹ | AA | 21 | 25 | 8 | - | 54 |
| | Domestic equity securities ¹ | N/A | - | - | - | 7,090 | 7,090 |
| | Real estate | N/A | - | - | - | 1,101 | 1,101 |
| | Alternative equities ¹ | N/A | - | - | - | 1,690 | 1,690 |
| | | | 21 | 34 | 11 | 9,882 | 9,948 |
| Revenue Bond | U.S. Agency securities | AAA | - | 14,177 | 569 | - | 14,746 |
| | GICs | N/A | - | 30,908 | 15,229 | 2,523 | 48,660 |
| | | | - | 45,085 | 15,798 | 2,523 | 63,406 |
| Housing and Community Services | U.S. Treasury securities | AAA | 120,035 | - | - | 1,725 | 121,760 |
| | U.S. Agency securities | AAA | 27,488 | 9,974 | 5,036 | 44,644 | 87,142 |
| | | P-1 | 112,530 | - | - | - | 112,530 |
| | Municipal bonds | AAA | - | - | - | 5,500 | 5,500 |
| | | | 260,053 | 9,974 | 5,036 | 51,869 | 326,932 |
| Private Purpose Trust | U.S. Treasury securities | AAA | - | 12 | 333 | 29 | 374 |
| | Domestic equity securities | N/A | - | - | - | 107 | 107 |
| | Domestic mutual funds - debt | N/A | - | - | - | 278 | 278 |
| | Annuity contracts | N/A | - | - | - | 370 | 370 |
| | | | - | 12 | 333 | 784 | 1,129 |
| Agency | U.S. Treasury securities ¹ | AAA | 48,089 | 197,508 | 112,601 | 50,176 | 408,374 |
| | U.S. Treasury strips ¹ | AAA | 285 | 3,527 | - | - | 3,812 |
| | U.S. Agency securities ¹ | AAA | 5,131 | 32,982 | 2,475 | 14,006 | 54,594 |
| | | AA | - | 558 | 5,465 | 2,602 | 8,625 |
| | Corporate bonds ¹ | A | - | 4,775 | - | - | 4,775 |
| | Municipal bonds ¹ | AAA | 2,965 | 28,542 | 132,803 | 186,290 | 350,600 |
| | | AA | 31,007 | 116,238 | 280,030 | 422,075 | 849,350 |
| | | A | 1,209 | 6,414 | 5,403 | 24,455 | 37,481 |
| | | BBB | - | 214 | - | 2,866 | 3,080 |
| | | N/A | 1,283 | 11,524 | 8,272 | 15,691 | 36,770 |
| | Domestic mutual funds - debt ¹ | N/A | - | 100 | - | - | 100 |
| | Time certificates of deposit ¹ | N/A | 4,247 | 2,626 | - | - | 6,873 |
| | | | 94,216 | 405,008 | 547,049 | 718,161 | 1,764,434 |
| Total | | | \$ 354,290 | \$ 460,663 | \$ 568,227 | \$ 783,219 | \$ 2,166,399 |

¹ Some investments (along with certain cash deposits) are reported as part of Custodial Assets on the balance sheet.

² Within investments rated AAA are \$530,508 in U.S. Treasury securities, \$3,812 in U.S. Treasury strips, and \$8,182 in U.S. Agency securities invested in GNMA and the Small Business Administration. These securities are explicitly guaranteed by the U.S. government.

State of Oregon
Notes to the Financial Statements

Investments of the Oregon Short-term Fund (OSTF)

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

Interest rate risk for the OSTF investments as of June 30, 2010 (in thousands):

| Investment Type | Investment Maturities (in years) | | | | Balance at June 30, 2010 ² |
|-------------------------------|----------------------------------|------------------------|-----------------------|------------------------|------------------------------------------|
| | Up to 93 Days | 94 Days to One Year | One to Three Years | Defaulted ¹ | |
| U.S. Treasury securities | \$ 219,969 | \$ - | \$ - | \$ - | \$ 219,969 |
| U.S. Agency securities | 2,591,274 | 422,278 | 862,595 | - | 3,876,147 |
| Commercial paper | 2,015,579 | - | - | - | 2,015,579 |
| Time certificates of deposit | 49,500 | - | - | - | 49,500 |
| Corporate notes | 1,800,350 | 141,908 | 581,695 | 38,997 | 2,562,950 |
| Temporary liquidity guarantee | 729,426 | 141,263 | 50,469 | - | 921,158 |
| Total | <u>\$ 7,406,098</u> | <u>\$ 705,449</u> | <u>\$ 1,494,759</u> | <u>\$ 38,997</u> | <u>\$ 9,645,303</u> |

¹Lehman Brothers securities, \$191.3 million par value

²Balance at June 30, 2010 is a combination of amortized cost and fair value.

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

Credit risk schedule for the OSTF investments as of June 30, 2010 (in thousands):

| Investment Type | AAA ¹ | AA | A | BBB ² | N/A ³ | Balance at June 30, 2010 |
|-------------------------------|---------------------|---------------------|---------------------|------------------|------------------|-----------------------------|
| U.S. Treasury securities | \$ 219,969 | \$ - | \$ - | \$ - | \$ - | \$ 219,969 |
| U.S. Agency securities | 3,445,480 | - | 430,667 | - | - | 3,876,147 |
| Commercial paper | - | 407,951 | 1,607,628 | - | - | 2,015,579 |
| Time certificates of deposit | - | - | - | - | 49,500 | 49,500 |
| Corporate notes | 110,432 | 1,035,731 | 1,332,030 | 45,760 | 38,997 | 2,562,950 |
| Temporary liquidity guarantee | 921,158 | - | - | - | - | 921,158 |
| Total | <u>\$ 4,697,039</u> | <u>\$ 1,443,682</u> | <u>\$ 3,370,325</u> | <u>\$ 45,760</u> | <u>\$ 88,497</u> | <u>\$ 9,645,303</u> |

¹ Within investments rated AAA are \$219,969 in U.S. Treasury securities and \$921,158 in the temporary liquidity guarantee program, which are explicitly guaranteed by the U.S. government.

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

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

State of Oregon
Notes to the Financial Statements

Interest Rate Sensitive Investments

As of June 30, 2010, the primary government held \$448 million in step-coupon debt investments. The interest rate of these securities adjusts on a pre-determined schedule at pre-determined increments. Because these adjustments are not correlated with any current indices or rates, the value of the securities may change significantly in a period of interest rate volatility. The primary government held approximately \$300.1 million in debt instruments in which the current rate follows the three-month London Interbank Offered Rate (LIBOR), but later converts to a fixed rate until maturity. The primary government also held approximately \$8.1 million in debt instruments backed by pooled mortgages, collateralized mortgage obligations, or fixed rate mortgages. These securities represent a stream of principal and interest payments from underlying mortgages. Assets with these characteristics are susceptible to prepayment by the mortgage holders which may result in a decrease in total interest realized. The value of these securities can be volatile as interest rates fluctuate. Additionally, the risk of default exists and collateral held may potentially be insufficient to cover the principal due. In addition, the primary government held \$500 thousand of debt instruments that were asset-backed securities collateralized primarily by equipment leases and student loan receivables.

Concentration of Credit Risk

Investment policies for fixed income investments under the management of the Treasurer generally limit investments in a single issuer to 5 percent of the portfolio, with the exception of securities of the U.S. government and U.S. agencies. For investments not under the management of the Treasurer, there are no formal policies on concentration of credit risk. At June 30, 2010, there were three issuers that exceeded 5 percent of the primary government's holdings (excluding the OPERF): \$1.6 billion (12.1 percent) in Federal Home Loan Bank (FHLB); \$1.4 billion (10.6 percent) in Federal National Mortgage Association (FNMA); and \$897 million (6.7 percent) in Federal Home Loan Mortgage Corporation (FHLMC).

The Oregon Housing and Community Services Department also carried concentration of credit risk with 23 percent of the department's total investments in FHLMC, 20.1 percent in FNMA, and 13.7 percent in FHLB.

Total investments for the Oregon Department of Veterans' Affairs included 31.9 percent in Bear Stearns, 11.5 percent in FNMA, 10.7 percent in Federal Farm Credit Banks, 10.7 percent in JP Morgan Chase, 6.8 percent in Hewlett Packard, 5.8 percent in Lehman Brothers Holdings Inc., and 5.2 percent in General Electric Capital Corporation.

The Oregon State Lottery's investments included 29.7 percent in the Resolution Funding Corporation (RFC), a U.S. government agency. The U.S. government does not explicitly guarantee these investments. However, interest payments are backed by the U.S. government, and the principal is protected by the purchase of zero-coupon bonds with an equivalent face value.

Within the major governmental funds, the Public Transportation Fund's investments included 17.9 percent in FNMA, 6.5 percent in Bear Stearns, 5.2 percent in General Electric Capital Corporation, and 5 percent in Commercial Net Lease Realty. The aggregated nonmajor governmental funds' total investments included 11.7 percent in FNMA, 7.6 percent in FHLB and 6.1 percent in FHLMC. These funds also held nonparticipating Guaranteed Investment Contracts with the following concentrations: 9.3 percent in the International Netherlands Group and 8 percent in American International Group.

The Central Services Fund held 24.1 percent of its investments in FNMA, 6.7 percent in National Rural Utilities Cooperative Finance Association, 5.7 percent in Bear Stearns, and 5.2 percent in General Electric.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Oregon state agencies are required to deposit moneys in state-qualified depositories under Oregon law. Exceptions due to foreign field offices and related circumstances are approved by the Treasurer. International debt securities denominated in U.S. dollars are not subject to currency risk if the investment's obligations will be paid in U.S. dollars. Investment policies for fixed income investments under the management of the Treasurer generally prohibit investments in non-dollar denominated securities. The Common School Fund and the Oregon University System Pooled Endowment Fund are allowed to invest in international equity securities within a target allocation range of 25 to 35 percent of their respective portfolios.

State of Oregon
Notes to the Financial Statements

For investments not under the management of the Treasurer, there are no formal policies on foreign currency risk.

Deposits and investments exposed to foreign currency risk for the primary government (excluding the OPERF) as of June 30, 2010 (in thousands):

| Deposits and Investments (U.S. Dollars) | | | | |
|------------------------------------------------|----------------------|--------------------------|-------------------------|-------------------|
| Foreign Currency Denomination | International | | Real Estate | Total |
| | Deposits | Equity Securities | Investment Trust | |
| Australian dollar | \$ 83 | \$ 6,280 | \$ 369 | \$ 6,732 |
| British sterling pound | 142 | 35,352 | 226 | 35,720 |
| Canadian dollar | 102 | 9,712 | - | 9,814 |
| Swiss franc | 70 | 11,428 | - | 11,498 |
| Danish krone | 18 | 3,637 | - | 3,655 |
| Euro | 120 | 68,371 | - | 68,491 |
| Hong Kong dollar | 75 | 4,578 | 248 | 4,901 |
| Israel new shekel | - | 618 | - | 618 |
| Japanese yen | 415 | 30,891 | - | 31,306 |
| Norwegian krone | 74 | 1,729 | - | 1,803 |
| New Zealand dollar | 9 | - | - | 9 |
| Singapore dollar | 134 | 3,626 | 758 | 4,518 |
| Swedish krona | 38 | 9,706 | - | 9,744 |
| Total | \$ 1,280 | \$ 185,928 | \$ 1,601 | \$ 188,809 |

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

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

Interest Rate Risk

Interest rate risk is managed within the OPERF using the effective duration methodology. Investment policies require that the fixed income manager positions will maintain a weighted average effective duration within plus or minus 20 percent of the benchmark's effective duration. There is no policy restriction for non-fixed income investment managers who may hold fixed income positions. As of June 30, 2010, the weighted average duration of the fixed income portfolio was 3.92 years and there were no individual fixed income investment manager portfolios outside the policy guidelines.

State of Oregon
Notes to the Financial Statements

Investments of the OPERF as of June 30, 2010 (in thousands):

| Investment Type | Balance at June 30, 2010 | Weighted Average Duration |
|------------------------------------------------------------|-----------------------------|---------------------------------|
| Cash equivalent - government mutual funds | \$ 56,914 | 0.08 |
| Cash equivalent - short-term investment funds | 1,040,509 | 0.08 |
| Cash equivalent - repurchase agreements and Treasury bills | 1,568 | 0.01 |
| Total cash equivalents | <u>1,098,991</u> | |
| Repurchase agreements | 13,236 | 1.69 |
| U.S. Treasury securities | 1,526,798 | 8.01 |
| U.S. Treasury strips | 47,770 | 14.96 |
| U.S. Treasury TIPS | 101,469 | 4.08 |
| U.S. Agency securities | 136,486 | 7.20 |
| U.S. Agency mortgages | 757,508 | 1.63 |
| U.S. Agency strips | 42,970 | 8.68 |
| International debt securities | 2,041,008 | 5.43 |
| Corporate bonds | 3,591,726 | 5.07 |
| Bank loans | 2,011,998 | 2.76 |
| Municipal bonds | 113,860 | 8.84 |
| Collateralized mortgage obligations | 1,095,532 | 4.13 |
| Asset-backed securities | 483,844 | 2.15 |
| Domestic mutual funds - debt | 1,427,849 | 3.67 |
| International mutual funds - debt | 41,423 | 6.64 |
| Total investments subject to interest rate risk | <u>14,532,468</u> | |
| Derivatives | 39,849 | |
| Domestic equity securities | 5,418,007 | |
| International equity securities | 8,642,890 | |
| Domestic mutual funds - equity | 1,967,486 | |
| Global mutual funds - equity | 861,464 | |
| International mutual funds - equity | 2,282,393 | |
| Mutual funds - target date | 205,092 | |
| Limited partnerships and leveraged buyouts | 10,914,772 | |
| Real estate and real estate investment trusts | 4,738,538 | |
| Opportunity portfolio | 1,050,238 | |
| Less: amounts recorded as cash equivalents | <u>(1,098,991)</u> | |
| Total investments | <u><u>\$ 49,554,206</u></u> | |

Credit Risk

Investment policy requires that no more than 30 percent of the fixed income manager positions be below investment grade. Securities with a quality rating below BBB- (S&P) are considered below investment grade. Policies also require that the minimum aggregate credit quality be A+ as measured by the weighted average of the portfolio. There is no policy restriction on other investment managers who may hold debt securities. As of June 30, 2010, the fair value of below grade investments, excluding unrated securities, is \$2.1 billion, or 27.7 percent, of total securities subject to credit risk, and the weighted quality rating average is A. Overall credit quality deteriorated due to downgrades in both corporate bonds and non-agency mortgages. Unrated securities include \$2 billion in bank loans, \$1.5 billion in mutual funds, and \$1.1 billion in short-term investments.

State of Oregon
Notes to the Financial Statements

Credit ratings for debt securities within the OPERF as of June 30, 2010 (in thousands):

| Credit Rating | Balance at June 30, 2010 |
|---------------|--------------------------|
| AAA | \$ 2,082,856 |
| AA | 665,533 |
| A | 1,126,715 |
| BBB | 1,539,100 |
| BB | 617,169 |
| B | 738,185 |
| CCC | 632,431 |
| CC | 46,147 |
| C | 17,868 |
| D | 22,800 |
| Not rated | 5,198,111 |
| Total | <u>\$ 12,686,915</u> |

Concentrations of Credit Risk

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

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

At June 30, 2010, there were no single issuer debt investments that exceeded the above guidelines, nor were there investments in any one issuer that represented 5 percent or more of total investments.

Foreign Currency Risk

Foreign currency and security risk of loss arises from changes in currency exchange rates. Foreign currency risk within the OPERF is controlled via contractual agreements with the investment managers. Investment policies require that no more than 15 percent of the fixed income manager positions may be invested in non-dollar denominated securities. Policies for the non-fixed portion of the OPERF are silent regarding this risk. As of June 30, 2010, approximately 5.4 percent of the debt investment portfolio was invested in non-dollar denominated securities.

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Notes to the Financial Statements

The OPERF's exposure to foreign currency risk as of June 30, 2010 (in thousands):

| Deposits and Investments (U.S. Dollars) | | | | |
|------------------------------------------------|------------------|----------------------------------------|--------------------------------------|---------------------|
| Foreign Currency Denomination | Deposits | International Equity Securities | International Debt Securities | Total |
| Argentine peso | \$ 85 | \$ - | \$ - | \$ 85 |
| Australian dollar | 3,314 | 327,527 | 94,643 | 425,484 |
| Brazilian real | 3,810 | 198,726 | 33,170 | 235,706 |
| British sterling pound | 17,568 | 1,274,901 | 69,913 | 1,362,382 |
| Canadian dollar | 788 | 320,058 | 25,515 | 346,361 |
| Chilean peso | 1,081 | 4,066 | - | 5,147 |
| Chinese yuan | 30 | - | - | 30 |
| Colombian peso | - | 3,810 | 824 | 4,634 |
| Czech koruna | 143 | 7,067 | - | 7,210 |
| Danish krone | 595 | 95,547 | 914 | 97,056 |
| Egyptian pound | 103 | 18,507 | - | 18,610 |
| Euro | 31,409 | 2,264,238 | 322,625 | 2,618,272 |
| Hong Kong dollar | 2,218 | 532,630 | - | 534,848 |
| Hungarian forint | 14 | 12,727 | 101 | 12,842 |
| Indonesian rupiah | 70 | 63,452 | - | 63,522 |
| Israeli shekel | 274 | 17,541 | - | 17,815 |
| Japanese yen | 12,637 | 1,580,007 | 169,977 | 1,762,621 |
| Malaysian ringgit | 52 | 44,763 | - | 44,815 |
| Mexican peso | 244 | 46,460 | 173 | 46,877 |
| New Taiwan dollar | 1,591 | 171,772 | - | 173,363 |
| New Zealand dollar | 1,087 | 9,187 | - | 10,274 |
| Norwegian krone | 818 | 53,123 | 283 | 54,224 |
| Pakistan rupee | 57 | 3,842 | - | 3,899 |
| Peruvian nuevo sol | - | 813 | - | 813 |
| Philippine peso | 32 | 2,654 | - | 2,686 |
| Polish zloty | 111 | 13,860 | 972 | 14,943 |
| Russian ruble | 27 | - | 491 | 518 |
| Singapore dollar | 1,907 | 146,679 | 1,677 | 150,263 |
| South African rand | 527 | 167,838 | - | 168,365 |
| South Korean won | 476 | 286,763 | - | 287,239 |
| Swedish krona | 1,006 | 167,037 | 1,542 | 169,585 |
| Swiss franc | 1,776 | 364,939 | - | 366,715 |
| Thai baht | 317 | 55,226 | - | 55,543 |
| Turkish lira | 1,103 | 130,428 | - | 131,531 |
| Venezuelan bolivar | 6 | - | - | 6 |
| Total | \$ 85,276 | \$ 8,386,188 | \$ 722,820 | \$ 9,194,284 |

D. Investments – Discretely Presented Component Units

SAIF Corporation (SAIF)

SAIF's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with ORS 293.726, the investment funds are to be invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. While the Treasurer is authorized to use demand deposit accounts and fixed income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Equity investments are limited to not more than 50 percent of the moneys contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 10 to 20 percent of the market value of invested assets with a target allocation of 15 percent.

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

Interest Rate Risk

SAIF's policy for fixed income investments effective January 1, 2005, provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2009, was 7.78 years, with an acceptable range of 6.22 to 9.34 years. As of that date, the fixed income portfolio's duration was 7.85 years.

The following 2009 maturity distribution schedule includes \$601.1 million in interest-rate sensitive securities. As of December 31, 2009, SAIF held \$374.7 million of U.S. federal agency mortgage-backed securities and \$170.7 million of commercial mortgage obligations. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of December 31, 2009, SAIF held \$55.7 million of asset-backed securities which consist primarily of sequential-pay tranches of utility, student loan, and equipment lease receivables, and callable pass-through certificates issued by airlines and railroads. The value of these securities can be volatile as interest rates fluctuate. Additional risk inherent with these securities is the unpredictability of default on loans that are the collateral for the debt.

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Notes to the Financial Statements

The following schedule presents SAIF's investments by maturity date as of December 31, 2009, using the segmented time distribution method (in thousands).

| Investment Type | Investment Maturities (in years) | | | | Balance at June 30, 2010 |
|-------------------------------------|----------------------------------|------------|------------|----------------------------|-----------------------------|
| | Less than 1 | 1 to 5 | 6 to 10 | More than 10 or none | |
| U.S. Treasury securities | \$ 1,847 | \$ 108,813 | \$ 1,952 | \$ 80,546 | \$ 193,158 |
| U.S. Treasury strips | - | - | 44,396 | 194,038 | 238,434 |
| U.S. Agency securities | 31,987 | 7,939 | 72,094 | 48,851 | 160,871 |
| U.S. Agency mortgages | 65,098 | 163,288 | 80,559 | 65,781 | 374,726 |
| Corporate bonds | 32,186 | 312,025 | 453,866 | 798,992 | 1,597,069 |
| Municipal bonds | - | - | 3,926 | 57,175 | 61,101 |
| Collateralized mortgage obligations | 21,699 | 79,968 | 64,027 | 5,039 | 170,733 |
| Asset-backed securities | 6,404 | 38,337 | 10,913 | - | 55,654 |
| International debt securities | 16,717 | 87,463 | 111,438 | 170,050 | 385,668 |
| Domestic equity securities | - | - | - | 229 | 229 |
| Russell 3000 pooled equity fund | - | - | - | 640,483 | 640,483 |
| Other invested assets | - | - | - | 137 | 137 |
| Total | \$ 175,938 | \$ 797,833 | \$ 843,171 | \$ 2,061,321 | \$ 3,878,263 |

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

Credit Risk

SAIF's credit risk policy is to maintain a well-diversified investment portfolio. Fixed income holdings shall be the largest component of the portfolio. The policy seeks to maintain an overall fixed income portfolio quality of at least AA- or higher. The majority of SAIF's debt securities as of December 31, 2009, were rated by Moody's and Standard & Poor's, which are nationally recognized statistical rating organizations. The following schedule represents the ratings of debt securities by investment type as of December 31, 2009, using the Standard & Poor's rating scale (in thousands):

| Investment Type | AAA ¹ | AA | A | BBB | BB | B or below | Not rated | Balance at June 30, 2010 |
|-------------------------------|------------------|------------|------------|------------|-----------|---------------|------------|-----------------------------|
| U.S. Treasury securities | \$ 193,158 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 193,158 |
| U.S. Treasury strips | 238,434 | - | - | - | - | - | - | 238,434 |
| U.S. Agency securities | 160,871 | - | - | - | - | - | - | 160,871 |
| U.S. Agency mortgages | 374,726 | - | - | - | - | - | - | 374,726 |
| Corporate bonds | 15,032 | 210,855 | 822,324 | 457,767 | 57,688 | 25,890 | 7,513 | 1,597,069 |
| Municipal bonds | 1,979 | 31,780 | 16,587 | 7,602 | - | - | 3,153 | 61,101 |
| Collateralized mortgages | 73,380 | 4,304 | 7,122 | 1,538 | 2,576 | 12,688 | 69,125 | 170,733 |
| Asset-backed securities | 26,111 | 2,257 | - | - | - | 333 | 26,953 | 55,654 |
| International debt securities | 30,390 | 46,604 | 104,513 | 188,300 | 7,964 | 1,538 | 6,359 | 385,668 |
| Total | \$ 1,114,081 | \$ 295,800 | \$ 950,546 | \$ 655,207 | \$ 68,228 | \$ 40,449 | \$ 113,103 | \$ 3,237,414 |

¹Within investments rated AAA are \$193,158 in U.S. Treasury securities, \$238,434 in U.S. Treasury strips, and \$56,333 in U.S. Agency securities invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

Oregon Health and Science University (OHSU)

OHSU held \$41.9 million of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2010. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of this component of OHSU's investment portfolio.

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Notes to the Financial Statements

At June 30, 2010, OHSU had partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Interest Rate Risk

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

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

The endowment fund seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The endowment fund may invest in cash and cash equivalents, fixed income securities, domestic and international equity securities and other alternative investments. Fixed income securities held in this fund shall have a medium to long average duration (three to eight years). The charitable gift annuity pool seeks to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance.

The charitable gift annuity pool may invest in cash and cash equivalents, domestic and international equities, fixed income, and real estate. Charitable trusts are managed to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. Charitable trust investment objectives and asset allocation guidelines are determined based on the individual circumstances of each trust account. Allowable investments include cash and cash equivalents, domestic and international equities, fixed income, and real estate.

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Notes to the Financial Statements

As of June 30, 2010, OHSU had the following investments and maturities at fair value (in thousands):

| Investment Type | Credit Rating ¹ | Investment Maturities (in years) | | | | Balance at June 30, 2010 |
|-----------------------------------|----------------------------|----------------------------------|-------------------|------------------|----------------------|--------------------------|
| | | Less than 1 | 1 to 5 | 6 to 10 | More than 10 or none | |
| Cash and money market funds | N/A | \$ 75,725 | \$ - | \$ - | \$ - | \$ 75,725 |
| U.S. Treasury securities | AAA | 9,939 | 224,677 | 36,857 | - | 271,473 |
| U.S. Agency securities | AAA | 6,322 | 78,980 | 616 | - | 85,918 |
| Domestic equity securities | N/A | - | - | - | 61,059 | 61,059 |
| International equity securities | N/A | - | - | - | 82,043 | 82,043 |
| International debt securities | AAA | 2,119 | 1,032 | 2,117 | 2,897 | 8,165 |
| | AA | - | 421 | - | - | 421 |
| | A | 473 | 338 | 1,926 | 2,026 | 4,763 |
| | BB | - | - | - | 540 | 540 |
| | Not rated | - | - | - | 592 | 592 |
| Corporate bonds | AAA | - | 12,728 | - | - | 12,728 |
| | AA | 14,510 | 29,343 | 2,176 | - | 46,029 |
| | A | 12,645 | 23,374 | 7,342 | 3 | 43,364 |
| | BBB | 2,363 | 18,746 | 18,496 | - | 39,605 |
| International corporate bonds | AAA | - | 10,672 | - | - | 10,672 |
| | AA | - | 28,634 | - | - | 28,634 |
| | A | - | 4,032 | 2,236 | - | 6,268 |
| | BBB | 747 | 4,364 | 3,395 | - | 8,506 |
| Interest receivable | Various | 295 | - | - | - | 295 |
| Asset-backed securities | AAA | 15,472 | 22,792 | 1,791 | 965 | 41,020 |
| | BBB | - | 860 | - | - | 860 |
| Partnerships | N/A | - | - | - | 47,023 | 47,023 |
| Domestic mutual funds - debt | AAA | 406 | 1,180 | 1,649 | 420 | 3,655 |
| | AA | 31 | 188 | 248 | 61 | 528 |
| | A | 73 | 201 | 406 | 42 | 722 |
| | BBB | 73 | 258 | 446 | 28 | 805 |
| | BB | 1 | 19 | 104 | 4 | 128 |
| | B | 2 | 13 | 58 | 1 | 74 |
| | Below B | 2 | 16 | 26 | - | 44 |
| | Not rated | 253 | 61 | 5 | 5 | 324 |
| Domestic mutual funds - equity | N/A | - | - | - | 11,626 | 11,626 |
| Alternative investments | N/A | - | - | - | 119,858 | 119,858 |
| Real estate investments and other | N/A | - | - | - | 24,689 | 24,689 |
| Total | | \$ 141,451 | \$ 462,929 | \$ 79,894 | \$ 353,882 | \$ 1,038,156 |

¹Within investments rated AAA are \$271,473 in U.S. Treasury securities and \$2,226 in asset-backed securities which are invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

State of Oregon
Notes to the Financial Statements

Credit Risk

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

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

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

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

Concentration of Credit Risk

OHSU's operating and trustee held portfolios limit investments in any one issue to a maximum of 10 percent, depending upon the investment type, except for issues of the U.S. Government or agencies of the U.S. Government, which may be held without limitation. The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5 percent, except for issues of the U.S. Government or agencies of the U.S. Government, which may also be held without limitation. The charitable trusts place no limit on the amount that may be invested in any one issuer. As of June 30, 2010, OHSU had no investments in excess of the thresholds discussed above.

Foreign Currency Risk

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

State of Oregon
Notes to the Financial Statements

The fair value of OHSU foreign-denominated securities by currency type as of June 30, 2010 (in thousands):

| Foreign Currency Denomination | Investments (U.S. Dollars) |
|-------------------------------|-------------------------------|
| Australian dollar | \$ 85 |
| Brazilian real | 592 |
| British sterling pound | 3,107 |
| Canadian dollar | 497 |
| Euro | 321 |
| Iceland krona | 375 |
| Indonesian rupiah | 540 |
| South Korean won | 715 |
| Malaysian ringgit | 811 |
| Mexican peso | 594 |
| New Zealand dollar | 766 |
| Norwegian krone | 937 |
| Polish zloty | 940 |
| South African rand | 206 |
| Singapore dollar | 84 |
| Swedish krona | 467 |
| Turkish lira | 582 |
| Total | <u>\$ 11,619</u> |

E. Repurchase Agreements. Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2010:

- \$1.1 billion, or 29.2 percent of the Oregon Short-term Investment Fund, the cash collateral pool for all agencies except PERS.
- \$71 million, or 1.8 percent of PERS' share of the collective investment pool, the cash collateral pool in which PERS is a participant along with other qualified pension plans.

F. Securities Lending. The State participates in securities lending transactions in accordance with State investment policies. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements as of June 30, 2010.

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

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of the OPERF and other participants in State Street's securities lending program. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at \$1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the balance sheet and statement of

State of Oregon
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net assets. The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the agent may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the agent may direct that units be redeemed at fair value, engage in in-kind redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is deemed immaterial.

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

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

Securities lending balances on loan, collateral received, and investments of cash collateral as of June 30, 2010, of the primary government, including the OPERF (in thousands):

| Investment Type | Cash and Securities Collateral Received | Securities on Loan at Fair Value | Investments of Cash Collateral at Fair Value |
|---------------------------------------|--------------------------------------------|-------------------------------------|----------------------------------------------------|
| U.S. Treasury and Agency securities | \$ 3,399,794 | \$ 3,331,986 | \$ 3,385,160 |
| International equity securities | 1,230,002 | 1,170,997 | 594,177 |
| Domestic equity securities | 1,568,398 | 1,509,594 | 1,499,545 |
| Domestic fixed income securities | 1,712,322 | 1,677,329 | 1,699,147 |
| International fixed income securities | 27,987 | 27,504 | 16,073 |
| Total | <u>\$ 7,938,503</u> | <u>\$ 7,717,410</u> | <u>\$ 7,194,102</u> |

As of December 31, 2009, the fair values of securities on loan and collateral held for SAIF Corporation were \$367.1 million and \$376 million, respectively.

G. Restricted Assets. Included in deposits and investments are amounts which are committed for specific purposes, including loan acquisitions, payment of debt service, lottery prizes, and deferred compensation. At June 30, 2010, the primary government had restricted assets of \$2.5 billion in deposits and \$729.5 million in investments. The discretely presented component units had restricted assets of \$1.5 billion in investments.

3. DERIVATIVES

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

State of Oregon
Notes to the Financial Statements

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

Housing and Community Services Department

The Oregon Housing and Community Services Department (OHCS D) has entered into fourteen separate pay-fixed, receive-variable interest rate swaps to hedge against changes in variable rate interest and to lower borrowing costs compared to fixed rate bonds. The notional amounts of the swaps match the principal amounts of the associated debt. The notional amounts totaled \$305.7 million and the fair value of the swaps totaled negative \$31.2 million as of June 30, 2010. During the fiscal year, the swap fair value declined by \$10.8 million. The fair value balance, including any change during the fiscal year, is shown on the proprietary funds balance sheet and the government-wide statement of net assets under deferred outflows and derivative instrument liabilities. The fair value amounts are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. This methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

The terms, fair values, counterparties, and credit ratings of OHCS D's outstanding swaps as of June 30, 2010 (dollars in thousands):

| Bond Series | Notional Amounts | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Value | Swap Term Date | Counterparty | S&P |
|-------------------------|-------------------|----------------|-----------------|---------------------------------------|--------------------|----------------|----------------------|-----|
| MF ¹ 2004 B | \$ 14,470 | 12/16/2004 | 3.89% | 64% of 1-mo LIBOR ³ + .27% | \$ (1,263) | 7/1/46 | Merrill Lynch | A |
| MRB ² 2003 L | 15,000 | 4/21/2010 | 3.64% | 64.7% of 3-mo LIBOR + .23% | (718) | 7/1/34 | Royal Bank of Canada | AA- |
| MRB 2004 C | 15,000 | 1/24/2006 | 4.03% | 64% of 1-mo LIBOR + .29% | (1,290) | 7/1/34 | Morgan Stanley | A |
| MRB 2004 I | 15,000 | 1/24/2006 | 4.01% | 64% of 1-mo LIBOR + .29% | (1,314) | 7/1/34 | Morgan Stanley | A |
| MRB 2004 L | 15,000 | 5/27/2010 | 3.43% | 64.8% of 3-mo LIBOR + .22% | (561) | 7/1/35 | Royal Bank of Canada | AA- |
| MRB 2005 C | 10,500 | 5/27/2010 | 3.35% | 64.8% of 3-mo LIBOR + .22% | (377) | 7/1/35 | Royal Bank of Canada | AA- |
| MRB 2006 C | 20,000 | 2/28/2006 | 4.18% | 64% of 1-mo LIBOR + .29% | (2,325) | 7/1/36 | Morgan Stanley | A |
| MRB 2006 F | 20,000 | 7/18/2006 | 4.43% | 64% of 1-mo LIBOR + .29% | (2,731) | 7/1/37 | Bank of America | A+ |
| MRB 2006 G | 16,105 | 7/18/2006 | 3.83% | 64% of 1-mo LIBOR + .19% | (2,292) | 7/1/16 | Merrill Lynch | A |
| MRB 2007 E | 30,000 | 7/31/2007 | 4.39% | 64% of 1-mo LIBOR + .29% | (4,464) | 7/1/38 | JP Morgan Chase | AA- |
| MRB 2007 H | 30,000 | 11/20/2007 | 4.06% | 64% of 1-mo LIBOR + .30% | (3,744) | 7/1/38 | Merrill Lynch | A |
| MRB 2008 C | 35,000 | 2/26/2008 | 3.75% | 64% of 1-mo LIBOR + .30% | (3,300) | 7/1/38 | Bank of America | A+ |
| MRB 2008 F | 35,000 | 5/13/2008 | 3.74% | 64% of 1-mo LIBOR + .31% | (3,098) | 7/1/39 | Bank of America | A+ |
| MRB 2008 I | 34,650 | 8/26/2008 | 3.72% | 64% of 1-mo LIBOR + .31% | (3,731) | 7/1/37 | Bank of America | A+ |
| Total | <u>\$ 305,725</u> | | | | <u>\$ (31,208)</u> | | | |

¹ Multifamily housing revenue bonds

² Mortgage revenue bonds

³ One-month LIBOR

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

Basis risk is the risk that arises when variable interest rates on a derivative and the associated bond are based on different indexes. All variable interest rates on OHCS D's tax-exempt bonds are determined weekly by a remarketing agent. OHCS D is exposed to basis risk when the variable rates received, which are based on the one or three-month London Interbank Offered Rate (LIBOR) rates, do not offset the variable rates paid on the bonds. As of June 30, 2010, the one-month LIBOR was .35 percent and the three-month LIBOR rate was .54 percent. OHCS D's variable rates as of June 30, 2010, can be found in Note 10.

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. OHCS D or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the

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swap agreement. If any of the swaps are terminated, the associated variable rate bonds would no longer carry synthetic fixed interest rates and OHCSO would then be exposed to interest rate risk. In addition, if any of the swaps had a negative value at termination, OHCSO would be liable to the counterparty for a payment equal to the fair value of the swap.

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

Debt service requirements of the variable rate debt and net swap payments of OHCSO, using interest rates as of June 30, 2010 (in thousands):

| Year Ending June 30, | Principal | Interest | Interest Rate Swaps (Net) | Total |
|-------------------------|-------------------|------------------|------------------------------|-------------------|
| 2011 | \$ 175 | \$ 857 | \$ 9,997 | \$ 11,029 |
| 2012 | 180 | 906 | 10,347 | 11,433 |
| 2013 | 190 | 905 | 10,336 | 11,431 |
| 2014 | 200 | 904 | 10,334 | 11,438 |
| 2015 | 205 | 904 | 10,327 | 11,436 |
| 2016-2020 | 1,170 | 4,510 | 49,595 | 55,275 |
| 2021-2025 | 11,485 | 4,435 | 48,042 | 63,962 |
| 2026-2030 | 72,695 | 3,950 | 43,932 | 120,577 |
| 2031-2035 | 141,230 | 2,344 | 27,118 | 170,692 |
| 2036-2040 | 73,835 | 546 | 6,114 | 80,495 |
| 2041-2045 | 3,245 | 44 | 502 | 3,791 |
| 2046-2050 | 1,115 | 3 | 38 | 1,156 |
| Total | <u>\$ 305,725</u> | <u>\$ 20,308</u> | <u>\$ 226,682</u> | <u>\$ 552,715</u> |

OHCSO's swaps, except for the MF 2004 B and the MRB 2007 E swaps, include provisions that require collateral to be posted if the rating on the senior bonds issued under the 1988 indenture (Mortgage Revenue Bonds) are not above either Baa1 (Moody's) or BBB+ (S&P). If the bonds are at or below these levels, collateral in the amount of the current swap fair value (rounded to the nearest \$10 thousand) is required to be posted. The minimum transfer amount is \$100 thousand or \$0 if neither rating agency rates the bonds. The total fair value on June 30, 2010, of the swaps that include these provisions is negative \$25.5 million. At June 30, 2010, the bonds subject to these provisions are rated Aa2 by Moody's and are not rated by S&P.

Department of Veterans' Affairs

The Department of Veterans' Affairs has an interest rate swap in connection with a portion of its Loan Program General Obligation Veterans' Welfare Bonds, Series 84. The swap and underlying floating rate bonds together create synthetic fixed rate debt. During fiscal year 2010, the Department of Veterans' Affairs did not enter into, terminate, or have any maturities of derivatives. The fair value balance of the interest rate swap is reported on the proprietary funds balance sheet and the government-wide statement of net assets under deferred outflows and derivative instrument liabilities.

Changes to the fair value balance during the year ending June 30, 2010 (in thousands):

| Description | Notional Amount | Fair Value June 30, 2009 | Fair Value Increase/(Decrease) | Fair Value June 30, 2010 |
|-------------|--------------------|-----------------------------|-----------------------------------|-----------------------------|
| Series 84 | \$ 25,000 | \$ (1,333) | \$ (917) | \$ (2,250) |

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2010, is negative. The fair value of the interest rate swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap by assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted

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using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap.

The terms and objectives of the Department of Veterans' Affairs outstanding derivative instruments as of June 30, 2010 (dollars in thousands):

| Type | Objective | Notional Amount | Effective Date | Termination Date | Fixed Rate Paid | Variable Rate Received | Fair Value |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------|------------------|-----------------|--------------------------------|------------|
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the Series 84 bonds, specifically related to changes in municipal tax-exempt interest rates | \$ 25,000 | 3/1/2008 | 6/1/2040 | 3.67% | 62.6% of 1-month LIBOR + .265% | \$ (2,250) |

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

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

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

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

Since the fair value of the swap as of June 30, 2010, is negative, the counterparty is not required to post collateral. The State may require collateralization or other credit enhancements to secure any or all swap payment obligations where the Office of the State Treasurer determines such security is necessary to limit the credit risk or otherwise protect the interests of the State.

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

The Department of Veterans' Affairs is exposed to basis risk because the variable rate bonds, which are hedged by the interest rate swap, are variable rate demand obligation (VRDO) bonds that are remarketed weekly. The Department of Veterans' Affairs becomes exposed to basis risk because the variable rate payments received by the Department of Veterans' Affairs are based on a rate other than the interest rate paid on the VRDO bonds. At June 30, 2010, the interest rate on the variable rate hedged debt is .23 percent, while the 62.6 percent of one-month LIBOR plus .27 percent is .49 percent.

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

As interest rates fluctuate, variable rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Department of Veterans' Affairs. Using interest rates as of June 30, 2010, the following table presents the debt service requirements of the variable rate debt (on the notional amount of the swap) and net swap payments (in thousands):

| Year Ending June 30, | Principal | Interest | Interest Rate Swap (Net) | Total |
|-------------------------|-----------|----------|-----------------------------|-----------|
| 2011 | \$ - | \$ 58 | \$ 796 | \$ 854 |
| 2012 | - | 58 | 797 | 855 |
| 2013 | - | 57 | 796 | 853 |
| 2014 | - | 58 | 796 | 854 |
| 2015 | - | 58 | 796 | 854 |
| 2016-2020 | 2,380 | 275 | 3,784 | 6,439 |
| 2021-2025 | 3,290 | 243 | 3,328 | 6,861 |
| 2026-2030 | 4,525 | 199 | 2,702 | 7,426 |
| 2031-2035 | 6,230 | 139 | 1,975 | 8,344 |
| 2036-2040 | 8,575 | 55 | 942 | 9,572 |
| Total | \$ 25,000 | \$ 1,200 | \$ 16,712 | \$ 42,912 |

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

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

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

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

Oregon University System

The Oregon University System (OUS) participates in a limited number 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.

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Notes to the Financial Statements

The terms of the OUS forward contracts outstanding at June 30, 2010 (in thousands):

| Currency | Notional Amount | Principal Amount | Effective Date | Maturity Date | Contract Rate | Fair Value |
|------------------------|--------------------|---------------------|-------------------|------------------|------------------|-----------------|
| Euro | \$ 27 | \$ 35 | 5/12/2010 | 8/31/2010 | \$ 1.29 | \$ (2) |
| | 40 | 52 | 5/7/2010 | 9/30/2020 | 1.29 | (2) |
| | 573 | 787 | 3/23/2010 | 3/31/2011 | 1.37 | (83) |
| | 500 | 689 | 3/23/2010 | 9/14/2011 | 1.38 | (75) |
| | 500 | 700 | 2/5/2010 | 6/30/2011 | 1.40 | (87) |
| | 800 | 1,176 | 12/17/2009 | 10/31/2010 | 1.47 | (194) |
| | 300 | 444 | 10/1/2009 | 9/30/2010 | 1.48 | (76) |
| | 400 | 592 | 9/29/2009 | 9/22/2010 | 1.48 | (101) |
| British sterling pound | 200 | 305 | 5/10/2010 | 10/31/2011 | 1.53 | (5) |
| | 200 | 305 | 3/12/2010 | 9/12/2011 | 1.53 | (5) |
| | 200 | 312 | 3/2/2010 | 8/20/2011 | 1.56 | (12) |
| | 200 | 328 | 9/24/2009 | 9/24/2010 | 1.64 | (27) |
| | 100 | 164 | 12/17/2009 | 12/31/2010 | 1.64 | (14) |
| Australian dollar | 81 | 75 | 4/22/2010 | 10/31/2010 | 0.85 | (7) |
| Canadian dollar | 3 | 3 | 1/29/2010 | 8/31/2010 | 0.92 | - |
| Total | <u>\$ 4,124</u> | <u>\$ 5,967</u> | | | | <u>\$ (690)</u> |

The OUS forward contracts are reported as investments on the proprietary funds balance sheet. The changes in fair value of the forward contracts are reported with investment income on the proprietary funds statement of revenues, expenses, and changes in fund net assets.

Common School Fund

In the Common School Fund (CSF) portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counterparty to perform. The change in fair value for all of the CSF's foreign currency exchange contracts for the year ended June 30, 2010, was \$1.6 million.

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Notes to the Financial Statements

The foreign currency exchange contracts within the CSF as of June 30, 2010 (in thousands):

| Description | Delivery Dates | Notional Value | Fair Market Value |
|------------------------------------------------|----------------------|------------------|-------------------|
| Foreign currency exchange contracts purchased: | | | |
| Australian dollar | 9/15/2010 | \$ 5,923 | \$ 6,122 |
| British pound sterling | 7/1/2010 - 9/15/2010 | 915 | 930 |
| Canadian dollar | 7/6/2010 - 9/15/2010 | 8,724 | 8,665 |
| Danish krone | 7/1/2010 - 9/15/2010 | 20 | 20 |
| Eurodollar | 7/1/2010 - 9/15/2010 | 862 | 861 |
| Hong Kong dollar | 9/15/2010 | 2,182 | 2,181 |
| Japanese yen | 7/1/2010 - 9/15/2010 | 11,272 | 11,590 |
| New Zealand dollar | 9/15/2010 | 125 | 130 |
| Norwegian krone | 7/2/2010 - 9/15/2010 | 978 | 998 |
| Singapore dollar | 9/15/2010 | 857 | 868 |
| Swedish krona | 7/1/2010 - 9/15/2010 | 1,552 | 1,566 |
| Swiss franc | 7/1/2010 - 9/15/2010 | 5,551 | 5,921 |
| Total contracts purchased | | <u>38,961</u> | <u>39,852</u> |
| Foreign currency exchange contracts sold: | | | |
| Australian dollar | 9/15/2010 | 383 | 383 |
| British pound sterling | 7/1/2010 - 9/15/2010 | 1,540 | 1,596 |
| Canadian dollar | 7/2/2010 - 9/15/2010 | 352 | 351 |
| Danish krone | 9/15/2010 | 864 | 878 |
| Eurodollar | 7/1/2010 - 9/15/2010 | 15,119 | 15,377 |
| Hong Kong dollar | 7/2/2010 - 9/15/2010 | 2,177 | 2,180 |
| Japanese yen | 7/1/2010 - 9/15/2010 | 3,106 | 3,180 |
| New Zealand dollar | 9/15/2010 | 10 | 10 |
| Norwegian krone | 7/1/2010 - 9/15/2010 | 1,115 | 1,125 |
| Singapore dollar | 7/2/2010 - 9/15/2010 | 2,028 | 2,060 |
| Swedish krona | 9/15/2010 | 6,440 | 6,700 |
| Swiss franc | 9/15/2010 | 5,548 | 5,920 |
| Total contracts sold | | <u>38,682</u> | <u>39,760</u> |
| Total | | <u>\$ 77,643</u> | <u>\$ 79,612</u> |

The CSF portfolio also contains "to be announced" (TBA) securities. TBA securities may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, and other market conditions. TBA contracts represent commitments to buy or sell a mortgage-backed security at a future date and at a specified price. They are traded on organized exchanges and are used to manage interest rate risk. Pass-through securities issued by Freddie Mac, Fannie Mae and Ginnie Mae trade in the TBA market. The term "TBA" is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are "to be announced" 48 hours prior to the established trade settlement date. TBA securities are subject to interest rate risk and bond market risk. The change in fair value for the CSF's TBA contracts for the year ended June 30, 2010, was \$945 thousand.

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TBA contracts that represent purchase/sell commitments within the CSF as of June 30, 2010 (in thousands):

| TBA Type | Expiration Date | Face Value | Fair Value |
|----------|-----------------------|-----------------|--------------|
| FHLMC | 8/30/2010 | \$ 900 | \$ (1) |
| FNMA | 7/15/2010 - 8/30/2010 | 2,100 | 10 |
| GNMA I | 7/30/2010 - 6/30/2011 | 1,100 | 9 |
| GNMA II | 8/30/2010 - 9/30/2010 | 3,200 | 24 |
| Total | | <u>\$ 7,300</u> | <u>\$ 42</u> |

In the CSF portfolio, warrants are often obtained and held due to existing investments. A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain period. Warrants are privately transacted in over-the-counter markets. Warrants are subject to general market risk and liquidity risk. The change in fair value for the CSF's warrants for the year ended June 30, 2010, was \$3 thousand.

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

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

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

Currency Forwards

A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. In the PERS portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counterparty to perform. The change in fair value arising from the difference between the original contracts and the closing of such contracts is \$104.1 million for the fiscal year ended June 30, 2010.

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Notes to the Financial Statements

Foreign currency forward contracts that represent purchase commitments within the PERS portfolio as of June 30, 2010 (in thousands):

| Description | Delivery Dates | Notional Value | Fair Value |
|----------------------|------------------------|---------------------|------------------|
| Australian dollar | 7/30/2010 - 9/15/2010 | \$ 233,274 | \$ (172) |
| Brazilian real | 9/15/2010 | 97 | (1) |
| Canadian dollar | 7/2/2010 - 9/15/2010 | 232,664 | (3,243) |
| Chinese yuan | 9/28/2010 - 5/14/2013 | 15,791 | (233) |
| Columbian peso | 7/30/2010 | 689 | (4) |
| Czech koruna | 9/15/2010 | 190 | - |
| Danish krone | 7/2/2010 - 9/15/2010 | 31,467 | 278 |
| Euro | 7/1/2010 - 9/15/2010 | 470,281 | 6,175 |
| Hong Kong dollar | 7/2/2010 - 6/12/2012 | 33,523 | 9 |
| Hungarian forint | 9/15/2010 | 23,755 | 591 |
| Indian rupee | 7/30/2010 | 100 | (1) |
| Indonesian rupiah | 7/30/2010 | 285 | 2 |
| Israeli shekel | 7/26/2010 - 9/15/2010 | 5,360 | (46) |
| Japanese yen | 7/1/2010 - 9/15/2010 | 355,675 | 10,113 |
| Kazakhstan tenge | 7/12/2010 - 3/10/2011 | 702 | (13) |
| Malaysian ringgit | 9/15/2010 - 10/12/2010 | 1,082 | 11 |
| Mexican peso | 7/2/2010 - 9/15/2010 | 33,032 | (165) |
| New Taiwan dollar | 7/30/2010 | 672 | (1) |
| New Zealand dollar | 8/16/2010 - 9/15/2010 | 66,393 | (1,575) |
| Norwegian krone | 7/2/2010 - 6/12/2012 | 165,791 | (3,934) |
| Peruvian nouveau sol | 10/14/2010 | 285 | 1 |
| Philippine peso | 7/30/2010 - 11/15/2010 | 1,807 | (24) |
| Polish zloty | 9/15/2010 | 52 | 2 |
| Pound sterling | 7/1/2010 - 9/15/2010 | 261,495 | 6,864 |
| Russian ruble | 7/30/2010 | 1 | - |
| Singapore dollar | 9/15/2010 | 29,156 | 436 |
| South African rand | 7/1/2010 - 9/15/2010 | 118 | (1) |
| South Korean won | 7/28/2010 - 11/12/2010 | 32,316 | 176 |
| Swedish krona | 7/1/2010 - 9/15/2010 | 151,035 | 202 |
| Swiss franc | 7/1/2010 - 9/15/2010 | 129,714 | 5,653 |
| Turkish lira | 9/15/2010 | 65 | - |
| Ukraine hryvna | 7/22/2010 | 178 | 47 |
| Total | | <u>\$ 2,277,045</u> | <u>\$ 21,147</u> |

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Foreign currency forward contracts that represent sell commitments within the PERS portfolio as of June 30, 2010 (in thousands):

| Description | Delivery Dates | Notional Value | Fair Value |
|----------------------|------------------------|---------------------|-----------------|
| Argentine peso | 5/17/2011 | \$ 250 | \$ (2) |
| Australian dollar | 7/1/2010 - 9/15/2010 | 189,368 | 4,220 |
| Brazilian real | 7/1/2010 - 9/15/2010 | 22,115 | (297) |
| Canadian dollar | 7/1/2010 - 9/15/2010 | 100,674 | 2,557 |
| Chilean peso | 7/30/2010 | 675 | 11 |
| Chinese yuan | 11/17/2010 - 7/20/2012 | 3,271 | 27 |
| Colombian peso | 7/30/2010 | 1,541 | 18 |
| Czech koruna | 9/15/2010 | 24,772 | (615) |
| Danish krone | 7/28/2010 - 9/15/2010 | 37,977 | 2,313 |
| Euro | 7/1/2010 - 10/25/2010 | 906,744 | 13,145 |
| Hong Kong dollar | 7/2/2010 - 9/15/2010 | 35,603 | (63) |
| Hungarian forint | 9/15/2010 | 100 | (2) |
| Indian rupee | 7/30/2010 | 98 | (1) |
| Japanese yen | 7/1/2010 - 7/1/2011 | 386,406 | (12,074) |
| Malaysian ringgit | 7/1/2010 - 10/12/2010 | 832 | (14) |
| Mexican peso | 7/1/2010 - 9/15/2010 | 7,150 | 171 |
| New Zealand dollar | 9/15/2010 | 15,062 | 94 |
| Norwegian krone | 7/1/2010 - 9/15/2010 | 53,174 | 814 |
| Peruvian nouveau sol | 10/14/2010 | 284 | (2) |
| Philippine peso | 11/15/2010 | 1,477 | (8) |
| Polish zloty | 9/15/2010 | 1,036 | (31) |
| Pound sterling | 7/1/2010 - 9/30/2010 | 221,154 | (1,837) |
| Singapore dollar | 7/2/2010 - 9/15/2010 | 29,619 | (440) |
| South African rand | 9/15/2010 | 65 | (1) |
| South Korean won | 7/28/2010 - 11/12/2010 | 12,769 | 347 |
| Swedish krona | 7/1/2010 - 9/15/2010 | 115,944 | (3,525) |
| Swiss franc | 7/1/2010 - 10/25/2010 | 41,258 | (1,983) |
| Turkish lira | 7/1/2010 - 9/15/2010 | 66 | 1 |
| Ukraine hryvna | 7/22/2010 | 176 | (49) |
| Total | | <u>\$ 2,209,660</u> | <u>\$ 2,774</u> |

Futures and Forwards

Futures and forward contracts represent commitments to buy or sell an underlying asset at a future date and at a specified price. Futures contracts have standardized terms and are exchange-traded. Forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. The counterparty credit risk for futures is generally less than privately negotiated forward contracts, since the clearinghouse, which is the issuer of or counterparty to each exchange-traded future, daily settles the net change in the futures contract's value in cash with the broker. In the PERS portfolio, futures and forward contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, currency exchange rates, equity indexes, and other market conditions. The OPERF bears the market risk that arises from changes in the value of these instruments and the imperfect correlation between movements in the price of the futures and forward contracts and movements in the price of the securities hedged or used for cover. The change in fair value resulting from futures contract settlements totaled \$408.3 million for the fiscal year ended June 30, 2010. The change in fair value resulting from forward contract settlements totaled \$2.9 million for the fiscal year ended June 30, 2010. The fair value of the futures contracts reported within the PERS portfolio is \$0.

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The balance of the *fixed income* futures contracts within the PERS portfolio as of June 30, 2010 (dollars in thousands):

| Fixed Income Type | Expiration Date | Number of Contracts | Notional Value |
|------------------------------------|-----------------------|------------------------|----------------------------|
| Long cash and cash equivalents: | | | |
| 90-day Eurodollar | 9/13/2010 - 6/13/2011 | 4,626 | \$ 1,147,945 |
| Short cash and cash equivalents: | | | |
| 90-day Eurodollar | 6/13/2011 - 6/15/2015 | 1,951 | (477,122) |
| Long fixed income: | | | |
| 30-year U.S. Treasury bonds | 9/21/2010 | 442 | 56,355 |
| 10-year U.S. Treasury notes | 9/21/2010 | 2,071 | 253,794 |
| 5-year U.S. Treasury notes | 9/30/2010 | 3,861 | 456,955 |
| 3-year Australian T-bonds | 9/15/2010 | 80 | 6,449 |
| 2-year U.S. Treasury notes | 7/1/2010 - 9/30/2010 | 3,499 | 766,172 |
| Ultra long U.S. Treasury bonds | 9/21/2010 | 506 | 68,721 |
| German Euro-Bobl | 9/8/2010 | 190 | 28,140 |
| German Euro-Bund | 9/8/2010 | 22 | 3,487 |
| German Euro-Schatz | 9/8/2010 | 6 | 805 |
| UK long gilt bond | 9/28/2010 | 97 | 17,567 |
| Total long fixed income | | | <u>1,658,445</u> |
| Short fixed income: | | | |
| 30-year U.S. Treasury bonds | 9/1/2010 | 678 | (86,445) |
| 10-year Japan govt bonds | 9/9/2010 | 46 | (73,639) |
| 10-year Australian T-bonds | 9/15/2010 | 939 | (75,264) |
| 10-year U.S. Treasury notes | 9/21/2010 | 5,570 | (682,586) |
| 2-year U.S. Treasury notes | 9/30/2010 | 309 | (67,618) |
| 5-year U.S. Treasury notes | 9/30/2010 | 329 | (38,938) |
| Euro BTP Italian govt bond futures | 9/8/2010 | 4 | (559) |
| German Euro-Bund | 9/8/2010 | 18 | (2,853) |
| German Euro-Buxl | 9/8/2010 | 14 | (1,922) |
| Ultra long U.S. Treasury bonds | 9/21/2010 | 114 | (15,483) |
| Total short fixed income | | | <u>(1,045,307)</u> |
| Total | | | <u><u>\$ 1,283,961</u></u> |

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The balance of the *index* futures contracts within the PERS portfolio as of June 30, 2010 (dollars in thousands):

| Index Type | Expiration Date | Number of Contracts | Notional Value |
|-------------------------------|-----------------|---------------------|----------------------------|
| Long purchased indexes: | | | |
| AEX | 7/16/2010 | 501 | \$ 38,846 |
| ASX SPI 200 | 9/16/2010 | 382 | 34,379 |
| CAC 40 | 7/16/2010 | 886 | 37,355 |
| DAX | 9/17/2010 | 120 | 21,907 |
| DJ Euro STOXX 50 | 9/17/2010 | 5,601 | 176,182 |
| FTSE 100 | 9/17/2010 | 1,915 | 139,828 |
| FTSE MIB | 9/17/2010 | 226 | 26,778 |
| Hang Seng | 7/29/2010 | 108 | 13,924 |
| IBEX 35 | 7/16/2010 | 99 | 11,160 |
| Russell 1000 mini | 9/17/2010 | 385 | 21,756 |
| Russell 2000 mini | 9/17/2010 | 1,474 | 89,590 |
| S&P 500 E mini | 9/17/2010 | 4,362 | 223,901 |
| S&P 500 | 9/16/2010 | 1,062 | 272,562 |
| S&P midcap 400 E mini | 9/17/2010 | 77 | 5,467 |
| S&P TSE 60 | 9/16/2010 | 400 | 49,627 |
| SGX MSCI Singapore | 7/29/2010 | 16 | 770 |
| Swiss market | 9/17/2010 | 8 | 452 |
| Topix | 9/10/2010 | 115 | 105,653 |
| Total long purchased indexes | | | <u>1,270,137</u> |
| Short purchased indexes: | | | |
| ASX SPI 200 | 9/16/2010 | 539 | (48,509) |
| Hang Seng | 7/29/2010 | 160 | (20,628) |
| OMX 30 | 7/16/2010 | 11 | (142) |
| S&P 500 E mini | 9/17/2010 | 549 | (28,180) |
| S&P TSE 60 | 9/16/2010 | 78 | (9,677) |
| TOPIX | 9/10/2010 | 99 | (9,381) |
| Total short purchased indexes | | | <u>(116,517)</u> |
| Total | | | <u><u>\$ 1,153,620</u></u> |

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The balance of the forward contracts within the PERS portfolio as of June 30, 2010 (in thousands):

| Type of Forward Contract | Expiration Date | Notional Value | Fair Value |
|-----------------------------|-------------------------|-------------------|---------------|
| Forward assets: | | | |
| JB 298 | 12/20/2018 | \$ 916 | \$ 39 |
| OAT | 10/25/2019 | 2,792 | 56 |
| JB 308 | 6/20/2020 | 430 | 18 |
| UK Gilt | 1/22/2015 - 9/7/2039 | 3,000 | 116 |
| Can | 3/1/2012 | 1,147 | (33) |
| USTN | 2/15/2019 - 11/15/2039 | 2,236 | 144 |
| U.S. TIPS | 7/15/2017 | 42,999 | (61) |
| DBR | 1/4/2019 | 4,082 | 16 |
| Total forward assets | | 57,602 | 295 |
| Forward liabilities: | | | |
| JB 298 | 12/20/2018 | (1,805) | (128) |
| OAT | 10/25/2019 - 10/25/2038 | (4,739) | 63 |
| JB 288 | 9/20/2017 | (596) | (22) |
| DBR | 1/4/2037 - 7/4/2040 | (1,604) | (26) |
| Austria | 7/15/2020 | (3,100) | 13 |
| BGB | 3/28/2019 | (1,319) | - |
| Total forward liabilities | | (13,163) | (100) |
| Total | | \$ 44,439 | \$ 195 |

Swaps

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

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

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

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

The change in fair value from swaps contracts within the PERS portfolio for the year ended June 30, 2010, was negative \$21.1 million. The balances of the swap contracts as of June 30, 2010 (in thousands):

| Description | PERS Receives | PERS Pays | Maturity date | Notional Value | Fair Value |
|-----------------------------------------------------|-----------------------|-----------------------|-------------------------|---------------------|--------------------|
| Interest rate swaps - pay fixed asset | See note ¹ | 0% - 5.43% | 2/14/2013 - 2/15/2025 | \$ 35,000 | \$ 2,097 |
| Interest rate swaps - pay fixed liability | See note ¹ | 0% - 5.43% | 5/21/2011 - 4/22/2040 | 859,342 | (40,137) |
| Interest rate swaps - receive fixed asset | 0% - 11.57% | See note ¹ | 2/11/2011 - 5/4/2040 | 701,385 | 16,783 |
| Credit default swaps - pay fixed assets | CDP ² | 0% - 5.0% | 6/20/2011 - 2/17/2051 | 288,270 | 10,628 |
| Credit default swaps - pay fixed liabilities | CDP ² | 0% - 5.0% | 12/20/2012 - 3/20/2019 | 217,943 | (15,106) |
| Credit default swaps - receive fixed assets | 0.8% - 7.7% | CDP ² | 3/20/2011 - 6/25/2036 | 99,037 | 2,500 |
| Credit default swaps - receive fixed liabilities | 0.8% - 7.7% | CDP ² | 12/20/2010 - 10/12/2052 | 423,568 | (21,443) |
| Total return swaps - receive set reference asset | CMBS | CMBS reset | 10/1/2010 | 8,950 | 181 |
| Total return swaps - pay set reference liability | 3-month LIBOR | Russell 100 Index | 5/13/2011 | 121 | (279) |
| Total | | | | <u>\$ 2,633,616</u> | <u>\$ (44,776)</u> |

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

²Credit default protection

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The counterparties' credit ratings for swaps contracts within the PERS portfolio as of June 30, 2010 (in thousands):

| Counterparty Information | S&P | Moody's | Credit Default | Interest Rate | Total Return | Total |
|------------------------------------|-----|---------|--------------------|--------------------|----------------|--------------------|
| | | | Swaps | Swaps | Swaps | |
| Bank of America | A+ | A+ | \$ 573 | \$ (5,667) | \$ - | \$ (5,094) |
| Barclay's Bank | AA- | AA- | (2,706) | (4,430) | - | (7,136) |
| BNP PARIBAS S.A. | NR | A+ | (2) | - | - | (2) |
| Citibank | A+ | A+ | 1,179 | - | - | 1,179 |
| Credit Suisse | A+ | AA- | (3,727) | - | (279) | (4,006) |
| Deutsche Bank | A+ | AA- | (3,722) | (6,042) | - | (9,764) |
| Goldman Sachs | A | A+ | (6,630) | (454) | 69 | (7,015) |
| JP Morgan Chase | AA- | AA- | 384 | 336 | - | 720 |
| JP Morgan Securities | A+ | AA- | (1,336) | (2,816) | - | (4,152) |
| Merrill Lynch | A | A+ | (382) | 34 | - | (348) |
| Morgan Stanley | A | A | (3,417) | (1,696) | - | (5,113) |
| Royal Bank of Canada | AA- | AA | - | 142 | - | 142 |
| Royal Bank of Scotland | A+ | A+ | (122) | (674) | 112 | (684) |
| UBS AG Stamford | A+ | A+ | (3,512) | 9 | - | (3,503) |
| Total swaps subject to credit risk | | | <u>\$ (23,420)</u> | <u>\$ (21,258)</u> | <u>\$ (98)</u> | <u>\$ (44,776)</u> |

Options

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

In writing an option, the OPERF bears the market risk of an unfavorable change in the price of the underlying investment of the written option. Exercise of an option written by the OPERF could result in the OPERF selling or buying an asset at a price different from the current market value. The risk associated with purchasing an option is that the OPERF pays a premium whether or not the option is exercised. Options and European options may be subject to interest rate risk, general market risk, liquidity risk, credit risk, foreign currency risk and, for non-exchange-traded options, the risk that the counterparty will fail to perform. The change in fair value from options contracts within the PERS portfolio for the year ended June 30, 2010, was \$1.9 million.

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The balance of the options contracts within the PERS portfolio as of June 30, 2010 (dollars in thousands):

| Description | Expiration Date | Contracts | Units | Fair Value |
|----------------------------|------------------------|------------|--------------|------------|
| Fixed Income: | | | | |
| <i>Written calls</i> | | | | |
| INF Cap USD CPURNSA | 12/7/2010 - 3/4/2015 | 3,300,000 | (3,300,000) | \$ (26) |
| 10-year IRO USD | 8/31/2010 - 10/29/2010 | 12,400,000 | (12,400,000) | (310) |
| Total written calls | | | (15,700,000) | (336) |
| <i>Written puts</i> | | | | |
| INF floor USD CPURNSA | 3/4/2015 | 1,800,000 | (1,800,000) | (27) |
| 10-year IRO USD | 10/29/2010 | 9,600,000 | (9,600,000) | (1) |
| Total written puts | | | (11,400,000) | (28) |
| Total fixed income | | | (27,100,000) | (364) |
| Option futures: | | | | |
| <i>Calls</i> | | | | |
| Purchased: | | | | |
| 10-year Treasury note | 8/27/2010 | 318 | 318,000 | 814 |
| Written: | | | | |
| 30-year Treasury note | 7/23/2010 | 261 | (261,000) | (322) |
| 10-year Treasury note | 8/27/2010 | 266 | (266,000) | (819) |
| Eurodollar | 9/13/2010 - 3/14/2011 | 711 | (1,777,500) | (663) |
| S&P 500 index | 7/16/2010 | 29 | (7,250) | (3) |
| Total calls written | | | (2,311,750) | (1,807) |
| Total option future calls | | | (1,993,750) | (993) |
| <i>Puts</i> | | | | |
| Purchased: | | | | |
| Eurodollar | 9/13/2010 | 447 | 1,117,500 | 81 |
| 1-year Eurodollar midcurve | 9/10/2010 | 329 | 822,500 | 64 |
| Total puts purchased | | | 1,940,000 | 145 |
| Written: | | | | |
| Eurodollar | 9/13/2010 - 3/14/2011 | 810 | (2,025,000) | (138) |
| 1-year Eurodollar midcurve | 3/14/2011 | 329 | (822,500) | (31) |
| S&P 500 index | 7/16/2010 | 29 | (7,250) | (225) |
| Total puts written | | | (2,854,750) | (394) |
| Total option future puts | | | (914,750) | (249) |
| Total option futures | | | (2,908,500) | (1,242) |
| Total | | | (30,008,500) | \$ (1,606) |

Swaptions

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

In writing a swaption, the OPERF bears the market risk of an unfavorable change in the price of the underlying investment of the written swaption. Exercise of a swaption written by the OPERF could result in the OPERF selling or buying an asset at a price different from the current market value. The risk associated with purchasing a swaption is that the OPERF pays a premium, whether or not the option to enter a swap is

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exercised. Swaptions may be subject to interest rate risk, liquidity risk, and the risk that the counterparty will fail to perform. The change in fair value from swaptions contracts within the PERS portfolio for the year ended June 30, 2010, was \$5.2 million. The balance of the swaption contracts as of June 30, 2010 (dollars in thousands):

| Description | Expiration Date | Contracts | Units | Fair Value |
|-------------------------|---------------------|------------|--------------|------------|
| Calls | | | | |
| <i>Purchased</i> | | | | |
| 10-year RTR | 3/3/2011 | 20,000,000 | 20,000,000 | \$ - |
| OTC | 9/1/2010 - 9/3/2010 | 8,700,000 | 8,700,000 | - |
| Total calls purchased | | | 28,700,000 | - |
| <i>Written</i> | | | | |
| 10-year RTR | 3/3/2011 | 20,000,000 | (20,000,000) | - |
| OTC | 9/1/2010 - 9/3/2010 | 5,500,000 | (5,500,000) | (12) |
| 10-year U.S. dollar | 8/31/2010 | 3,500,000 | (3,500,000) | (81) |
| Total calls written | | | (29,000,000) | (93) |
| Puts | | | | |
| <i>Purchased</i> | | | | |
| 10-year RTP | 3/3/2011 | 20,000,000 | 20,000,000 | - |
| Great Britain pound | 12/15/2015 | 2,800,000 | 2,800,000 | 385 |
| IRO Great Britain pound | 12/15/2015 | 6,300,000 | 6,300,000 | 866 |
| Total puts purchased | | | 29,100,000 | 1,251 |
| <i>Written</i> | | | | |
| 10-year RTP | 3/3/2011 | 20,000,000 | (20,000,000) | - |
| IRO Eurodollar | 7/1/2014 | 2,500,000 | (2,500,000) | (2) |
| IRO U.S. dollar | 8/31/2010 | 14,700,000 | (14,700,000) | - |
| 10-year U.S. dollar | 8/31/2010 | 3,500,000 | (3,500,000) | - |
| IRO 10-year U.S. dollar | 8/31/2010 | 23,300,000 | (23,300,000) | - |
| Swaption 317U153B3 | 7/10/2012 | 3,800,000 | (3,800,000) | (2) |
| Total puts written | | | (67,800,000) | (4) |
| Total | | | (39,000,000) | \$ 1,154 |

To Be Announced (TBA) Contracts

TBA contracts represent commitments to buy or sell a mortgage-backed security at a future date and at a specified price. They are traded on organized exchanges and are used to manage interest rate risk. Pass-through securities issued by Freddie Mac, Fannie Mae and Ginnie Mae trade in the TBA market. The term "TBA" is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are "to be announced" 48 hours prior to the established trade settlement date. In the PERS portfolio, TBA securities may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, and other market conditions. TBA securities are subject to interest rate risk and bond market risk. Unrealized gains or losses from TBA securities are included in the statement of changes in fiduciary net assets. The change in fair value from TBA contracts within the PERS portfolio for the year ended June 30, 2010, was negative \$9.4 million.

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TBA contracts that represent purchase/sell commitments within the PERS portfolio as of June 30, 2010 (in thousands):

| TBA Type | Expiration Date | Face Value | Fair Value |
|---------------------|-----------------------|-------------------|-----------------|
| Assets: | | | |
| FHLMC | 8/30/2010 | \$ 47,100 | \$ (42) |
| FNMA | 7/15/2010 - 6/15/2011 | 355,975 | 1,678 |
| GNMA I | 7/30/2010 - 8/30/2010 | 54,140 | 275 |
| GNMA II | 8/30/2010 - 9/30/2010 | 65,500 | 366 |
| Total Assets | | <u>522,715</u> | <u>2,277</u> |
| Liabilities: | | | |
| FNMA | 7/15/2010 - 6/30/2011 | (269,950) | (2,749) |
| Total | | <u>\$ 252,765</u> | <u>\$ (472)</u> |

Rights and Warrants

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

A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain time period. Warrants are privately transacted in over-the-counter markets. In the PERS portfolio, warrants are often obtained and held due to existing investments. Warrants are subject to general market risk and liquidity risk. The change in fair value from rights and warrants for the year ended June 30, 2010, was \$3.8 million. The fair value of rights and warrants within the PERS portfolio as of June 30, 2010 (dollars in thousands):

| Type | Expiration Date | Related Number of Shares | Fair Value |
|----------|------------------------|--------------------------|-----------------|
| Rights | 11/23/2009 - 1/1/2014 | 1,132,425 | \$ 214 |
| Warrants | 11/1/2010 - 10/13/2014 | 4,793,521 | 5,237 |
| Total | | <u>5,925,946</u> | <u>\$ 5,451</u> |

D. Hedging Derivatives - Discretely Presented Component Units

Oregon Health and Science University (OHSU)

OHSU holds a total of four interest rate swap agreements (collectively, the swaps). The notional amounts of the swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2012, for the 2004 Swaps and on July 1, 2028, for the 2005 Swaps. The 2004 Swaps originated on January 1, 2007, and the 2005 Swaps originated on October 18, 2005. For the 2005 Swaps, OHSU is currently making fixed rate interest payments of 3.4 percent to the counterparty and receives variable rate payments computed as 62.7 percent of the LIBOR plus .18 percent. For the 2004 Swaps, OHSU pays the counterparties a fixed payment of 3.4 percent and receives a variable payment computed as 67 percent of the LIBOR. The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to swap counterparties were \$6.1 million during the year ended June 30, 2010.

Each of the above swaps was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998 A, Series 1998 B, Series 2002 B, and Series 2009 B bonds. Prior to establishment of these hedging relationships, the 2005 swaps were part of a hedging relationship with the Series 2005 A and Series 2005 B bonds. The 2004 swaps were not part of a previous hedging relationship. As a result of the establishment of the new hedging relationships, management has evaluated the effectiveness of the hedges assuming hybrid instruments; each swap consists of a companion debt instrument, representing the value of the swap at the inception of the hedge,

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and a hedging instrument, representing the hypothetical value of the swap had it held a \$0 value at the inception of the hedge.

The companion debt instrument for the 2005 swaps is reported on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The deferred outflow is being amortized according to the same schedule as other debt issuance costs associated with the Series 2005A and Series 2005B bonds as an offset to amortization expense. The liability value is \$6.4 million as of June 30, 2010.

The companion debt instrument for the 2004 swaps is reported on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The liability value is \$3.5 million as of June 30, 2010.

The current hedging instruments for both the 2004 swaps and the 2005 swaps are recorded on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. Subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these balance sheet accounts. The liability value is \$2.9 million as of June 30, 2010.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2010, the counterparties' credit ratings were A+ from Standard & Poor's, Aa3 from Moody's, and A+ from Fitch. Additionally, the swap exposes OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

OHSU is additionally responsible for posting collateral if the total swap liability for swaps with one of the counterparties exceeds a pre-determined value on the reporting date. The collateral posting limit was \$10 million compared to a total relevant swap liability value of \$13 million as of June 30, 2010, resulting in a requirement that OHSU post collateral totaling \$3 million as of June 30, 2010.

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

4. RECEIVABLES AND PAYABLES

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

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Receivables reported for governmental activities at June 30, 2010 (in thousands):

| | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Other | Total | Internal Service |
|----------------------------------|-----------|----------------------------------|--------------------------|-----------------------------|------------------|------------|--------------|---------------------|
| Governmental activities: | | | | | | | | |
| General accounts | \$ 9,548 | \$ 90,400 | \$ 13,742 | \$ 9,237 | \$ 4,934 | \$ 96,435 | \$ 224,296 | \$ 126,816 |
| Due from federal government | - | 229,775 | 80,564 | 32,534 | - | 203,471 | 546,344 | - |
| Interest | - | - | 2,442 | 2,177 | 1,578 | 8,336 | 14,533 | 726 |
| Broker receivable | - | - | - | - | 10,325 | 2,608 | 12,933 | - |
| Notes | - | - | - | 100 | - | - | 100 | - |
| Contracts | - | - | 978 | 343 | - | - | 1,321 | - |
| Mortgages | - | 5,026 | - | 15 | - | - | 5,041 | - |
| Court fines and fees | - | - | - | - | - | 346,597 | 346,597 | - |
| Collection assessments | - | - | - | - | - | 271,841 | 271,841 | - |
| Child support recoveries | - | - | - | - | - | 265,848 | 265,848 | - |
| Workers' compensation recoveries | - | - | - | - | - | 55,135 | 55,135 | - |
| Other | 48,813 | 4,195 | 4,678 | 7,513 | - | 90,175 | 155,374 | 821 |
| Gross receivables | 58,361 | 329,396 | 102,404 | 51,919 | 16,837 | 1,340,446 | 1,899,363 | 128,363 |
| Allowance for uncollectibles | (17,457) | (2,630) | (1,635) | (1,280) | - | (798,737) | (821,739) | (17) |
| Total receivables, net | \$ 40,904 | \$ 326,766 | \$ 100,769 | \$ 50,639 | \$ 16,837 | \$ 541,709 | \$ 1,077,624 | \$ 128,346 |

Receivables reported for business-type activities at June 30, 2010 (in thousands):

| | Housing and Community Services | Veterans' Loan | Lottery Operations | Unemployment Compensation | University System | Other | Total |
|----------------------------------|--------------------------------------|-------------------|-----------------------|------------------------------|----------------------|-----------|------------|
| Business-type activities: | | | | | | | |
| General accounts | \$ 155 | \$ 112 | \$ 12,477 | \$ 236,090 | \$ 111,944 | \$ 17,663 | \$ 378,441 |
| Due from federal government | - | - | - | 175,525 | 69,778 | 948 | 246,251 |
| Interest | 8,280 | 1,957 | - | 512 | - | 15,876 | 26,625 |
| Broker receivable | - | - | - | - | 294 | - | 294 |
| Contracts | - | 2,130 | - | - | - | - | 2,130 |
| Loans | - | - | - | - | 16,465 | - | 16,465 |
| Loans - long-term | - | - | - | - | 67,486 | - | 67,486 |
| Other | - | 450 | 2,744 | 29,209 | 1,154 | 168 | 33,725 |
| Gross receivables | 8,435 | 4,649 | 15,221 | 441,336 | 267,121 | 34,655 | 771,417 |
| Allowance for uncollectibles | - | - | (272) | (3,662) | (7,476) | (97) | (11,507) |
| Total receivables, net | \$ 8,435 | \$ 4,649 | \$ 14,949 | \$ 437,674 | \$ 259,645 | \$ 34,558 | \$ 759,910 |

Receivables reported for fiduciary funds at June 30, 2010 (in thousands):

| | Agency |
|-----------------------------------|------------|
| Fiduciary fund activities: | |
| General accounts | \$ 8,767 |
| Restitution | 402,311 |
| Other | 2,502 |
| Gross receivables | 413,580 |
| Allowance for uncollectibles | (300,317) |
| Total receivables, net | \$ 113,263 |

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Notes to the Financial Statements

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2009, and the Oregon Health and Science University (OHSU) at June 30, 2010 (in thousands):

| | SAIF | OHSU |
|----------------------------------------------|-------------------|-------------------|
| Discretely presented component units: | | |
| Patient accounts | \$ - | \$ 320,375 |
| Premiums | 290,117 | - |
| Due from federal government | - | 17,682 |
| Interest | 36,908 | 3,432 |
| Student loans | - | 37,787 |
| Broker receivable | 135 | - |
| Other | 13,316 | 13,722 |
| Gross receivables | 340,476 | 392,998 |
| Allowance for uncollectibles | (1,569) | (134,619) |
| Total receivables, net | <u>\$ 338,907</u> | <u>\$ 258,379</u> |

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

Payables reported for governmental activities at June 30, 2010 (in thousands):

| | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Other | Total | Internal Service |
|---------------------------------|-------------------|----------------------------------|--------------------------|-----------------------------|------------------|-------------------|-------------------|---------------------|
| Governmental activities: | | | | | | | | |
| General accounts | \$ 150,814 | \$ 201,429 | \$ 140,816 | \$ 23,219 | \$ 5,410 | \$ 207,600 | \$ 729,288 | \$ 54,715 |
| Interest | - | - | - | - | - | - | - | 1,161 |
| Broker payable | - | - | - | - | 4,771 | - | 4,771 | - |
| Taxes | 26 | - | - | - | - | - | 26 | - |
| Mortgages | - | - | - | - | - | 35 | 35 | - |
| Total payables | <u>\$ 150,840</u> | <u>\$ 201,429</u> | <u>\$ 140,816</u> | <u>\$ 23,219</u> | <u>\$ 10,181</u> | <u>\$ 207,635</u> | <u>\$ 734,120</u> | <u>\$ 55,876</u> |

Payables reported for business-type activities at June 30, 2010 (in thousands):

| | Housing and Community Services | Veterans' Loan | Lottery Operations | Unemployment Compensation | University System | Other | Total |
|----------------------------------|--------------------------------------|-------------------|-----------------------|------------------------------|----------------------|------------------|-------------------|
| Business-type activities: | | | | | | | |
| General accounts | \$ 997 | \$ 472 | \$ 4,398 | \$ 23,932 | \$ 109,747 | \$ 26,548 | \$ 166,094 |
| Interest | 32,392 | 1,046 | - | - | 23,576 | 6,443 | 63,457 |
| Broker payable | - | - | - | - | 288 | - | 288 |
| Loans | 1,500 | - | - | - | - | - | 1,500 |
| Notes | - | - | - | - | 14 | - | 14 |
| Contracts | - | - | 38 | - | 12,861 | - | 12,899 |
| Total payables | <u>\$ 34,889</u> | <u>\$ 1,518</u> | <u>\$ 4,436</u> | <u>\$ 23,932</u> | <u>\$ 146,486</u> | <u>\$ 32,991</u> | <u>\$ 244,252</u> |

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Notes to the Financial Statements

Payables reported for fiduciary funds at June 30, 2010 (in thousands):

| | Pension and Other Employee Benefit Trust | Private Purpose Trust | Investment Trust | Agency |
|-----------------------------------|---------------------------------------------------|-----------------------------|---------------------|---------------|
| Fiduciary fund activities: | | | | |
| General accounts | \$ 270,580 | \$ 133 | \$ 23 | \$ 537 |
| Compensated absences payable | 1,391 | - | - | - |
| Broker payable | 745,800 | - | - | - |
| Mortgages | - | 2,207 | - | - |
| Total payables | <u>\$1,017,771</u> | <u>\$ 2,340</u> | <u>\$ 23</u> | <u>\$ 537</u> |

Payables reported for SAIF Corporation (SAIF) at December 31, 2009, and the Oregon Health and Science University (OHSU) at June 30, 2010 (in thousands):

| | SAIF | OHSU |
|----------------------------------------------|-------------------|-------------------|
| Discretely presented component units: | | |
| General accounts | \$ 23,332 | \$ 148,966 |
| Policyholders dividends | 100,566 | - |
| Contracts | - | 37,413 |
| Reinsurance | 6,886 | - |
| Commission payable | 8,511 | - |
| Broker payable | 3 | - |
| Retrospective premiums | 30,772 | - |
| Total payables | <u>\$ 170,070</u> | <u>\$ 186,379</u> |

5. JOINT VENTURE

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

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

The fiscal year end for MUSL is June 30. Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government Securities.

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Notes to the Financial Statements

The following schedule presents the summarized financial activity of MUSL as of June 30, 2010 and 2009 (in thousands):

| | 2010 | 2009 |
|-----------------------------------|-------------------|-------------------|
| Assets | <u>\$ 736,287</u> | <u>\$ 816,490</u> |
| Liabilities | \$ 735,783 | \$ 815,696 |
| Net Assets - unrestricted | <u>504</u> | <u>794</u> |
| Liabilities and net assets | <u>\$ 736,287</u> | <u>\$ 816,490</u> |
| Unrestricted revenues | \$ 3,712 | \$ 4,818 |
| Unrestricted expenses | <u>4,002</u> | <u>4,299</u> |
| Change in unrestricted net assets | <u>\$ (290)</u> | <u>\$ 519</u> |

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

6. CAPITAL ASSETS

A. Primary Government

Capital Asset Activity

Capital asset activity for the primary government for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|----------------------|---------------------|---------------------|----------------------|
| Governmental activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 1,701,350 | \$ 25,476 | \$ 2,430 | \$ 1,724,396 |
| Construction in progress | 2,393,745 | 959,181 | 1,281,586 | 2,071,340 |
| Works of art and other nondepreciable assets | 1,300 | 446 | - | 1,746 |
| Total capital assets not being depreciated | <u>4,096,395</u> | <u>985,103</u> | <u>1,284,016</u> | <u>3,797,482</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, property, and equipment | 2,835,405 | 179,067 | 37,309 | 2,977,163 |
| Infrastructure | 14,293,396 | 2,474,878 | 1,551,915 | 15,216,359 |
| Total capital assets being depreciated | <u>17,128,801</u> | <u>2,653,945</u> | <u>1,589,224</u> | <u>18,193,522</u> |
| Less accumulated depreciation for: | | | | |
| Buildings, property, and equipment | 1,137,904 | 121,191 | 22,041 | 1,237,054 |
| Infrastructure | 9,160,306 | 637,415 | 314,826 | 9,482,895 |
| Total accumulated depreciation | <u>10,298,210</u> | <u>758,606</u> | <u>336,867</u> | <u>10,719,949</u> |
| Total capital assets being depreciated, net | <u>6,830,591</u> | <u>1,895,339</u> | <u>1,252,357</u> | <u>7,473,573</u> |
| Governmental activities capital assets, net | <u>\$ 10,926,986</u> | <u>\$ 2,880,442</u> | <u>\$ 2,536,373</u> | <u>\$ 11,271,055</u> |

The beginning balance has been restated from \$10,903,180 to \$10,926,986 to reflect prior period adjustments totaling \$23,806. Increases in accumulated depreciation include current year depreciation expense of \$794,447 and a prior period adjustment of \$35,841.

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Notes to the Financial Statements

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|----------------------|------------|-------------|-------------------|
| Business-type activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 112,157 | \$ 9,183 | \$ - | \$ 121,340 |
| Construction in progress | 250,989 | 103,185 | - | 354,174 |
| Works of art and other nondepreciable assets | 62,136 | 2,293 | - | 64,429 |
| Total capital assets not being depreciated | 425,282 | 114,661 | - | 539,943 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, property, and equipment | 2,872,185 | 339,732 | 4,170 | 3,207,747 |
| Infrastructure | 62,615 | 23,443 | - | 86,058 |
| Total capital assets being depreciated | 2,934,800 | 363,175 | 4,170 | 3,293,805 |
| Less accumulated depreciation for: | | | | |
| Buildings, property, and equipment | 1,378,002 | 135,088 | 17,213 | 1,495,877 |
| Infrastructure | 42,239 | 2,577 | 52 | 44,764 |
| Total accumulated depreciation | 1,420,241 | 137,665 | 17,265 | 1,540,641 |
| Total capital assets being depreciated, net | 1,514,559 | 225,510 | (13,095) | 1,753,164 |
| Business-type activities capital assets, net | \$ 1,939,841 | \$ 340,171 | \$ (13,095) | \$ 2,293,107 |

The beginning balance has been restated from \$1,940,298 to \$1,939,841 to reflect a prior period adjustment of \$457.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|-----------------------------------------------|----------------------|-----------|-----------|-------------------|
| Fiduciary fund activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 958 | \$ - | \$ - | \$ 958 |
| Total capital assets not being depreciated | 958 | - | - | 958 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, property, and equipment | 42,660 | 2,823 | 2,260 | 43,223 |
| Total capital assets being depreciated | 42,660 | 2,823 | 2,260 | 43,223 |
| Less accumulated depreciation for: | | | | |
| Buildings, property, and equipment | 9,585 | 1,836 | 2,260 | 9,161 |
| Total accumulated depreciation | 9,585 | 1,836 | 2,260 | 9,161 |
| Total capital assets being depreciated, net | 33,075 | 987 | - | 34,062 |
| Fiduciary fund activities capital assets, net | \$ 34,033 | \$ 987 | \$ - | \$ 35,020 |

The beginning balance has been restated from \$10,814 to \$34,033 to reflect a prior period adjustment of \$23,219.

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Notes to the Financial Statements

Depreciation Expense

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

Governmental activities:

| | |
|------------------------------------------------------|--------------------------|
| Education | \$ 405 |
| Human services | 4,312 |
| Public safety | 34,693 |
| Economic and community development | 1,090 |
| Natural resources | 17,762 |
| Transportation | 688,272 |
| Consumer and business services | 592 |
| Administration | 4,835 |
| Legislative | 1,672 |
| Judicial | 1,749 |
| Subtotal | <u>755,382</u> |
| Internal service funds | 39,065 |
| Total depreciation expense - governmental activities | <u><u>\$ 794,447</u></u> |

Business-type activities:

| | |
|-------------------------------------------------------|--------------------------|
| Housing and Community Services | \$ 1 |
| Veterans' Loan | 117 |
| Lottery Operations | 30,900 |
| University System | 103,449 |
| Other business-type activities | 3,198 |
| Total depreciation expense - business-type activities | <u><u>\$ 137,665</u></u> |

Fiduciary fund activities:

| | |
|---------------------------------------------------|------------------------|
| Pension and Other Employee Benefit Trust | \$ 1,836 |
| Total depreciation expense - fiduciary activities | <u><u>\$ 1,836</u></u> |

Construction Commitments

The State has active construction projects which will be funded either through general fund appropriations, federal grants, lottery resources, or other funding sources as noted in the schedule below. The State's construction commitments with contractors as of June 30, 2010 (in thousands):

| Project | Spent-to-Date | Remaining Commitment | Remaining Commitment Source of Funds | | | |
|-----------------------------------------------|---------------------|-------------------------|--------------------------------------|---------------------|------------------|---------------------|
| | | | General | Federal | Lottery | Other |
| Military facilities | \$ 110,486 | \$ 73,036 | \$ 294 | \$ 61,731 | \$ - | \$ 11,011 |
| Oregon State Hospital facility | 309,596 | 108,103 | - | - | - | 108,103 |
| Prison construction and upgrades | 24,238 | 23,635 | - | - | - | 23,635 |
| University building construction and upgrades | 824,364 | 437,796 | 6,007 | - | 7,347 | 424,442 |
| Road and bridge construction | 2,819,353 | 1,447,603 | - | 1,006,200 | - | 441,403 |
| State park facilities | 3,047 | 7,749 | - | 1,270 | 6,102 | 377 |
| Upgrade and maintenance of various facilities | 37,932 | 79,212 | 73 | 1,166 | - | 77,973 |
| Total | <u>\$ 4,129,016</u> | <u>\$ 2,177,134</u> | <u>\$ 6,374</u> | <u>\$ 1,070,367</u> | <u>\$ 13,449</u> | <u>\$ 1,086,944</u> |

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices; printing equipment displayed at the Salem print plant; historic documents displayed at the Oregon State Archives; a museum of military artifacts at Camp Withycombe in Clackamas, Oregon; a collection of historic buildings, furniture, paintings, and ancestral artifacts displayed at various state parks; a collection of wildlife mounts displayed at various Department of Fish and Wildlife locations; and a collection of photographs

State of Oregon
Notes to the Financial Statements

portraying various Oregon locales displayed at the Oregon Liquor Control Commission headquarters. They have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are:

1. The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
2. The collections are protected, kept unencumbered, cared for, and preserved; and
3. The collections are subject to state agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

Insurance Recoveries

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

Governmental activities:

| | |
|------------------------------------------------------|------------------------|
| Public safety | \$ 329 |
| Natural resources | 85 |
| Transportation | 2,053 |
| Administration | 7 |
| Judicial | 2 |
| Total insurance recoveries - governmental activities | <u><u>\$ 2,476</u></u> |

Business-type activities:

| | |
|-------------------------------------------------------|----------------------|
| University System | \$ 830 |
| Lottery Operations | 108 |
| Other business-type activities | 6 |
| Total insurance recoveries - business-type activities | <u><u>\$ 944</u></u> |

Idle Impaired Capital Assets

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

B. Discretely Presented Component Units

Activity for SAIF Corporation for the year ended December 31, 2009 (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|-------------------------|--------------------------|---------------------|-------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 3,029 | \$ - | \$ - | \$ 3,029 |
| Total capital assets not being depreciated | 3,029 | - | - | 3,029 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, property, and equipment | 45,237 | 483 | 2,446 | 43,274 |
| Total capital assets being depreciated | 45,237 | 483 | 2,446 | 43,274 |
| Less accumulated depreciation for: | | | | |
| Buildings, property, and equipment | 28,921 | 1,553 | 2,418 | 28,056 |
| Total accumulated depreciation | 28,921 | 1,553 | 2,418 | 28,056 |
| Total capital assets being depreciated, net | 16,316 | (1,070) | 28 | 15,218 |
| SAIF Corporation capital assets, net | <u><u>\$ 19,345</u></u> | <u><u>\$ (1,070)</u></u> | <u><u>\$ 28</u></u> | <u><u>\$ 18,247</u></u> |

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Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|----------------------|-----------|-----------|-------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 59,200 | \$ - | \$ 1,730 | \$ 57,470 |
| Construction in progress | 51,716 | 47,694 | 70,389 | 29,021 |
| Total capital assets not being depreciated | 110,916 | 47,694 | 72,119 | 86,491 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings, property, and equipment | 1,948,544 | 97,772 | 32,630 | 2,013,686 |
| Total capital assets being depreciated | 1,948,544 | 97,772 | 32,630 | 2,013,686 |
| Less accumulated depreciation for: | | | | |
| Buildings, property, and equipment | 814,255 | 101,801 | 30,900 | 885,156 |
| Total accumulated depreciation | 814,255 | 101,801 | 30,900 | 885,156 |
| Total capital assets being depreciated, net | 1,134,289 | (4,029) | 1,730 | 1,128,530 |
| OHSU capital assets, net | \$ 1,245,205 | \$ 43,665 | \$ 73,849 | \$ 1,215,021 |

7. LEASES

A. Operating Leases. The State and its discretely presented component units have entered into various non-cancelable rental agreements that are accounted for as operating leases because the agreements do not meet the criteria to be classified as capital leases. Operating lease payments are chargeable as rent and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2010, were \$98.9 million for the primary government and \$25.1 million for component units.

Future minimum rental payments for operating leases in effect as of June 30, 2010 (in thousands):

| Year Ending June 30, | Primary Government | Component Units |
|--------------------------------------|-----------------------|--------------------|
| 2011 | \$ 90,517 | \$ 18,778 |
| 2012 | 72,288 | 16,928 |
| 2013 | 59,181 | 15,705 |
| 2014 | 49,064 | 12,496 |
| 2015 | 40,202 | 10,207 |
| 2016-2020 | 98,545 | 42,765 |
| 2021-2025 | 25,521 | 15,058 |
| 2026-2030 | 3,181 | - |
| 2031-2035 | 978 | - |
| 2036-2040 | 6 | - |
| 2041-2045 | 1 | - |
| 2046-2050 | 1 | - |
| 2051-2055 | 1 | - |
| Total future minimum rental payments | \$ 439,486 | \$ 131,937 |

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

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Notes to the Financial Statements

Carrying value of assets acquired through capital leases as of June 30, 2010 (in thousands):

| Asset Class | Governmental Activities | Business-type Activities | Component Units |
|------------------------------------|----------------------------|-----------------------------|--------------------|
| Buildings, property, and equipment | \$ 16,741 | \$ 990 | \$ 16,006 |
| Less accumulated depreciation | (1,262) | (209) | (8,486) |
| Total | <u>\$ 15,479</u> | <u>\$ 781</u> | <u>\$ 7,520</u> |

Future minimum lease payments for capital leases and the related net present value as of June 30, 2010 (in thousands):

| Year Ending June 30, | Governmental Activities | Business-type Activities | Component Units |
|-----------------------------------------|----------------------------|-----------------------------|--------------------|
| 2011 | \$ 4,971 | \$ 151 | \$ 2,189 |
| 2012 | 4,489 | 115 | 1,312 |
| 2013 | 3,663 | 98 | 4,025 |
| 2014 | 754 | 93 | 271 |
| 2015 | 360 | 91 | - |
| 2016-2020 | - | 418 | - |
| Total future minimum lease payments | 14,237 | 966 | 7,797 |
| Less amounts representing interest | (987) | (269) | (734) |
| Present value of minimum lease payments | <u>\$ 13,250</u> | <u>\$ 697</u> | <u>\$ 7,063</u> |

C. Lease Receivables. The State receives income from operating leases on land, property, and equipment leased to non-state entities. The State received rental income of \$8.6 million for the year ended June 30, 2010, on leased assets with a carrying value of \$46.6 million, net of \$12.7 million in accumulated depreciation.

Future minimum lease revenues for non-cancelable operating leases as of June 30, 2010 (in thousands):

| Year Ending June 30, | Primary Government |
|-------------------------------------|-----------------------|
| 2011 | \$ 8,200 |
| 2012 | 6,640 |
| 2013 | 5,152 |
| 2014 | 3,765 |
| 2015 | 2,898 |
| 2016-2020 | 11,183 |
| 2021-2025 | 7,633 |
| 2026-2030 | 8,351 |
| 2031-2035 | 8,114 |
| 2036-2040 | 4,040 |
| 2041-2045 | 1,101 |
| 2046-2050 | 687 |
| 2051-2055 | 245 |
| Total future minimum lease revenues | <u>\$ 68,009</u> |

8. DONOR-RESTRICTED ENDOWMENTS

Oregon University System

Oregon Revised Statute 351.130 gives the Oregon University System (OUS) authority to use the interest, income, dividends, or profits from donor-restricted endowments for the benefit of the designated institution.

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Current OUS Board policy calls for the annual distribution of 4 percent of the five-year moving average of the market value of the endowment funds for spending purposes. For the year ended June 30, 2010, the net amount of appreciation available for authorization for expenditure was \$12.8 million. Expendable distributions are reported on the proprietary funds balance sheet and the government-wide statement of net assets as part of expendable net assets restricted for education. The corpus of the endowment funds is reported as nonexpendable net assets restricted for purposes stipulated by donors.

Oregon Health and Science University

Oregon Revised Statutes 128.318, 128.322, 128.326, and 128.328 give the Oregon Health and Science University (OHSU) authority to use the net appreciation of restricted endowments, subject to the terms established by the donors. For the year ended June 30, 2010, the net amount of appreciation available for authorization for expenditure was \$33.7 million. Of this amount, the OHSU Board authorized a 4.5 percent distribution based on a three-year moving average of the fair value of the endowment pool. Expendable distributions are reported in the combining balance sheet of the discretely presented component units as part of expendable net assets restricted for education. The corpus of the endowment funds is reported as nonexpendable net assets restricted for education.

9. SHORT-TERM DEBT

During the year, the State repaid the tax anticipation notes that were issued to manage the temporary cash flow deficits that resulted when the timing of required expenditures did not coincide with the timing of the collection of taxes and other revenues. In addition, the Oregon Department of Human Services (DHS) repaid a line of credit for short-term cash flow needs. Short-term debt activity for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Issued | Repaid | Ending Balance |
|---------------------------------|----------------------|-------------------|-------------------|-------------------|
| Governmental activities: | | | | |
| Tax anticipation notes | \$ - | \$ 737,190 | \$ 737,190 | \$ - |
| DHS line of credit | 60,000 | - | 60,000 | - |
| Total short-term debt activity | <u>\$ 60,000</u> | <u>\$ 737,190</u> | <u>\$ 797,190</u> | <u>\$ -</u> |

10. LONG-TERM LIABILITIES

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

Specific provisions of the Oregon Constitution authorize general obligation debt to be issued for governmental activities. Article XI-G provides authorization to finance buildings and projects for community colleges. Debt service requirements for community colleges are financed through an appropriation from the General Fund. Obligations issued for highway construction pursuant to article XI, section 7, are fully self-supporting. Article XI-H authorizes the financing of pollution abatement and control facilities as well as pollution control and disposal activities. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, assessments, user charges, and other fees. Article XI-L provides authorization to finance capital costs of the Oregon Health and Science University. Article XI-O provides authorization to finance pension liabilities through the issuance of general obligation bonds.

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

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Notes to the Financial Statements

Debt service requirements for general obligation bonds as of June 30, 2010 (in thousands):

| Year ending June 30, | Governmental Activities | | Business-type Activities | |
|----------------------|----------------------------|--------------|-----------------------------|--------------|
| | Principal | Interest | Principal ¹ | Interest |
| 2011 | \$ 40,315 | \$ 129,078 | \$ 53,123 | \$ 95,184 |
| 2012 | 48,020 | 127,298 | 69,796 | 96,649 |
| 2013 | 56,915 | 125,092 | 64,607 | 94,907 |
| 2014 | 65,050 | 122,463 | 65,699 | 91,314 |
| 2015 | 74,885 | 119,192 | 67,976 | 86,319 |
| 2016-2020 | 555,855 | 524,237 | 463,072 | 385,041 |
| 2021-2025 | 940,770 | 327,215 | 394,914 | 261,573 |
| 2026-2030 | 521,460 | 52,459 | 394,250 | 164,253 |
| 2031-2035 | 18,685 | 2,962 | 316,705 | 86,082 |
| 2036-2040 | 4,325 | 332 | 260,625 | 26,198 |
| 2041-2045 | - | - | 36,950 | 1,300 |
| 2046-2050 | - | - | 2,050 | 53 |
| Total | \$ 2,326,280 | \$ 1,530,328 | \$ 2,189,767 | \$ 1,388,873 |

¹ Includes a total of \$320.8 million of bonds with a variable interest rate based on the daily or weekly rate determination of the remarketing agent. The interest rate at the end of the fiscal year was 0.16 percent for \$129.4 million, 0.25 percent for \$131.4 million, and 0.23 percent for \$60 million.

B. Revenue Bonds. Authority for the State to issue revenue bonds is granted in the Oregon Revised Statutes (ORS). Revenue bonds are secured by a pledge of revenues derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

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

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

The Housing and Community Services Department is authorized by ORS 456.645 to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees as well as rental revenues support these bonds. Oregon Business Development Department is authorized in ORS 285B.467 through 285B.482 to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund and is authorized in ORS 285B.572 through 285B.599 to issue revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds for both of these activities. All of the bonds issued for business-type activities are self-supporting.

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

State of Oregon
Notes to the Financial Statements

Debt service requirements for revenue bonds as of June 30, 2010 (in thousands):

| Year ending June 30, | Governmental Activities | | Business-type Activities | | Discretely Presented Component Units | |
|----------------------|----------------------------|--------------|-----------------------------|------------|-----------------------------------------|------------|
| | Principal ¹ | Interest | Principal ^{2,3} | Interest | Principal ^{4,5} | Interest |
| 2011 | \$ 120,580 | \$ 148,973 | \$ 139,620 | \$ 59,144 | \$ 10,985 | \$ 31,012 |
| 2012 | 127,374 | 140,625 | 43,226 | 57,851 | 11,441 | 30,652 |
| 2013 | 133,414 | 134,934 | 43,706 | 56,110 | 11,784 | 30,365 |
| 2014 | 137,513 | 128,853 | 46,142 | 54,276 | 13,391 | 29,944 |
| 2015 | 126,624 | 122,451 | 48,976 | 52,312 | 15,446 | 30,154 |
| 2016-2020 | 581,278 | 529,213 | 254,963 | 228,427 | 67,280 | 164,853 |
| 2021-2025 | 673,049 | 408,349 | 296,716 | 165,717 | 102,780 | 134,274 |
| 2026-2030 | 703,352 | 265,548 | 321,188 | 95,278 | 137,835 | 88,843 |
| 2031-2035 | 666,955 | 95,756 | 284,870 | 40,345 | 149,195 | 52,744 |
| 2036-2040 | - | - | 136,540 | 11,345 | 119,370 | 21,358 |
| 2041-2045 | - | - | 16,875 | 1,913 | - | - |
| 2046-2050 | - | - | 2,155 | 64 | - | - |
| Total | \$ 3,270,139 | \$ 1,974,702 | \$ 1,634,977 | \$ 822,782 | \$ 639,507 | \$ 614,199 |

¹ Includes a total of \$265.2 million of bonds with a variable interest rate based on the weekly rate determination of the remarketing agents. The interest rate at the end of the fiscal year was 0.32 percent for \$55 million, 0.28 percent for \$105.1 million, 0.27 percent for \$50.1 million, and 0.26 percent for \$55 million.

² Includes bonds with a monthly adjusted variable interest rate based on the London Interbank Offered Rate (LIBOR) plus 0.4 percent not to exceed 11 percent for \$1.7 million and not to exceed 11.5 percent for \$2.2 million. The interest rate at the end of the fiscal year for those bonds was 0.76 percent.

³ Includes bonds with a weekly adjusted variable interest rate based on the rate determination of the remarketing agent, not to exceed 12 percent. The interest rate at the end of the fiscal year was 0.25 percent for \$85.4 million, 0.26 percent for \$16.1 million, 0.28 percent for \$50 million, 0.30 percent for \$69.6 million, 0.32 percent for \$30 million, and 0.35 percent for \$69.7 million.

⁴ Includes bonds with a variable rate of interest adjusted every 35 days based on the auction rate. The rate as of fiscal year end was 0.51 percent for \$89.1 million and 0.49 percent for \$48 million.

⁵ Includes \$80 million of bonds with a variable rate of interest adjusted weekly. The rate as of fiscal year end was 0.26 percent.

State of Oregon
Notes to the Financial Statements

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

Debt service requirements for certificates of participation as of June 30, 2010 (in thousands):

| Year ending June 30, | Governmental Activities | | Business-type Activities | | Pension Trust Fund | |
|----------------------|----------------------------|------------|-----------------------------|-----------|-----------------------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ 93,676 | \$ 68,057 | \$ 9,219 | \$ 5,003 | \$ 500 | \$ 214 |
| 2012 | 95,981 | 64,668 | 9,154 | 4,748 | 520 | 188 |
| 2013 | 98,774 | 60,234 | 8,921 | 4,373 | 550 | 161 |
| 2014 | 90,732 | 55,932 | 7,938 | 4,005 | 580 | 132 |
| 2015 | 89,117 | 51,612 | 6,782 | 3,635 | 615 | 101 |
| 2016-2020 | 353,649 | 204,082 | 23,021 | 14,714 | 1,315 | 104 |
| 2021-2025 | 292,565 | 126,345 | 22,890 | 9,767 | - | - |
| 2026-2030 | 201,075 | 65,323 | 21,755 | 4,099 | - | - |
| 2031-2035 | 123,545 | 20,453 | 6,995 | 865 | - | - |
| 2036-2040 | 13,240 | 1,782 | - | - | - | - |
| Total | \$ 1,452,354 | \$ 718,488 | \$ 116,675 | \$ 51,209 | \$ 4,080 | \$ 900 |

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

Debt service requirements for general appropriation bonds as of June 30, 2010 (in thousands):

| Year ending June 30, | Governmental Activities | |
|----------------------|----------------------------|-----------|
| | Principal | Interest |
| 2011 | \$ 60,545 | \$ 9,623 |
| 2012 | 65,100 | 6,502 |
| 2013 | 69,900 | 3,136 |
| 2014 | 28,195 | 696 |
| Total | \$ 223,740 | \$ 19,957 |

State of Oregon
Notes to the Financial Statements

E. Changes in Long-Term Liabilities. Changes in long-term liabilities for governmental activities for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------------------------------------|----------------------|--------------|--------------|----------------|------------------------|
| Governmental activities: | | | | | |
| Bonds/certificates payable: | | | | | |
| General obligation bonds | \$ 2,355,715 | \$ 63,210 | \$ 92,645 | \$ 2,326,280 | \$ 40,315 |
| Revenue bonds | 2,722,817 | 659,078 | 111,756 | 3,270,139 | 120,580 |
| Certificates of participation | 1,254,560 | 489,853 | 292,059 | 1,452,354 | 93,676 |
| General appropriation bonds | 280,080 | - | 56,340 | 223,740 | 60,545 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (3,480) | (41) | (280) | (3,241) | - |
| For issuance premiums | 121,750 | 44,719 | 17,367 | 149,102 | - |
| On refunding | (19,970) | (9,812) | (3,930) | (25,852) | - |
| Total bonds/certificates payable | 6,711,472 | 1,247,007 | 565,957 | 7,392,522 | 315,116 |
| Other liabilities: | | | | | |
| Obligations under capital lease | 1,899 | 12,802 | 1,451 | 13,250 | 4,632 |
| Claims and judgments | 1,009,631 | 373,464 | 272,952 | 1,110,143 | 126,789 |
| Compensated absences | 158,131 | 6,480 | 1,110 | 163,501 | 107,927 |
| Arbitrage rebate | 2,683 | 564 | 1,632 | 1,615 | 440 |
| Net OPEB obligation | 27,076 | 5,103 | - | 32,179 | - |
| Contracts, mortgages, and notes | 71,244 | 15,511 | 75,674 | 11,081 | 4,572 |
| Pollution remediation obligation | 13,784 | 1,259 | 604 | 14,439 | 3,573 |
| Custodial liabilities | 399,180 | 4,465,046 | 4,583,264 | 280,962 | 278,625 |
| Total other liabilities | 1,683,628 | 4,880,229 | 4,936,687 | 1,627,170 | 526,558 |
| Total governmental activities long-term liabilities | \$ 8,395,100 | \$ 6,127,236 | \$ 5,502,644 | \$ 9,019,692 | \$ 841,674 |

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

State of Oregon
Notes to the Financial Statements

Changes in long-term liabilities for business-type activities for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------------------------------------|----------------------|--------------|--------------|----------------|------------------------|
| Business-type activities: | | | | | |
| Bonds/certificates payable: | | | | | |
| General obligation bonds | \$ 2,261,928 | \$ 315,950 | \$ 388,111 | \$ 2,189,767 | \$ 53,123 |
| Revenue bonds | 1,655,623 | 125,473 | 146,119 | 1,634,977 | 139,620 |
| Certificates of participation | 93,135 | 31,630 | 8,090 | 116,675 | 9,219 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (2,362) | - | (525) | (1,837) | - |
| For issuance premiums | 46,987 | 8,143 | 6,204 | 48,926 | - |
| On refunding | (18,822) | (1,372) | (1,333) | (18,861) | - |
| Accreted interest | 66,231 | 6,518 | 10,072 | 62,677 | - |
| Total bonds/certificates payable | 4,102,720 | 486,342 | 556,738 | 4,032,324 | 201,962 |
| Other liabilities: | | | | | |
| Obligations under capital lease | 137 | 628 | 68 | 697 | 97 |
| Compensated absences | 58,469 | 3,342 | 2,437 | 59,374 | 50,770 |
| Arbitrage rebate | 8,107 | 4,857 | 1,329 | 11,635 | 960 |
| Net OPEB obligation | 12,759 | 2,461 | - | 15,220 | - |
| Contracts, mortgages, and notes | 9,862 | 6,001 | 1,450 | 14,413 | 9,362 |
| Lottery prize awards | 130,948 | 218,772 | 213,154 | 136,566 | 35,503 |
| Custodial liabilities | 23,475 | 440,323 | 424,536 | 39,262 | 29,197 |
| Derivative instrument liabilities | - | 33,458 | - | 33,458 | - |
| Total other liabilities | 243,757 | 709,842 | 642,974 | 310,625 | 125,889 |
| Total business-type activities long-term liabilities | \$ 4,346,477 | \$ 1,196,184 | \$ 1,199,712 | \$ 4,342,949 | \$ 327,851 |

Changes in long-term liabilities for fiduciary fund activities for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------------------------------|----------------------|------------|------------|----------------|------------------------|
| Fiduciary fund activities: | | | | | |
| Bonds/certificates payable: | | | | | |
| Certificates of participation | \$ 4,550 | \$ - | \$ 470 | \$ 4,080 | \$ 500 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 199 | - | 25 | 174 | - |
| On refunding | (171) | - | (29) | (142) | - |
| Total bonds/certificates payable | 4,578 | - | 466 | 4,112 | 500 |
| Other liabilities: | | | | | |
| Net OPEB obligation | 284 | 49 | - | 333 | - |
| Contracts, mortgages, and notes | 2,091 | 199 | 83 | 2,207 | 69 |
| Custodial liabilities | 1,891,743 | 196,906 | 4,262 | 2,084,387 | 135,450 |
| Total other liabilities | 1,894,118 | 197,154 | 4,345 | 2,086,927 | 135,519 |
| Total fiduciary fund activities long-term liabilities | \$ 1,898,696 | \$ 197,154 | \$ 4,811 | \$ 2,091,039 | \$ 136,019 |

State of Oregon
Notes to the Financial Statements

Changes in long-term liabilities for SAIF Corporation (SAIF) for the year ended December 31, 2009, and for the Oregon Health and Science University (OHSU) for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------------------|----------------------|------------|------------|----------------|------------------------|
| Discretely presented component units: | | | | | |
| Bonds/certificates payable: | | | | | |
| Revenue bonds | \$ 645,373 | \$ - | \$ 5,866 | \$ 639,507 | \$ 10,985 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (6,269) | - | (344) | (5,925) | - |
| For issuance premiums | 878 | - | 49 | 829 | - |
| On refunding | (4,702) | - | (350) | (4,352) | - |
| Accreted interest | 28,200 | 2,763 | - | 30,963 | - |
| Total bonds/certificates payable - OHSU | 663,480 | 2,763 | 5,221 | 661,022 | 10,985 |
| Other liabilities: | | | | | |
| Obligations under capital lease | 8,932 | - | 1,869 | 7,063 | 1,825 |
| Claims and judgments | 65,547 | 29,599 | 24,403 | 70,743 | 29,337 |
| Net OPEB obligation | 3,387 | 1,721 | - | 5,108 | - |
| Contracts, mortgages, and notes | 40,699 | 393 | 3,679 | 37,413 | 1,691 |
| Obligations under life income agreements | 17,007 | 4,134 | 4,235 | 16,906 | - |
| Obligation to primary government | 1,965 | - | 1,965 | - | - |
| Reserve for loss and loss adjustment | 2,911,309 | 377,118 | 329,516 | 2,958,911 | 206,333 |
| Advances from primary government | 25,544 | 847 | 4,291 | 22,100 | 2,251 |
| Derivative instrument liabilities | - | 12,750 | - | 12,750 | - |
| Total other liabilities - SAIF and OHSU | 3,074,390 | 426,562 | 369,958 | 3,130,994 | 241,437 |
| Total SAIF and OHSU long-term liabilities | \$ 3,737,870 | \$ 429,325 | \$ 375,179 | \$ 3,792,016 | \$ 252,422 |

F. Demand Bonds.

State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, included in long-term debt, along with selected terms of their Standby Bond Purchase Agreements (SBPAs) at June 30, 2010 (dollars in thousands):

| Series | Outstanding Amount | Liquidity Provider | Expiration Date | Commitment Fee | Remarketing Agent | Remarketing Fee |
|--------|-----------------------|-----------------------|-------------------------|-------------------|---------------------------|--------------------|
| 73H | \$ 92,500 | Bayerische Landesbank | 11/30/2015 ¹ | 0.0850% | JP Morgan Securities Inc. | 0.050% |
| 83 | 30,000 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.050% |
| 84 | 30,000 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.050% |
| 85 | 49,000 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.070% |
| 86 | 31,320 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.070% |
| 87C | 9,045 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.070% |
| 88B | 30,000 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.070% |
| 89B | 10,000 | Dexia Credit Local | 12/31/2014 | 0.0925% | JP Morgan Securities Inc. | 0.070% |
| 90B | 38,885 | Dexia Credit Local | 12/31/2013 | 0.2500% | JP Morgan Securities Inc. | 0.070% |

¹ Bayerische Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2010.

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

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

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

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

No tender advances or draws have been necessary to purchase any unremarketed bonds under the Series 73 SBPAs. Therefore, no tender advances or draws were outstanding at June 30, 2010.

If a tender advance did occur under the Series 83-90B SBPAs, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus one half of 1 percent, whichever is higher) for the time period up to 91 days; at the bank's base rate plus 1 percent for the time period covering 92 days up to the day before the end of the purchase commitment period; at the bank's base rate plus 2 percent for the time period thereafter. If the tender advance was in default, interest would accrue at the bank's base rate plus 2.5 percent. Interest on a tender advance must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid on the earliest of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate or indexed rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. If repayment of any tender advance does not occur within the specified timeframe contained in the Series 83-90B SBPAs, a default has occurred.

During fiscal year 2010, no tender advances or draws have been necessary to purchase unremarketed bonds under the Series 83-90 SBPAs. Therefore, no tender advances or draws were outstanding as of June 30, 2010.

Included in revenue bonds payable are \$320.6 million in variable rate demand bonds. Oregon Housing and Community Services Department (OHCS D) variable rate demand bonds are remarketed weekly by a remarketing agent. Bondholders may elect to tender their bonds by providing written notice to the remarketing agent as specified in the Official Statement for the series. On the date that bonds are tendered, the remarketing agent will use its best effort to sell the bonds or may purchase the bonds for its own account.

OHCS D has entered into standby bond purchase agreements to provide liquidity in the event that the remarketing agent is unable to sell the tendered bonds and does not choose to buy the bonds for its own account. The standby bond purchase agreement requires the liquidity provider to provide funds for the purchase of the tendered bonds. On the purchase date the bonds become known as liquidity provider bonds or bank bonds and bear interest at the bank rate in accordance with the standby bond purchase agreement. The maximum rate is 12 percent (Bank of America, N. A. and State Street Bank and Trust Company) or 13 percent (KBC Bank N.V.). The bonds remain bank bonds until they are sold by the remarketing agent or the remarketing agent purchases them for its own account. If the bonds are not remarketed or purchased by the remarketing agent for its own account, mandatory redemption in ten equal installments are to be paid on the first business day of January and July, commencing on the first such date to occur after the bonds become liquidity provider bonds (State Street Bank and Trust Company) or at least ninety days after the related purchase date (Bank of America, N.A. and KBC Bank N.V.). There were no bank bonds on June 30, 2010.

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Notes to the Financial Statements

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

| Series | Outstanding Amount | Liquidity Provider | Expiration Date | Commitment Fee | Remarketing Agent | Remarketing Fee |
|------------|--------------------|-------------------------------------|-----------------|----------------|--------------------------------------------|-----------------|
| MF 2004 B | \$ 14,470 | Bank of America, N.A. | 8/27/2011 | 0.4750% | Banc of America Securities LLC | 0.08% |
| MRB 2003 L | 15,000 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | J.P. Morgan Securities, Inc. | 0.07% |
| MRB 2004 C | 15,000 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | CitiGroup Global Markets, Inc. | 0.07% |
| MRB 2004 I | 15,000 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | J.P. Morgan Securities, Inc. | 0.07% |
| MRB 2004 L | 15,000 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | CitiGroup Global Markets, Inc. | 0.07% |
| MRB 2005 C | 10,500 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | J.P. Morgan Securities, Inc. | 0.07% |
| MRB 2005 F | 14,885 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | CitiGroup Global Markets, Inc. | 0.07% |
| MRB 2006 C | 20,000 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | J.P. Morgan Securities, Inc. | 0.07% |
| MRB 2006 F | 20,000 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | CitiGroup Global Markets, Inc. | 0.07% |
| MRB 2006 G | 16,105 | State Street Bank and Trust Company | 12/16/2011 | 0.1300% | CitiGroup Global Markets, Inc. | 0.07% |
| MRB 2007 E | 30,000 | KBC Bank N.V., New York Branch | 7/30/2012 | 0.0775% | CitiGroup Global Markets, Inc. | 0.07% |
| MRB 2007 H | 30,000 | KBC Bank N.V., New York Branch | 7/30/2012 | 0.0775% | J.P. Morgan Securities, Inc. | 0.07% |
| MRB 2008 C | 35,000 | KBC Bank N.V., New York Branch | 7/30/2012 | 0.2300% | Merrill Lynch, Pierce, Fenner & Smith Inc. | 0.07% |
| MRB 2008 F | 35,000 | Bank of America, N.A. | 5/12/2011 | 0.4750% | Banc of America Securities LLC | 0.07% |
| MRB 2008 I | 34,650 | Bank of America, N.A. | 8/25/2011 | 0.4750% | Banc of America Securities LLC | 0.07% |

Included in the long term debt of the discretely presented component unit, Oregon Health Sciences University, are demand bonds which are subject to a long-term amortization period but may be put to OHSU at the option of the bondholders in connection with certain remarketing dates. OHSU entered into a three-year irrevocable Standby Letter of Credit with US Bank, NA effective July 17, 2009. The Letter of Credit will fund any put made by bond holders that is not successfully remarketed. In the event the Letter of Credit funds a put by bondholders, no principal payments are due for 367 days. If, at that time, the bonds have not been remarketed or redeemed, the principal is due over a 30 month period. As a result the bonds are classified as long-term except for the portion that matures within 12 months after June 30, 2010.

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

No-commitment debt as of June 30, 2010 (in thousands):

Primary Government

| | |
|-------------------------------------------|---------------------|
| Oregon Business Development Department | \$ 337,898 |
| Oregon Facilities Authority | 1,343,587 |
| Housing and Community Services Department | 189,106 |
| Total No-Commitment Debt | <u>\$ 1,870,591</u> |

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

The following provides a brief description of the current/advance refunding issues that occurred between July 1, 2009, and June 30, 2010:

On October 14, 2009, the Department of Administrative Services issued \$108.2 million in 2009 Series D Certificates of Participation with an average interest rate of 4.6 percent. These certificates refunded \$114.8 million of outstanding 1999 Series A and 2001 Series A certificates of participation with an average interest rate of 4.9 percent. The current refunding was undertaken to reduce the total debt

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service payments over the next 14 years by \$18.2 million and resulted in an economic gain of \$13.3 million.

On April 29, 2010, the Oregon University System issued \$37.6 million in XI-F(1) 2010 Series A General Obligation Bonds with an average interest rate of 4.8 percent. These bonds refunded \$39.5 million of outstanding 1998 Series D, 2004 Series A, 2004 Series B, and 2004 Series D general obligation bonds with an average interest rate of 4.7 percent. The current refunding of \$30.7 million and advanced refunding of \$8.8 million were undertaken to reduce the total debt service payments over the next 23 years by \$3.6 million and resulted in an economic gain of \$2.6 million.

On April 29, 2010, the Oregon University System issued \$5 million in XI-G 2010 Series D General Obligation Bonds with an average interest rate of 5 percent. These bonds refunded \$5.5 million of outstanding 1998 Series F general obligation bonds with an average interest rate of 4.8 percent. The current refunding was undertaken to reduce the total debt service payments over the next 18 years by \$624 thousand and resulted in an economic gain of \$418 thousand.

On April 29, 2010, the Department of Administrative Services issued \$58.3 million in 2010 Series F General Obligation Bonds with an average interest rate of 4.9 percent. The bonds were issued to refund \$59.5 million of outstanding 2002 General Obligation Bonds with an average interest rate of 5 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 3 years by \$3.5 million and resulted in an economic gain of \$3 million.

On May 20, 2010, the Department of Administrative Services, issued \$13.8 million in 2010 Series D Certificates of Participation with an average interest rate of 3.7 percent. The bonds were issued to refund \$13.8 million of outstanding 2001 Series A Certificates of Participation with an average interest rate of 4.9 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 8 years by \$841 thousand and resulted in an economic gain of \$757 thousand.

I. Defeased Debt. Bonds and certificates of participation outstanding that are considered defeased as of June 30, 2010 (in thousands):

Primary Government

| | |
|--------------------------------------------------------|-------------------|
| Department of Administrative Services | \$ 15,260 |
| Business Oregon | 16,828 |
| Military Department | 980 |
| Department of Corrections | 2,855 |
| Department of Energy | 6,030 |
| Department of Environmental Quality | 5,050 |
| Oregon University System | 184,294 |
| Department of Education | 4,220 |
| Department of Forestry | 6,470 |
| Department of Parks and Recreation | 882 |
| Department of Transportation | 266,198 |
| Total defeased bonds and certificates of participation | <u>\$ 509,067</u> |

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J. Arbitrage Rebate Liability. The Tax Reform Act of 1986 placed restrictions on the non-purpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the non-purpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Non-purpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. Outstanding arbitrage rebate liabilities as of June 30, 2010 (in thousands):

| | |
|-------------------------------------------|------------------|
| <u>Primary Government</u> | |
| Department of Human Services | \$ 145 |
| Department of Administrative Services | 159 |
| Oregon Business Development Department | 225 |
| Legislative Administration Committee | 28 |
| Military Department | 10 |
| Department of Veterans' Affairs | 10,974 |
| Department of Corrections | 522 |
| Department of Environmental Quality | 2 |
| Oregon Youth Authority | 2 |
| Oregon University System | 574 |
| Department of Education | 380 |
| Department of Forestry | 2 |
| Parks and Recreation Department | 39 |
| Department of Fish and Wildlife | 1 |
| Department of Transportation | 92 |
| Housing and Community Services Department | 95 |
| Total arbitrage rebate liability | <u>\$ 13,250</u> |

11. POLLUTION REMEDIATION OBLIGATION

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

The State recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. At June 30, 2010, the State recognized an estimated liability of \$14.7 million for pollution remediation activities. The liability, which is reported in the government-wide Statement of Net Assets, was recorded at the current value of the costs the State expects to incur to perform the work.

For many projects, the State can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the State has experience. In other cases, the estimates are limited to an amount specified in a contract for remediation services or provided by environmental consulting firms. Expected recoveries from responsible parties or potentially responsible parties and insurance recoveries are included in the estimates and reduce the State's expense. There were no estimable expected recoveries included in the measurement of the State's pollution remediation obligation at June 30, 2010.

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

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

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

As of June 30, 2010, the State is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of contamination in the Portland Harbor Superfund site. There are over 200 parties, private and public, that may eventually bear a share of the costs. It is too early in the Environmental Protection Agency's remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will be assessed against the State. The Portland Harbor Superfund site is discussed in greater detail in Note 23.

12. PLEDGED REVENUES

A. Unobligated Net Lottery Proceeds

The State has pledged future unobligated net lottery proceeds to repay \$1.1 billion of lottery revenue bonds. Unobligated net lottery proceeds consist of all revenues derived from the operation of the Oregon State Lottery except for (1) revenues used for payment of prizes and expenses of the Lottery and (2) revenues previously dedicated to fund reserves for the payment of the State's Westside Lottery Bonds and to pay related costs incurred by the Department of Transportation with respect to the Westside Lottery Bonds. Proceeds from lottery revenue bonds provide financing for economic development within the state, as well as for the improvement and expansion of state parks and school facilities. The bonds are payable solely from the pledged revenues and are payable through 2030. In fiscal year 2011, principal and interest payments on the bonds are expected to require approximately 23.2 percent of unobligated net lottery proceeds. The total principal and interest remaining to be paid on the bonds is \$1.6 billion. Principal and interest paid for the current year and total unobligated net lottery proceeds were \$122 million and \$541.4 million, respectively.

B. Highway User Taxes and Vehicle Registration Fees

The State has pledged future highway user taxes and vehicle registration fees, net of administrative expenses, operating transfers, and statutory transfers to counties, to repay \$2.2 billion of highway user tax revenue bonds. Proceeds from the bonds provide financing for the construction, reconstruction, improvement, repair, maintenance and operation, and use of public highways, roads, streets, and roadside rest areas for the State. The bonds are payable solely from the pledged revenues and are payable through November 2034. Fiscal year 2011 principal and interest payments on the bonds are expected to require less than 25 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is approximately \$4 billion. Principal and interest paid for the current year and total pledged revenues were \$111.1 million and \$501.8 million, respectively.

13. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2010 (in thousands):

Due from Other Funds

| Due to Other Funds | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Oregon Rainy Day | Nonmajor Governmental Funds | Housing and Community Services | Veterans' Loan | University System | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | Total |
|--------------------------------|------------------|----------------------------|-----------------------|--------------------------|---------------|------------------|-----------------------------|--------------------------------|----------------|-------------------|---------------------------|------------------------|-----------------|---------------------|
| General | \$ - | \$ 153,970 | \$ 328,600 | \$ 112,458 | \$ - | \$ 57 | \$ 89,386 | \$ - | \$ - | \$ - | \$ 9 | \$ 99 | \$ - | \$ 684,579 |
| Health and Social Services | 58,394 | - | - | 843 | 116 | - | 3,808 | - | - | 242 | 81 | - | - | 63,484 |
| Public Transportation | - | 3,360 | - | 13,094 | - | - | 4,865 | - | - | - | - | - | - | 21,319 |
| Environmental Management | 6 | 7 | 3,710 | - | 139 | - | 2,911 | - | - | - | - | 16 | - | 6,789 |
| Common School | - | - | - | 787 | - | - | - | - | - | - | - | - | - | 787 |
| Nonmajor Governmental Funds | 24,982 | 8,493 | 84 | 21,761 | - | - | 269,150 | 10 | - | 6,434 | 517 | 1,969 | - | 333,400 |
| Housing and Community Services | - | - | - | - | - | - | 44 | - | - | - | - | - | - | 44 |
| Lottery Operations | - | - | - | - | - | - | 151,872 | - | - | - | - | - | - | 151,872 |
| Unemployment Compensation | - | - | - | - | - | - | 1,769 | - | - | - | - | - | - | 1,769 |
| University System | - | - | - | - | - | - | 170 | - | - | - | - | - | - | 170 |
| Nonmajor Enterprise Funds | 8,509 | 821 | - | 1,667 | - | - | 1,755 | - | 67 | - | 21 | 18 | - | 12,858 |
| Internal Service Funds | 6 | - | - | - | - | - | 372 | - | - | - | - | 5 | - | 383 |
| Fiduciary Funds | - | - | - | - | 3 | - | - | - | - | - | - | - | 1,054 | 1,057 |
| Total | \$ 91,897 | \$ 166,651 | \$ 332,394 | \$ 150,610 | \$ 258 | \$ 57 | \$ 526,102 | \$ 10 | \$ 67 | \$ 6,676 | \$ 628 | \$ 2,107 | \$ 1,054 | \$ 1,278,511 |

Advances to Other Funds

| Advances from Other Funds | Common School | Unemployment Compensation | Nonmajor Enterprise Funds | Internal Service Funds | Total |
|----------------------------------|---------------|---------------------------|---------------------------|------------------------|------------------|
| General | \$ - | \$ - | \$ 13 | \$ 705 | \$ 718 |
| Environmental Management | 300 | - | - | - | 300 |
| Nonmajor Governmental Funds | - | 1,108 | - | - | 1,108 |
| University System | - | - | 57,326 | - | 57,326 |
| Nonmajor Enterprise Funds | - | - | 100 | - | 100 |
| Internal Service Funds | - | - | 259 | - | 259 |
| Total | \$ 300 | \$ 1,108 | \$ 57,698 | \$ 705 | \$ 59,811 |

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

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Interfund transfers reported in the fund financial statements as of June 30, 2010 (in thousands):

Transfers from Other Funds

| Transfers to Other Funds | General | Health and Social Services | Public Transportation | Environmental Management | Common School | Oregon Rainy Day | Nonmajor Governmental Funds | Unemployment Compensation | University System | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | Total |
|---------------------------------|-------------------|----------------------------------|--------------------------|-----------------------------|------------------|---------------------|-----------------------------------|------------------------------|----------------------|---------------------------------|------------------------------|--------------------|---------------------|
| General | \$ - | \$ 4,118 | \$ 538 | \$ 5,532 | \$ - | \$ 22,295 | \$ 49,650 | \$ - | \$ 371,691 | \$ 165,192 | \$ - | \$ - | \$ 619,016 |
| Health and Social Services | 16 | - | 151 | 10,140 | 291 | - | 172,984 | - | 2,648 | 22,806 | 346 | - | 209,382 |
| Public Transportation | - | 7,142 | - | 31,444 | - | - | 192,799 | - | - | - | - | - | 231,385 |
| Environmental Management | 4,073 | 70 | 401 | - | 9,715 | - | 33,595 | - | 1,476 | 300 | 36 | - | 49,666 |
| Common School | 665 | - | - | 5,725 | - | - | 50,706 | - | - | - | - | - | 57,096 |
| Oregon Rainy Day | 235,030 | - | - | - | - | - | - | - | - | - | - | - | 235,030 |
| Nonmajor Governmental Funds | 47,226 | 83,481 | 743 | 92,699 | - | - | 592,487 | 646 | 56,517 | 538 | 1,107 | 529 | 875,973 |
| Housing and Community Services | - | - | - | - | - | - | 208 | - | - | - | - | - | 208 |
| Veterans' Loan | - | - | - | - | - | - | 226 | - | - | - | - | - | 226 |
| Lottery Operations | - | - | - | - | - | - | 545,771 | - | - | - | - | - | 545,771 |
| Unemployment Compensation | - | - | - | - | - | - | 33,918 | - | - | - | - | - | 33,918 |
| University System | 1,474 | - | - | - | - | - | 29,304 | - | - | - | - | - | 30,778 |
| Nonmajor Enterprise Funds | 97,622 | 8,277 | - | 4 | - | - | 31,709 | - | - | 3,072 | 727 | - | 141,411 |
| Internal Service Funds | 32,974 | 1 | - | 364 | - | - | 14,833 | - | - | - | - | - | 48,172 |
| Total | \$ 419,080 | \$ 103,089 | \$ 1,833 | \$ 145,908 | \$ 10,006 | \$ 22,295 | \$ 1,748,190 | \$ 646 | \$ 432,332 | \$ 191,908 | \$ 2,216 | \$ 529 | \$ 3,078,032 |

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

During the 2010 legislative special session, actions were taken to balance the General Fund budget for the 2009-11 biennium. These actions included a mixture of budget reductions and fund shifts, transfers to the General Fund, federal stimulus dollars, and use of the Emergency Fund balance. Of the \$419.1 million transferred to the General Fund during fiscal year 2010, \$19.2 million of Other Funds were transferred to the General Fund in lieu of making General Fund budget cuts. In addition, the Legislature authorized the transfer of \$235 million from the Oregon Rainy Day Fund to the General Fund.

14. SEGMENT INFORMATION

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

The Oregon Housing and Community Services Department (OHCS) is authorized by ORS 456.645 to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2) of the Oregon Constitution. Mortgage payments and fees, as well as rental revenues, support these bonds.

Summary financial information for the Special Public Works Fund, the Water Fund and the various funds that account for the bond activity with pledged revenues of the OHCS for the year ended June 30, 2010 (in thousands):

| | Special Public Works Fund | Water Fund | Mortgage Revenue Bonds | Homeowner Revenue Bonds |
|----------------------------------------------------------------------------------|---------------------------------|-------------------|------------------------------|-------------------------------|
| Condensed balance sheet | | | | |
| Assets: | | | | |
| Interfund receivables | \$ 21 | \$ 100 | \$ - | \$ - |
| Other current assets | 121,562 | 20,189 | 45,402 | 120,044 |
| Other noncurrent assets | 252,754 | 100,318 | 1,170,713 | 140 |
| Deferred outflows | - | - | 29,946 | - |
| Total assets | <u>\$ 374,337</u> | <u>\$ 120,607</u> | <u>\$ 1,246,061</u> | <u>\$ 120,184</u> |
| Liabilities: | | | | |
| Current liabilities | \$ 41,132 | \$ 8,848 | \$ 31,950 | \$ 120,039 |
| Noncurrent liabilities | 108,429 | 46,330 | 1,126,414 | - |
| Total liabilities | <u>149,561</u> | <u>55,178</u> | <u>1,158,364</u> | <u>120,039</u> |
| Net assets: | | | | |
| Restricted | 8,248 | 1,055 | 87,697 | 145 |
| Unrestricted | 216,528 | 64,374 | - | - |
| Total net assets | <u>224,776</u> | <u>65,429</u> | <u>87,697</u> | <u>145</u> |
| Total liabilities and net assets | <u>\$ 374,337</u> | <u>\$ 120,607</u> | <u>\$ 1,246,061</u> | <u>\$ 120,184</u> |
| Condensed statement of revenues, expenses, and changes in fund net assets | | | | |
| Loan interest income | \$ 12,193 | \$ 3,440 | \$ 56,636 | \$ - |
| Other operating revenue | 276 | - | 5,968 | 44 |
| Depreciation and amortization | - | - | (546) | (113) |
| Other operating expenses | (8,534) | (5,181) | (53,693) | (44) |
| Operating income (loss) | <u>3,935</u> | <u>(1,741)</u> | <u>8,365</u> | <u>(113)</u> |
| Total nonoperating revenues (expenses) | 510 | 264 | - | - |
| Transfers from other funds | 1,419 | 1,653 | 300 | 258 |
| Transfers to other funds | (4,952) | (1,615) | - | - |
| Change in net assets | <u>912</u> | <u>(1,439)</u> | <u>8,665</u> | <u>145</u> |
| Beginning net assets (as restated) | <u>223,864</u> | <u>66,868</u> | <u>79,032</u> | <u>-</u> |
| Ending net assets | <u>\$ 224,776</u> | <u>\$ 65,429</u> | <u>\$ 87,697</u> | <u>\$ 145</u> |

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| | Special Public Works Fund | Water Fund | Mortgage Revenue Bonds | Homeowner Revenue Bonds |
|---------------------------------------------------|---------------------------------|------------------|------------------------------|-------------------------------|
| Condensed statement of cash flows | | | | |
| Net cash provided (used) by: | | | | |
| Operating activities | \$ 28,617 | \$ (7,616) | \$ 121,077 | \$ (6) |
| Noncapital financing activities | (16,109) | (6,886) | (177,790) | 120,006 |
| Investing activities | 511 | 491 | 55,347 | (120,000) |
| Net increase (decrease) | 13,019 | (14,011) | (1,366) | - |
| Beginning cash and cash equivalents (as restated) | 77,740 | 29,527 | 20,870 | - |
| Ending cash and cash equivalents | <u>\$ 90,759</u> | <u>\$ 15,516</u> | <u>\$ 19,504</u> | <u>\$ -</u> |

| | Multifamily Housing Revenue Bonds | Multiple Purpose Bonds | Elderly and Disabled Housing Fund |
|----------------------------------|--------------------------------------------|------------------------------|--------------------------------------------|
| Condensed balance sheet | | | |
| Assets: | | | |
| Current assets | \$ 8,575 | \$ 4,790 | \$ 38,248 |
| Capital assets | - | - | 28 |
| Accumulated depreciation | - | - | (27) |
| Noncurrent assets | 173,690 | 22,493 | 228,728 |
| Deferred outflows | 1,263 | - | - |
| Total assets | <u>\$ 183,528</u> | <u>\$ 27,283</u> | <u>\$ 266,977</u> |
| Liabilities: | | | |
| Interfund payables | \$ - | \$ - | \$ 1 |
| Other current liabilities | 7,634 | 4,616 | 37,364 |
| Noncurrent liabilities | 155,380 | 10,432 | 165,628 |
| Total liabilities | <u>163,014</u> | <u>15,048</u> | <u>202,993</u> |
| Net assets: | | | |
| Restricted | 20,514 | 12,235 | 63,984 |
| Total net assets | <u>20,514</u> | <u>12,235</u> | <u>63,984</u> |
| Total liabilities and net assets | <u>\$ 183,528</u> | <u>\$ 27,283</u> | <u>\$ 266,977</u> |

| | Multifamily Housing Revenue Bonds | Multiple Purpose Bonds | Elderly and Disabled Housing Fund |
|------------------------------------------------------------------------------------------|--------------------------------------------|------------------------------|--------------------------------------------|
| Condensed statement of revenues, expenses, and changes in fund net assets | | | |
| Loan interest income | \$ 10,286 | \$ 1,537 | \$ 10,443 |
| Other operating revenue | 1,632 | 367 | 3,573 |
| Depreciation and amortization | (104) | (39) | (137) |
| Other operating expenses | (8,715) | (878) | (10,972) |
| Operating income (loss) | <u>3,099</u> | <u>987</u> | <u>2,907</u> |
| Transfers from other funds | 365 | - | - |
| Transfers to other funds | (1,000) | (1,868) | (156) |
| Change in net assets | <u>2,464</u> | <u>(881)</u> | <u>2,751</u> |
| Beginning net assets (as restated) | 18,050 | 13,116 | 61,233 |
| Ending net assets | <u>\$ 20,514</u> | <u>\$ 12,235</u> | <u>\$ 63,984</u> |

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| | Multifamily Housing Revenue Bonds | Multiple Purpose Bonds | Elderly and Disabled Housing Fund |
|---------------------------------------------------|--------------------------------------------|------------------------------|--------------------------------------------|
| Condensed statement of cash flows | | | |
| Net cash provided (used) by: | | | |
| Operating activities | \$ 12,134 | \$ 6,337 | \$ 17,111 |
| Noncapital financing activities | (11,753) | (7,097) | (19,398) |
| Investing activities | 477 | (715) | 2,156 |
| Net increase (decrease) | 858 | (1,475) | (131) |
| Beginning cash and cash equivalents (as restated) | 753 | 2,191 | 69,030 |
| Ending cash and cash equivalents | \$ 1,611 | \$ 716 | \$ 68,899 |

15. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions. The Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for units of State government, school districts, community colleges, and political subdivisions of the State. The Public Employees Retirement Board (Board), under the guidelines of Chapters 238 and 238A of the Oregon Revised Statutes, administers PERS. PERS provides retirement benefits and cost-of-living adjustments as well as disability, postemployment healthcare, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. All plan assets may legally be used to pay benefits to any of the plan members or beneficiaries for which the assets were accumulated. Participation in the PERS cost-sharing multiple-employer plan is mandatory for units of State government, community colleges, and school districts. PERS is an agent multiple-employer plan for political subdivisions that have not elected to join the State and Local Government Rate Pool. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 2010, PERS had 897 employer members consisting of:

| | |
|------------------------|-----|
| State agencies | 116 |
| Community colleges | 17 |
| School districts | 279 |
| Political subdivisions | 485 |

The PERS defined benefit and defined contribution retirement plans are reported as pension trust funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Effective April 1, 1996, the Oregon University System (OUS) established the Optional Retirement Plan (ORP) as an alternative to PERS. The ORP is a defined contribution retirement plan that is available to OUS unclassified faculty and staff who are eligible for PERS. In addition to PERS and ORP, the OUS offers a variety of retirement options including the Teacher's Insurance and Annuity Association and College Retirement Equities Fund, the Federal Civil Service Retirement System, and the Federal Employees Retirement System.

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

B. Summary of Significant Accounting Policies. The financial statements for the PERS pension plans are prepared using the accrual basis of accounting. Plan member contributions and employer member

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contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

Investments in private equities are recorded at fair value, as determined by the general partner, within the Public Employees Retirement System (PERS) Fund. Valuations provided by the general partner as of March 31 are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publically traded REITS, for which observable market prices in active markets do not exist, are reported at fair value as determined in good faith by the general partner. Valuations provided by the general partner as of March 31 are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity Portfolio are recorded at fair value by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities.) Certain Opportunity Portfolio investments, accounting for 52 percent of the year end Opportunity Portfolio, are June 30 values. The remaining 48 percent of the year end Opportunity Portfolio are March 31 values that are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Investments in the Opportunity Portfolio representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, Opportunity Portfolio, and real estate portfolio investment valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In

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addition, these investments are generally considered to be illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

C. Funding Policies. The PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, coupled with employee contributions, are intended to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute. The Board, based on the required actuarially determined rate, establishes State employer contributions. Current law permits employers to pay employees' contributions to PERS and most state agencies do so.

The required employee contributions and the required employer contributions shown as a percentage of covered salary for the PERS multiple-employer pension plans from July 1, 2009 to June 30, 2010:

| | ORS 238/238A Employee Rate | ORS 238 Employer Rate ² | ORS 238A Employer Rate | |
|-----------------------------------------|-------------------------------|---------------------------------------|---------------------------|-----------------|
| | | | General Service | Police and Fire |
| State agencies ¹ | 6.0% | 2.99% | 5.73% | 8.44% |
| State and local government rate pool | 6.0% | 11.15% | 5.73% | 8.44% |
| Judiciary | 7.0% | 14.58% | N/A | N/A |
| School districts | 6.0% | 14.01% | 5.73% | 8.44% |
| Non-pooled Political subdivisions | 6.0% | 10.49% | 5.73% | 8.44% |

¹ A subcomponent of the State and Local Government Rate Pool.

² Includes average rate offset from lump-sum payment contributions made by employers that issued pension obligation bonds (for State agencies only).

The 238 and 238A combined employer contributions for the primary government for the years ended June 30, 2010, 2009, and 2008, were approximately \$73.7 million, \$155.3 million, and \$147.4 million, respectively. The 238 and 238A combined employer contributions for the discretely presented component units for the years ended June 30, 2010, 2009, and 2008, were approximately \$14.2 million, \$15.5 million, and \$13.4 million, respectively. For both the primary government and the discretely presented component units, actual contributions equaled the annual required contributions in each year. The decrease in employer contributions for the current fiscal year was due to a significant reduction in the PERS employer contribution rates. Contributions in excess of the annual required contribution in fiscal year 2004 resulted in a net pension asset that is being amortized using the level dollar closed method over 22 years and an assumed interest rate of 8 percent. The employer pension cost of \$140.8 million for fiscal year 2010 includes \$52.9 million of amortization of the net pension asset.

Under the ORP, the employee contribution rate is 6 percent and is paid by OUS. The employer contribution rate for Tier One and Tier Two is 11.89 percent and for Tier Three is 5.89 percent as of June 30, 2010. The OUS employer contributions to the ORP for the years ended June 30, 2010, 2009, and 2008 were approximately \$21 million, \$25.8 million, and \$24.3 million, respectively. The OUS employee contributions to the ORP for the years ended June 30, 2010, 2009, and 2008, were approximately \$13.6 million, \$13 million, and \$11.9 million, respectively.

The OHSU Board of Directors determines contribution levels for the UPP. Employer contributions to the plan are 6 percent of salary and employee contributions are an additional 6 percent. Currently, OHSU is funding employee contributions. The OHSU employer contributions to the UPP for the years ended June 30, 2010, 2009, and 2008 were approximately \$18.4 million, \$16.2 million, and \$13.2 million, respectively, and were equal to the employee contributions for each year.

16. OTHER POSTEMPLOYMENT BENEFIT PLANS

A. Public Employees Retirement System

Plan Descriptions. The Public Employees Retirement Board (Board), as established by Oregon Revised Statute (ORS) 238.410, contracts for healthcare insurance coverage on behalf of Public Employees Retirement System (PERS) members. Retirees who are eligible for PERS healthcare coverage pay their own age-adjusted premiums. PERS administers two separate defined benefit other postemployment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA).

The RHIA is a cost-sharing multiple-employer OPEB plan in which 897 employers participate. Established through ORS 238.420, the plan provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health insurance plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan. The number of RHIA plan members receiving benefits was 39,652 as of June 30, 2010.

The RHIPA is a single-employer OPEB plan established through ORS 238.415. The plan provides payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the Board, and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died, and the member retired on or after September 29, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIPA plan. The number of RHIPA plan members receiving benefits was 830 as of June 30, 2010. RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

The PERS RHIA and RHIPA defined benefit OPEB plans are reported as other employee benefit trust funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

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

Investments in private equities are recorded at fair value, as determined by the general partner, within the Public Employees Retirement System (PERS) Fund. Valuations provided by the general partner as of March 31 are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Investments in

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

Investments in real estate, with the exception of publically traded REITS for which observable market prices in active markets do not exist, are reported at fair value as determined in good faith by the general partner. Valuations provided by the general partner as of March 31 are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methodologies considered to be most appropriate for the type of investment, giving consideration to a range of factors they believe would be considered by market participants, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity Portfolio are recorded at fair value by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities.) Certain Opportunity Portfolio investments, accounting for 52 percent of the year end Opportunity Portfolio, are June 30 values. The remaining 48 percent of the year end Opportunity Portfolio are March 31 values that are adjusted for cash activity from April 1 to June 30 to arrive at a fair value as of June 30. Investments in the Opportunity Portfolio representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

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

Contributions and Funding. Both of the PERS OPEB plans are advance-funded through employer contributions established on an actuarially determined basis. All PERS employers currently contribute 0.29 percent of covered payroll to fund the RHIA. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027. The employers' aggregate actual contributions for the years ended June 30, 2010, 2009, and 2008, totaled approximately \$22.4 million, \$28.8 million, and \$27.8 million, respectively, and were equal to the annual required contribution for each year.

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|------------------------------------|--------------------------|---------------------------|------------------------------------------------------|
| 12/31/2009 | \$214.1 | \$511.2 | \$297.1 | 41.9% | \$8,512.2 | 3.5% |

State agencies currently contribute 0.08 percent of PERS covered salaries to fund the RHIPA. State employer contributions for the years ended June 30, 2010, 2009, and 2008, totaled approximately \$1.5 million, \$2 million, and \$1.8 million, respectively, and were equal to the annual required contribution for each year.

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) ¹ | Funded Ratio (a/b) ¹ | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|-------------------------------------------------|---------------------------------------|---------------------------|------------------------------------------------------|
| 12/31/2009 | \$6.4 | \$24.5 | \$18.2 | 25.9% | \$2,371.8 | 0.8% |

¹Differences due to rounding.

Actuarial Methods and Assumptions. The PERS postemployment healthcare benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2009, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include an 8 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.75 percent for both the RHIA and RHIPA plans. The RHIPA plan uses a healthcare cost inflation adjustment graded from 7 percent in 2010 to 4.5 percent in 2029. The RHIPA plan's inflation assumption is 2.75 percent, which is a subcomponent of the payroll growth rate. The RHIA plan does not use an inflation assumption because statute sets the payment amount and does not adjust for increases in healthcare costs. The actuarial value of plan assets for both RHIA and RHIPA is equal to the fair market value of assets on the valuation date. The amount of net assets available for other postemployment benefits for RHIA and RHIPA at June 30, 2010, is \$208.7 million and \$5.7 million, respectively. Both PERS plans employer contribution rates cover the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a fixed period. New unfunded actuarial accrued liabilities are amortized over a closed amortization period of 10 years using the level percentage of payroll method.

B. Public Employees Benefit Board

Plan Description. The State participates in a defined benefit postemployment healthcare plan administered by the Public Employees Benefit Board (PEBB), 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 in which 11 employers participate. Chapter 243 of the Oregon Revised Statutes gives 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. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. Participating retirees pay their own monthly premiums based on a blended premium rate determined by pooling the retirees with active employees for insurance rating purposes, thus, creating an "implicit rate subsidy." As a result, the healthcare insurance premiums paid by the State for active employees are higher than they would be if the premiums were based on active employees alone. As of June 30, 2010, PEBB Plan members consist of 50,908 active employees and 2,159 retired employees and beneficiaries receiving benefits. PEBB does not issue a separate, publicly available financial report.

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Summary of Significant Accounting Policies. The PEBB plan implicit rate subsidy, if not fully funded, represents an obligation of the State, the net OPEB obligation. The net OPEB obligation for the year ended June 30, 2010, is \$47.7 million and is allocated to the participating funds based on each fund's proportionate share of the annual OPEB cost as determined by health insurance premium payments. The portion of the net OPEB obligation related to governmental activities is reported in the internal service funds balance sheet and the government-wide statement of net assets; the portion related to business-type activities is reported in the proprietary funds balance sheet and the government-wide statement of net assets. The portion related to fiduciary activities is reported in the statement of fiduciary net assets.

Contributions. State employer contributions and the contribution requirements of active employee plan members who are represented by labor unions are established and amended through negotiations during the bargaining process. State employer contributions and the contribution requirements of active employee plan members who are not represented by labor unions are established and amended through a directive issued by authorized individuals for the executive, legislative, and judicial branches of State government. The PEBB establishes annual premiums to be charged for various levels of healthcare coverage.

Funding Policy. The PEBB Plan funding policy provides for employer contributions at amounts sufficient to fund benefits, including the rate subsidy, on a pay-as-you-go basis. Active employees do not make contributions. Administrative costs of the PEBB Plan are financed by up to 2 percent of employer and plan member contributions. For the year ended June 30, 2010, retired plan members contributed \$24.7 million through their required contributions. The average monthly contribution per member was \$955.

Annual OPEB Cost and Net OPEB Obligation. The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2009, using the entry age normal cost method. The State's annual OPEB expense is based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over thirty years. Significant assumptions used in the actuarial valuation include a 4 percent per annum rate of return on the investment of present and future assets, and a medical healthcare cost inflation adjustment graded from an average of 8.35 percent in 2010 to an average of 4.5 percent in 2026 and beyond. The dental healthcare cost inflation adjustment was graded from an average of 5.75 percent in 2010 to an average of 4.5 percent for 2026 and beyond. The vision healthcare cost inflation adjustment was graded at 3 percent for all years. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount using an open 30-year period.

For fiscal years ended June 30, 2008, 2009, and 2010, the components of the PEBB Plan's annual OPEB cost, the amounts actually contributed, and changes to the net OPEB obligation (in millions):

| | June 30, 2010 | June 30, 2009 | June 30, 2008 |
|-----------------------------------------|------------------|------------------|------------------|
| Annual required contribution | \$ 16.7 | \$ 36.2 | \$ 34.8 |
| Interest on net OPEB obligation | 1.6 | 0.9 | - |
| ARC adjustment | (2.3) | (1.3) | - |
| Annual OPEB cost (expense) | 16.0 | 35.8 | 34.8 |
| Contributions made | (8.4) | (16.0) | (14.5) |
| Increase in net OPEB obligation | 7.6 | 19.8 | 20.3 |
| Net OPEB obligation - beginning of year | 40.1 | 20.3 | - |
| Net OPEB obligation - end of year | <u>\$ 47.7</u> | <u>\$ 40.1</u> | <u>\$ 20.3</u> |
| Percent of annual OPEB cost contributed | 52.5% | 44.7% | 41.7% |

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|------------------------------------|--------------------------|---------------------------|------------------------------------------------------|
| 7/1/2009 | \$0 | \$161.7 | \$161.7 | 0% | \$2,562.5 | 6.3% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, which is included in the required supplementary information that immediately follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

C. Discretely Presented Component Units

SAIF Corporation (SAIF) administers a single-employer defined benefit healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for self and eligible dependents until age 65. Retirees must pay the premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent that SAIF pays all or a portion of its active employees' premiums. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. Benefit provisions are established by SAIF Corporation. The plan does not issue a separate, publicly available financial report.

Funding Policy. SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. For the years ended December 31, 2009 and 2008, respectively, retired plan members contributed \$531 thousand and \$541 thousand through their required contributions and the required contribution rate per member was an average of \$546 and \$586 per month.

Annual OPEB Cost and Net OPEB Obligation. The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of January 1, 2009, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.5 percent investment rate of return. The annual medical healthcare cost trend rate will increase 7.5 percent in the first year, 6.5 percent in the second year, 6 percent in the third through seventh year, 5.5 percent for the eighth through twenty-seventh year, and 5 percent thereafter. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis for 15 years.

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For the years ended December 31, 2009, 2008, and 2007, the components of SAIF's annual OPEB cost, the amounts actually contributed to the plan, and changes in SAIF's net OPEB obligation (in thousands):

| | December 31, 2009 | December 31, 2008 | December 31, 2007 |
|-----------------------------------------|----------------------|----------------------|----------------------|
| Annual required contribution | \$ 730 | \$ 408 | \$ 391 |
| Interest on net OPEB obligation | 26 | 13 | - |
| ARC adjustment | (36) | (19) | - |
| Annual OPEB cost (expense) | 720 | 402 | 391 |
| Contributions made | (299) | (174) | (147) |
| Increase in net OPEB obligation | 421 | 228 | 244 |
| Net OPEB obligation - beginning of year | 472 | 244 | - |
| Net OPEB obligation - end of year | <u>\$ 893</u> | <u>\$ 472</u> | <u>\$ 244</u> |
| Percent of annual OPEB cost contributed | 41.5% | 43.3% | 37.6% |

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|------------------------------------|--------------------------|---------------------------|------------------------------------------------------|
| 1/1/2009 | \$0 | \$5,701 | \$5,701 | 0% | \$57,228 | 10% |

The Oregon Health and Science University (OHSU) administers a single-employer defined benefit healthcare plan. OHSU retiring employees are eligible to receive medical coverage for self and spouse until age 65. Retirees must pay the full premium for the coverage elected. The plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Full-time active employees also make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

For fiscal years ended June 30, 2010, 2009, and 2008, the components of OHSU's annual OPEB cost, the amounts actually contributed to the plan, and changes in OHSU's net OPEB obligation (in thousands):

| | June 30, 2010 | June 30, 2009 | June 30, 2008 |
|-----------------------------------------|------------------|------------------|------------------|
| Annual required contribution | \$ 2,262 | \$ 2,355 | \$ 2,355 |
| Interest on net OPEB obligation | 102 | 185 | 118 |
| Annual OPEB cost (expense) | 2,364 | 2,540 | 2,473 |
| Contributions made | (1,064) | (960) | (1,138) |
| Increase in net OPEB obligation | 1,300 | 1,580 | 1,335 |
| Net OPEB obligation - beginning of year | 2,915 | 1,335 | - |
| Net OPEB obligation - end of year | <u>\$ 4,215</u> | <u>\$ 2,915</u> | <u>\$ 1,335</u> |
| Percent of annual OPEB cost contributed | 45% | 38% | 46% |

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|------------------------------------|--------------------------|---------------------------|------------------------------------------------------|
| 1/1/2010 | \$0 | \$19,185 | \$19,185 | 0% | \$669,000 | 2.9% |

The actuarially determined amounts above use an assumed discount rate of 3.5 percent in the January 1, 2010, valuation. The assumed healthcare cost trend rate was 9.1 percent in 2010, declining gradually to 4.5 percent in 2027 and remaining at 4.5 percent thereafter. The actuarial cost method used is the projected unit credit method.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Therefore, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the types of benefits provided under the terms of the plan at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point.

17. DEFERRED COMPENSATION PLANS

A. State Deferred Compensation Fund. The Oregon Savings Growth Plan (OSGP) is a deferred compensation plan available to eligible state employees. Employee contributions are deposited into the Deferred Compensation Fund established by Oregon Revised Statute 243.411. To participate, an employee enters into an individual agreement with the State to defer current earnings to be paid at a future date. The Public Employees Retirement System (PERS) administers the plan. As trustee of the assets, PERS contracts with ING to maintain OSGP participant records. The Office of the State Treasurer, as custodian of the assets, contracts with State Street Bank and Trust Company to provide financial services. PERS may assess a charge to participants not to exceed 2 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 2010, averaged 0.25 percent of amounts deferred.

Participants direct the selection of investment options and also bear any market risk. Although the State has no liability for losses under the OSGP, the State does have the prudent investor responsibility of due care. Activity of the OSGP is reported under the deferred compensation plan in the fiduciary funds combining financial statements and as part of the pension and other employee benefit trust in the fiduciary funds basic financial statements. As of June 30, 2010, the fair value of the investments was \$846.5 million.

B. SAIF Corporation Deferred Compensation Plan. SAIF Corporation (SAIF), a discretely presented component unit, administers a deferred compensation plan (SAIF Plan) that is available to eligible SAIF employees. Employees may enter into an individual agreement with SAIF to defer current earnings to be paid at a future date. The SAIF Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or their beneficiaries. SAIF does not perform the investing function and has no fiduciary accountability for the plan. Therefore, plan assets and any related liability to plan participants are not reported in the SAIF financial statements as of December 31, 2009.

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

C. The Oregon Health and Science University Deferred Compensation Program. The Oregon Health and Science University, a discretely presented component unit, offers all eligible employees the option to participate in one of two tax deferred savings plans through the University Voluntary Savings Program. One plan is administered under Internal Revenue Code Section 403 and the other under Section 457. The

contribution and investment earnings under these plans are tax deferred and accumulated for distribution at a future date.

18. TERMINATION BENEFITS

Southern Oregon University (SOU) is part of the Oregon University System. Since 1998, SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty members 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, thirteen retirees were participating in the plan.

The early retirement liability is reported in Contracts, Mortgages, and Notes Payable in the University System Fund. The current and noncurrent portions of the liability are \$126 thousand and \$185 thousand, respectively. The liability was determined by calculating the discounted present value of expected future benefit payments using a discount rate of 6 percent.

19. RISK FINANCING

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

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

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

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

State Services Division purchases workers' compensation insurance for the State from SAIF Corporation, a discretely presented component unit, utilizing retrospective paid loss plans. These plans are ten years in length and have cash flow and investment earnings advantages. The accumulated claim loss liability for the plans was approximately \$55 million as of June 30, 2010. Independent actuaries determine biennial loss forecasts.

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

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Changes in the balance of aggregate claims liabilities for the property and liability insurance program for the years ended June 30, 2010, and 2009 (in thousands):

| Fiscal Year | Beginning Balance | Increase in Claims or Estimate | Claims Payments | Ending Balance |
|-------------|-------------------|--------------------------------|-----------------|----------------|
| 2010 | \$ 119,260 | \$ 41,629 | \$ (34,838) | \$ 126,051 |
| 2009 | 120,969 | 35,686 | (37,395) | 119,260 |

The June 30, 2010, balance of claims liabilities is included in claims and judgments payable on the internal service funds balance sheet under Central Services.

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

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

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

For calendar year 2008, settlements exceeded coverage for the Samaritan Health Select medical plan. This regional self-insured plan was terminated December 31, 2008.

Changes in the balance of aggregate claims liabilities for the self-insured healthcare plans for the year ended June 30, 2010, and 2009 (in thousands):

| Fiscal Year | Beginning Balance | Increase in Claims or Estimate | Claims Payments | Ending Balance |
|-------------|-------------------|--------------------------------|-----------------|----------------|
| 2010 | \$ 2,906 | \$ 320,311 | \$ (239,715) | \$ 83,502 |
| 2009 | 3,865 | 56,759 | (57,718) | 2,906 |

The June 30, 2010, balance of claims liabilities is included in claims and judgments payable on the internal service funds balance sheet under Central Services.

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

The Department of Consumer and Business Services determines the funding of supplemental workers' compensation insurance programs through cash flow projections based on historical data and economic forecasts. Employer work hour assessments, contributions by employees, workers' compensation insurance premium assessments, investment, and interest earnings pay for the programs. Long-term liabilities were actuarially computed as of June 30, 2010, using the discounted cost valuation method. The discount rate for the Retroactive Program is 6 percent.

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Changes in the balance of aggregate claims liabilities for supplemental workers' compensation insurance for the years ended June 30, 2010, and 2009 (in thousands):

| Fiscal Year | Beginning Balance | Increase in Claims or Estimate | Claims Payments | Ending Balance |
|-------------|-------------------|--------------------------------|-----------------|----------------|
| 2010 | \$ 887,411 | \$ 13,142 | \$ - | \$ 900,553 |
| 2009 | 949,977 | 1,069 | (63,635) | 887,411 |

The June 30, 2010, balance of claims liabilities is included in claims and judgments payable on the government-wide statement of net assets under governmental activities.

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

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

The reserve for loss and loss adjustment expense increased \$47.6 million in calendar year 2009, which was somewhat offset by favorable loss reserve development related to prior accident years. The favorable development of \$42.9 million is attributed to a number of factors. Claim count development was lower than expected. The methods used to estimate ultimate settlement fees and vocational rehabilitation expenses were revised in 2008, resulting in lower tail factors. The impact of this change carried over into 2009. Medical reserves on permanent total disability and permanent partial disability claims also experienced favorable development due to claims closures being higher than expected and loss development being lower than expected. The unfavorable loss adjustment expense development was largely attributed to an increase in the proportion of claims costs allocated to disabling claims.

SAIF discounts its case unpaid losses on a tabular basis using a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical unpaid losses, or unpaid loss adjustment expense. Discounted reserves include known unpaid fatal and permanent total disability losses.

Anticipated salvage and subrogation of \$24.6 million were included as a reduction of the reserve for loss and loss adjustment expense at December 31, 2009.

As of December 31, 2009, SAIF had provided reserves of \$29.9 million for loss and loss adjustment expense related to asbestos claims. SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies.

Changes in the balances of the reserve for loss and loss adjustment expense related to workers' compensation insurance underwritten by SAIF for 2009 and 2008 (in thousands):

| Calendar Year | Beginning Balance | Incurred Losses and Loss Adjustment Expenses | Loss and Loss Adjustment Expense Payments | Ending Balance |
|---------------|-------------------|----------------------------------------------|-------------------------------------------|----------------|
| 2009 | \$ 2,911,309 | \$ 377,118 | \$ (329,516) | \$ 2,958,911 |
| 2008 | 2,805,365 | 436,079 | (330,135) | 2,911,309 |

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

E. Oregon Health and Science University Self-funded Insurance Programs. The Oregon Health and Science University (OHSU), which is also a discretely presented component unit of the State, maintains

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several self-funded insurance programs. Coverage for professional, general, automobile, directors and officers, and employment practices liabilities is provided through OHSU's solely-owned captive insurance company, OHSU Insurance Company.

OHSU has contracted with independent actuaries to estimate the ultimate cost of settlements related to the coverage provided by OHSU Insurance Company. The liability reported for fiscal years 2010 and 2009 was calculated using a 5 percent discount rate. OHSU Insurance Company has entered into reinsurance agreements with various insurers to fully reinsure claims that may exceed coverage limits for claims made prior to July 1, 2002, and claims made on or after July 1, 2009.

In addition, OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. A third-party actuary has been utilized to assist in the estimation of OHSU's liability for the employee health programs related to claims payable and those claims incurred, but not yet paid or reported, of approximately \$13.6 million and \$11.5 million as of June 30, 2010, and 2009, respectively. These amounts are included in the current portion of claims and judgments payable in the discretely presented component units combining balance sheet.

OHSU also purchases workers' compensation coverage from SAIF. The SAIF policy is written as a paid loss retrospective plan. OHSU's liability includes an IBNR factor based on annual actuarial projections.

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

The total liability reported for OHSU's self-funded insurance programs was \$70.7 million and \$65.5 million for fiscal years ending June 30, 2010, and 2009, respectively. Settlement of six malpractice claims exceeded OHSU's professional liability insurance coverage during fiscal year 2009. The amount of claims settlements did not exceed OHSU's self-insurance and commercial insurance coverage for fiscal years 2010 and 2008.

20. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

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

Discounts and allowances in proprietary funds for the year ended June 30, 2010 (in thousands):

Primary Government

| Proprietary Funds | Type of Revenue | Amount |
|---------------------------|-----------------------|-------------------|
| Lottery Operations | Sales | \$ 1,137 |
| Unemployment Compensation | Assessments | (43) |
| Unemployment Compensation | Fines and forfeitures | 1,603 |
| University System | Charges for services | 147,630 |
| Nonmajor Enterprise Funds | Charges for services | (3,678) |
| Nonmajor Enterprise Funds | Other | 16 |
| Nonmajor Enterprise Funds | Sales | 5,396 |
| Internal Service Funds | Other | 254 |
| Internal Service Funds | Charges for services | 1 |
| Total primary government | | <u>\$ 152,316</u> |

Discretely Presented Component Units

| Component Units | Type of Revenue | Amount |
|--------------------------------------------|-----------------------------|---------------------|
| SAIF Corporation | Charges for services | \$ (194) |
| Oregon Health and Science University | Charges for services | 1,011,898 |
| Oregon Health and Science University | Gifts, grants and contracts | (182) |
| Total discretely presented component units | | <u>\$ 1,011,522</u> |

21. FUND EQUITY

A. Net Assets Restricted by Enabling Legislation. The following schedule summarizes the State's net assets at June 30, 2010, that are restricted by enabling legislation (in thousands). All of the legislative restrictions are in governmental activities.

| | Restricted Net Assets |
|-----------------------------------------------------|-----------------------|
| Expendable Restricted Net Assets Restricted for: | |
| Residential assistance | \$ 106,394 |
| Workers' compensation | 7 |
| Education | 554,371 |
| Natural resource programs | 34,946 |
| Health services | 32,797 |
| Nonexpendable Restricted Net Assets Restricted for: | |
| Education | 1,574 |
| Residential assistance | 23,551 |
| Natural Resource Programs | 1,500 |
| Workers' compensation | 250 |
| Total | <u>\$ 755,390</u> |

B. Reserved for Permanent Fund Principal. The amount reported as reserved for permanent fund principal in the nonmajor governmental funds combining balance sheet for fiscal year 2010 is higher than the prior fiscal year. In fiscal year 2009, Senate Bill 581 required the Department of Fish and Wildlife to transfer \$3.5 million from the agency's Deferred Maintenance Subaccount to the General Fund to help balance the General

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Fund budget. In fiscal year 2010, the federal government required \$1.5 million to be transferred back to the Deferred Maintenance Subaccount.

C. Changes to Beginning Fund Balance. As of June 30, 2010, the beginning fund balances were restated as follows (in thousands):

| | Beginning Balance | Prior Period Adjustments | Accounting Changes | Beginning Balance-Restated |
|--------------------------------------------------------|----------------------|-----------------------------|-----------------------|-------------------------------|
| Governmental funds and activities: | | | | |
| General | \$ (304,756) | \$ (44,555) | \$ - | \$ (349,311) |
| Health and Social Services | 445,065 | 43,526 | - | 488,591 |
| Public Transportation | 920,595 | (1,738) | - | 918,857 |
| Environmental Management | 695,762 | 1,318 | - | 697,080 |
| Common School | 486,320 | 172,411 | - | 658,731 |
| Oregon Rainy Day | 337,545 | - | - | 337,545 |
| Other (nonmajor) | 1,854,690 | 32,029 | - | 1,886,719 |
| Capital assets, net of depreciation | 10,561,272 | 97,230 | - | 10,658,502 |
| Other noncurrent assets | 1,817,027 | - | - | 1,817,027 |
| Long-term liabilities | (6,912,125) | (360) | - | (6,912,485) |
| Internal service funds | 220,644 | (4,405) | - | 216,239 |
| Total governmental funds and activities | <u>\$ 10,122,039</u> | <u>\$ 295,456</u> | <u>\$ -</u> | <u>\$ 10,417,495</u> |
| Proprietary funds and business-type activities: | | | | |
| Housing and Community Services | \$ 193,367 | \$ - | \$ - | \$ 193,367 |
| Veterans' Loan | 132,679 | - | - | 132,679 |
| Lottery Operations | 184,043 | - | - | 184,043 |
| Unemployment Compensation | 1,634,715 | 62,110 | - | 1,696,825 |
| University System | 1,225,324 | - | - | 1,225,324 |
| Other (nonmajor) | 596,335 | (811) | 35 | 595,559 |
| Internal service funds adjustment | 6,813 | - | - | 6,813 |
| Total proprietary funds and business-type activities | <u>\$ 3,973,276</u> | <u>\$ 61,299</u> | <u>\$ 35</u> | <u>\$ 4,034,610</u> |
| Fiduciary funds: | | | | |
| Pension and Other Employee Benefit Trust | \$ 46,020,175 | \$ 23,219 | \$ - | \$ 46,043,394 |
| Private Purpose Trust | 29,444 | - | - | 29,444 |
| Investment Trust | 3,956,882 | - | - | 3,956,882 |
| Total fiduciary funds | <u>\$ 50,006,501</u> | <u>\$ 23,219</u> | <u>\$ -</u> | <u>\$ 50,029,720</u> |
| Discretely presented component units: | | | | |
| SAIF Corporation | \$ 594,332 | \$ - | \$ - | \$ 594,332 |
| Oregon Health and Science University | 1,570,462 | - | (5,787) | 1,564,675 |
| Oregon University System Foundations | 1,153,549 | 95 | 1,492 | 1,155,136 |
| Total discretely presented component units | <u>\$ 3,318,343</u> | <u>\$ 95</u> | <u>\$ (4,295)</u> | <u>\$ 3,314,143</u> |

Significant prior period adjustments were made in three governmental funds or activities. A \$45 million adjustment was made to correct expenditures recorded in fiscal year 2009 in the Health and Social Services Fund that should have been recorded in the General Fund. In the Other (nonmajor) Fund, an adjustment of \$39.9 million was made to recognize federal revenue that should have been accrued in the prior year for educational support. In addition, several agencies made corrections to their capital asset accounts, including an \$87.6 million adjustment to infrastructure depreciation.

In the proprietary funds and business-type activities, an adjustment of \$34.3 million was posted to the Unemployment Compensation Fund to record federal revenue that should have been drawn from the State's unemployment insurance trust fund and recognized in fiscal year 2009. Other entries totaling \$27.8 million were made in the same fund to correct other prior year federal revenue accruals.

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The Pension and Other Employee Benefit Trust Fund, a fiduciary fund, made a prior period adjustment of \$23.2 million to capitalize internally generated software. The Oregon Accounting Manual has required the capitalization of qualifying software costs since 2001.

22. COMMITMENTS

The State has significant commitments as of June 30, 2010, in addition to the construction contract commitments disclosed in Note 6. Commitments are defined as existing arrangements to enter into future transactions or events, such as contractual obligations with vendors for future purchases or services at specified prices and sometimes at specified quantities. Commitments may also include agreements to make grants and loans.

Commitments in effect as of June 30, 2010, and the anticipated sources of funding (in thousands):

| Purpose | General Funds | Federal Funds | Lottery Funds | Other Funds | Total |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------|---------------------|
| Community services contracts | \$ 358,625 | \$ 409,935 | \$ 2,300 | \$ 32,388 | \$ 803,248 |
| Grant and loan commitments | 290,105 | 441,958 | 115,698 | 292,379 | 1,140,140 |
| Personal services contracts | 115,056 | 150,404 | 300 | 71,082 | 336,842 |
| Equipment purchases | 6 | 374 | 5,337 | 4,002 | 9,719 |
| Indigent defense contracts | 121,317 | - | - | - | 121,317 |
| Systems development | 84 | - | - | 707 | 791 |
| Total | \$ 885,193 | \$ 1,002,671 | \$ 123,635 | \$ 400,558 | \$ 2,412,057 |

In addition, the Oregon Investment Council has entered into agreements that commit the Public Employees Retirement Fund (PERF) investment managers, upon request, to make additional investment purchases up to a predetermined amount. As of June 30, 2010, the PERF had \$8.5 billion in commitments to purchase private equity investments, \$2.1 billion in commitments to purchase real estate investments, and \$375.4 million to purchase Opportunity Fund investments. These amounts are unfunded and are not recorded in the Statement of Fiduciary Net Assets.

23. CONTINGENCIES

A. Litigation. The State is involved in certain legal proceedings that, if decided against the State, may require significant future expenditures or may impair future revenue sources. Several legal claims remain pending in State courts challenging the legislative changes that were enacted to the Public Employees Retirement System (PERS) during the 2003 legislative session. The legislation included a statutory remedy to a case that was brought on behalf of certain local government employers challenging previous actions by the Public Employees Retirement Board (PERB), *City of Eugene v. State of Oregon*. In that case, the trial court ruled that PERB had credited too much in 1999 earnings to certain member accounts. The decision was appealed by PERS members. The original parties in the case entered into a settlement agreement in which the PERB agreed to reduce the 1999 earnings credited to certain member regular accounts. In 2005, the Oregon Supreme Court dismissed the appeal of the case as moot due to the 2003 PERS legislation, court decisions, and the settlement agreement. In July 2006, the court vacated the underlying trial court judgment.

The Supreme Court's decision in the *City of Eugene* appeal affects certain pending cases that challenge PERB's actions taken to address the 1999 over-crediting addressed in the litigation, the City of Eugene settlement, and the PERS legislation. Two pending cases, *Robinson* and *Arken*, deal with recovering the over-crediting from retirees. The trial court ruled in *Robinson* that it was improper to re-coup overpayments to the retirees from the retirees; instead, the overpayments should be paid as administrative expenses of the system. In *Arken*, the plaintiffs argue that they had a contractual right to the 1999 crediting. The trial court rejected that argument. The Oregon Court of Appeals heard arguments in both cases and in October 2010, certified the cases to the Oregon Supreme Court. The amount at issue is approximately \$800 million.

A similar issue is pending in another case, *White*, filed by non-retired participants whose account balances were lowered to adjust for the 1999 earnings over-crediting. The trial court rejected the plaintiffs' claims in

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June 2009 and the case is now on appeal at the Oregon Court of Appeals. The amount at issue for non-retirees is also approximately \$800 million.

Other legal claims pending against the State relate to Measure 37, which was approved by Oregon voters in November 2004. Measure 37 entitled certain landowners to compensation for the decline in market value of their property as a result of certain land use regulations enacted or enforced by the State or local governments, or to have the land use regulations waived. The State received 6,857 Measure 37 claims requesting more than \$19 billion in compensation. The State waived regulations in lieu of payment for all approved claims that were closed prior to the amendment of Measure 37.

Measure 49, which modified Measure 37, was approved by voters in November 2007. Under Measure 49, Measure 37 claimants are not entitled to monetary compensation. If the claimant had proceeded far enough under Measure 37 to have a “vested right,” the claimant may be entitled to continue to pursue the use authorized pursuant to its original claim under Measure 37. Otherwise, claimants may be entitled to relief in the form of home site approvals.

Numerous lawsuits were filed asserting that the State’s actions in waiving state laws or denying claims under Measure 37 were unlawful or violated the constitution. The courts have dismissed most of the Measure 37 cases as being moot due to the passage of Measure 49. Some claimants resisted motions to dismiss their Measure 37 cases, contending that Measure 49 does not apply to their claims or is unconstitutional. Nine appeals remain pending in the Oregon Court of Appeals. The Oregon appellate courts have held that Measure 37 cases are moot, but have not yet ruled on the constitutional claims. Some Measure 37 claimants contend that their Measure 37 waivers were contracts unaffected by enactment of Measure 49. This issue is being litigated in federal and state courts. Final resolution of the constitutional and other issues raised regarding Measures 37 and 49, the impact of Measure 49 on Measure 37 claims, and the amount of claims compensation that may eventually be paid is uncertain.

The State of Oregon is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor. The U.S. Environmental Protection Agency (EPA) has listed a stretch of the lower Willamette River in Portland, Oregon, on its National Priorities List. The boundaries of the Portland Harbor Superfund site have not been finally delineated but could likely include the lower ten-mile stretch of the Willamette River. There are over 200 parties, private and public, that may eventually bear a share of the costs related to investigation and cleanup of the site. The EPA has not identified any state agency as a potentially responsible party, but the State will participate in a non-judicial allocation of remedial costs. It is too early in the EPA’s remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will be assessed against the State. Initial estimates are that total costs may be approximately \$1 billion.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources, known as natural resource damages (NRD), caused by contamination at the site. The NRD claim is asserted by the Portland Harbor natural resource trustees, a group composed of tribal, federal, and state trustees. The state is a party with potential liability for the NRD claim. The allocation of liability for this NRD claim is taking place at the same time as the allocation of liability for remedial costs. It is too early to estimate what, if any, share of the liability the State may ultimately bear for natural resource damages.

Another potential risk for the state involves the Superfund law’s orphan share obligations. When the EPA negotiates a settlement with the liable parties for the Portland Harbor Superfund, it may agree to pay some portion of the financial responsibility assigned to potentially responsible parties who are insolvent or defunct, and unaffiliated with any other viable liable party (the “orphan share”). As authorized by the Superfund law, the State may be asked to pay 10 percent of any orphan share payment made by the EPA. These potential costs are currently unknown.

B. Debt Guarantees. Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt issued by Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. The State has not issued, nor does it expect to issue, any bonds under this authorization. Several other sources of State funds are expected to be used to pay debt service on any defaulting bonds prior to issuing State general obligation bonds for this purpose. As of June 30, 2010, Oregon school districts, community colleges,

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and education service districts had issued a total of \$3.2 billion of bonds that are guaranteed under these provisions.

C. Unemployment Benefits. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. The amount of future benefit payments to claimants and the resulting liability to the State cannot be reasonably estimated. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2010, totaled approximately \$18.4 million.

D. Federal Issues. The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State. Institutions of higher education and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Certain state agencies may not be in total compliance with these regulations. Failure to comply with these regulations may result in the disallowance of related direct and indirect charges claimed under the grant agreements.

24. SUBSEQUENT EVENTS

A. Long-term Debt Issues. Long-term debt issued, including refundings, since July 1, 2010 (in thousands):

General Obligation Bonds

| | |
|--------------------------------------------|------------------|
| Department of Administrative Services | \$ 14,550 |
| Oregon Department of Energy | 33,015 |
| Oregon Department of Energy | 10,000 (taxable) |
| Oregon Department of Environmental Quality | 4,945 |
| Oregon Department of Veterans' Affairs | 83,150 |

Revenue Bonds

| | |
|-------------------------------------------|-----------------|
| Oregon Business Development Department | \$ 15,760 |
| Oregon Business Development Department | 5,795 (taxable) |
| Housing and Community Services Department | 202,570 |

B. Bond Calls. Bond calls that have occurred since July 1, 2010 (in thousands):

General Obligation Bonds

| | |
|-------------------------------------------|-----------|
| Housing and Community Services Department | \$ 17,200 |
| Department of Veterans' Affairs | 6,955 |

Revenue Bonds

| | |
|-------------------------------------------|------------|
| Housing and Community Services Department | \$ 215,855 |
|-------------------------------------------|------------|

C. Tax Anticipation Notes Issuance. On July 1, 2010, the State issued \$837.4 million of full faith and credit Tax Anticipation Notes, 2010 Series A. The proceeds of these notes will be used to meet seasonal cash needs of the State and for cash management purposes within the 2009-2011 biennium.

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D. Debt Guarantees. Under Article XI-K of the Oregon Constitution, \$68.9 million in bonds for school districts were issued and guaranteed following the fiscal year ended June 30, 2010, as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

| | |
|-------------------------------------------|-----------|
| Benton County School District 17J - 2010A | \$ 20,000 |
| Benton County School District 17J - 2010B | 4,218 |
| Benton County School District 17J - 2010C | 5,280 |
| Clatsop County School District 30 | 3,675 |
| Hood River County School District | 4,425 |
| Malheur County School District 8C | 18,500 |
| Umatilla County School District 8 | 8,795 |
| Union County School District 11 | 4,000 |

E. Conversions. Oregon Housing and Community Services Department converted \$18 million of New Issue Bond Program escrow bonds from short-term debt to long-term debt.



Required Supplementary Information

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Budgeted Appropriated Funds

The State accounts for budgetary activities based on the source of moneys used to pay expenditures. Separate appropriated funds are established for each funding source.

General Fund

This fund accounts for expenditures made with general fund revenue. General fund revenue consists largely of personal and corporate income taxes.

Federal Funds

This fund accounts for budgeted expenditures made with federal revenue.

Lottery Funds

This fund accounts for expenditures made with lottery funds. These funds, which are earned by the State Lottery, are transferred to the Economic Development Fund at the Department of Administrative Services for disbursement to agencies where the funds are expended.

Other Funds

This fund accounts for budgeted expenditures other than those funded by general, federal and lottery funds.

**Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ending June 30, 2011
As of June 30, 2010
(In Thousands)**

| | General Fund | | | |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------|-----------------------|------------------------------|
| | 2009-2011 Original Budget | 2009-2011 Final Budget | 1st Year Actual | Variance Over/ (Under) |
| Revenues: | | | | |
| Personal Income Taxes | \$ 11,545,697 | \$ 10,345,265 | \$ 4,807,017 | \$ (5,538,248) |
| Corporate Income Taxes | 831,615 | 873,904 | 359,008 | (514,896) |
| Tobacco Taxes | 102,668 | 117,202 | 57,473 | (59,729) |
| Motor Fuels Taxes | - | - | - | - |
| Weight Mile Taxes | - | - | - | - |
| Vehicle Registration Taxes | - | - | - | - |
| Employer-Employee Taxes | - | - | - | - |
| Other Taxes | 296,068 | 290,739 | 145,204 | (145,535) |
| Licenses and Fees | 96,770 | 92,100 | 40,019 | (52,081) |
| Federal | 62,000 | - | - | - |
| Charges for Services | 8,760 | 8,174 | 4,104 | (4,070) |
| Fines and Forfeitures | 3,566 | 3,566 | 3,932 | 366 |
| Rents and Royalties | - | - | 3 | 3 |
| Investment Income | 50,521 | 24,021 | 2,946 | (21,075) |
| Sales | 1,562 | 612 | 605 | (7) |
| Donations and Grants | - | - | 5 | 5 |
| Pension Bond Debt Service Assessments | - | - | - | - |
| Other | 41,549 | 23,998 | 9,529 | (14,469) |
| Total Revenues | 13,040,776 | 11,779,581 | 5,429,845 | (6,349,736) |
| Expenditures: | | | | |
| Education | 6,833,410 | 6,985,123 | 3,581,362 | (3,403,761) |
| Human Services | 3,532,080 | 3,523,726 | 1,588,194 | (1,935,532) |
| Public Safety | 1,881,331 | 1,858,876 | 903,876 | (955,000) |
| Economic and Community Development | 24,463 | 29,231 | 11,448 | (17,783) |
| Natural Resources | 145,065 | 147,306 | 71,405 | (75,901) |
| Transportation | 10,000 | 19,655 | 8,039 | (11,616) |
| Consumer and Business Services | 13,157 | 12,915 | 5,686 | (7,229) |
| Administration | 197,507 | 197,133 | 95,401 | (101,732) |
| Legislative | 151,326 | 144,987 | 32,453 | (112,534) |
| Judicial | 510,226 | 507,188 | 358,304 | (148,884) |
| Total Expenditures | 13,298,565 | 13,426,140 | 6,656,168 | (6,769,972) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (257,789) | (1,646,559) | (1,226,323) | 420,236 |
| Other Financing Sources (Uses): | | | | |
| Transfers from Other Funds | 1,234,567 | 1,279,181 | 817,241 | (461,940) |
| Transfers to Other Funds | (699,655) | (751,543) | (397,118) | 354,425 |
| Long-term Debt Issued | - | - | - | - |
| Debt Issuance Premium | - | - | - | - |
| Loan Proceeds | - | - | - | - |
| Gain(Loss) on Disposition of Assets | - | - | - | - |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | <u>\$ 277,123</u> | <u>\$ (1,118,921)</u> | (806,200) | <u>\$ 312,721</u> |
| Budgetary Fund Balances - Beginning | | | 137,086 | |
| Prior Period Adjustments | | | (40,093) | |
| Budgetary Fund Balances - Beginning - As Restated | | | 96,993 | |
| Prior Biennium Transactions | | | 402,478 | |
| Budgetary Fund Balances - Ending | | | <u>\$ (306,729)</u> | |

State of Oregon

| Federal Funds | | | | Lottery Funds | | | |
|---------------------------------|------------------------------|-----------------------|------------------------------|---------------------------------|------------------------------|-----------------------|------------------------------|
| 2009-2011 Original Budget | 2009-2011 Final Budget | 1st Year Actual | Variance Over/ (Under) | 2009-2011 Original Budget | 2009-2011 Final Budget | 1st Year Actual | Variance Over/ (Under) |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 807 | 807 | - | - | - | - |
| 9,641,666 | 9,814,829 | 4,750,613 | (5,064,216) | - | - | - | - |
| - | - | 1,965 | 1,965 | - | - | - | - |
| - | - | 670 | 670 | - | - | - | - |
| - | - | 266 | 266 | - | - | - | - |
| - | - | 315 | 315 | - | - | 6,038 | 6,038 |
| - | - | 144 | 144 | - | - | - | - |
| - | - | 415 | 415 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 87,476 | 87,476 | 43,334 | 44,403 | 405 | (43,998) |
| 9,641,666 | 9,814,829 | 4,842,671 | (4,972,158) | 43,334 | 44,403 | 6,443 | (37,960) |
| 1,458,038 | 1,463,328 | 598,169 | (865,159) | 536,376 | 590,293 | 159,952 | (430,341) |
| 8,050,825 | 8,143,162 | 3,738,861 | (4,404,301) | 11,558 | 10,904 | 5,784 | (5,120) |
| 528,724 | 550,732 | 216,458 | (334,274) | 7,224 | 7,224 | 3,293 | (3,931) |
| 581,978 | 619,429 | 313,703 | (305,726) | 122,403 | 119,875 | 58,772 | (61,103) |
| 304,528 | 305,657 | 96,568 | (209,089) | 181,921 | 182,021 | 52,124 | (129,897) |
| 89,937 | 115,251 | 46,250 | (69,001) | 85,445 | 85,445 | 41,481 | (43,964) |
| 1,906 | 4,323 | 1,363 | (2,960) | - | - | - | - |
| 12,264 | 12,264 | 5,052 | (7,212) | 12,086 | 11,643 | 3,661 | (7,982) |
| - | - | - | - | - | - | - | - |
| 859 | 859 | 419 | (440) | - | - | - | - |
| 11,029,059 | 11,215,005 | 5,016,843 | (6,198,162) | 957,013 | 1,007,405 | 325,067 | (682,338) |
| (1,387,393) | (1,400,176) | (174,172) | 1,226,004 | (913,679) | (963,002) | (318,624) | 644,378 |
| 24,955 | 24,955 | 194,625 | 169,670 | 2,933,885 | 2,972,815 | 925,536 | (2,047,279) |
| (427,175) | (427,175) | (69,797) | 357,378 | (1,662,918) | (1,681,849) | (284,020) | 1,397,829 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>\$ (1,789,613)</u> | <u>\$ (1,802,396)</u> | <u>(49,344)</u> | <u>\$ 1,753,052</u> | <u>\$ 357,288</u> | <u>\$ 327,964</u> | <u>322,892</u> | <u>\$ (5,072)</u> |
| | | 15,188 | | | | 149,549 | |
| | | 2,231 | | | | 199 | |
| | | 17,419 | | | | 149,748 | |
| | | (19,451) | | | | (536,899) | |
| | | <u>\$ (51,376)</u> | | | | <u>\$ (64,259)</u> | |

(continued on next page)

**Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ending June 30, 2011
As of June 30, 2010
(In Thousands)
(continued from previous page)**

| | Other Funds | | | |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------|-----------------------|------------------------------|
| | 2009-2011 Original Budget | 2009-2011 Final Budget | 1st Year Actual | Variance Over/ (Under) |
| Revenues: | | | | |
| Personal Income Taxes | \$ 15 | \$ 15 | \$ 10,611 | \$ 10,596 |
| Corporate Income Taxes | - | - | 23,558 | 23,558 |
| Tobacco Taxes | 411,100 | 411,100 | 180,820 | (230,280) |
| Motor Fuels Taxes | 889,774 | 889,774 | 370,624 | (519,150) |
| Weight Mile Taxes | 506,071 | 506,071 | 171,692 | (334,379) |
| Vehicle Registration Taxes | - | - | 219,006 | 219,006 |
| Employer-Employee Taxes | 628,615 | 628,615 | - | (628,615) |
| Other Taxes | 2,631,354 | 2,572,367 | 265,306 | (2,307,061) |
| Licenses and Fees | 923,888 | 925,356 | 352,205 | (573,151) |
| Federal | 1,997,596 | 1,997,596 | 540,321 | (1,457,275) |
| Charges for Services | 3,050,138 | 3,056,769 | 1,070,642 | (1,986,127) |
| Fines and Forfeitures | 198,364 | 198,364 | 74,794 | (123,570) |
| Rents and Royalties | 130,795 | 131,230 | 53,235 | (77,995) |
| Investment Income | 11,422,568 | 11,422,568 | 32,892 | (11,389,676) |
| Sales | 517,318 | 517,318 | 124,071 | (393,247) |
| Donations and Grants | 369,598 | 364,578 | 11,251 | (353,327) |
| Pension Bond Debt Service Assessments | - | - | 126,237 | 126,237 |
| Other | 1,969,682 | 1,994,917 | 255,218 | (1,739,699) |
| Total Revenues | 25,646,876 | 25,616,638 | 3,882,483 | (21,734,155) |
| Expenditures: | | | | |
| Education | 2,385,328 | 2,559,632 | 843,471 | (1,716,161) |
| Human Services | 1,954,569 | 1,994,067 | 650,765 | (1,343,302) |
| Public Safety | 768,378 | 577,095 | 217,616 | (359,479) |
| Economic and Community Development | 350,451 | 350,322 | 108,296 | (242,026) |
| Natural Resources | 739,020 | 774,764 | 301,866 | (472,898) |
| Transportation | 3,875,956 | 4,081,878 | 1,564,966 | (2,516,912) |
| Consumer and Business Services | 324,894 | 325,617 | 145,439 | (180,178) |
| Administration | 1,305,868 | 1,317,826 | 600,410 | (717,416) |
| Legislative | 6,407 | 6,729 | 3,571 | (3,158) |
| Judicial | 62,084 | 93,502 | 28,266 | (65,236) |
| Total Expenditures | 11,772,955 | 12,081,432 | 4,464,666 | (7,616,766) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 13,873,921 | 13,535,206 | (582,183) | (14,117,389) |
| Other Financing Sources (Uses): | | | | |
| Transfers from Other Funds | 8,349,551 | 8,376,417 | 2,535,810 | (5,840,607) |
| Transfers to Other Funds | (9,458,503) | (9,484,515) | (3,458,155) | 6,026,360 |
| Long-term Debt Issued | 3,132,230 | 3,360,964 | 1,109,244 | (2,251,720) |
| Debt Issuance Premium | - | - | 21,605 | 21,605 |
| Loan Proceeds | - | - | 13,188 | 13,188 |
| Gain(Loss) on Disposition of Assets | - | - | 6,015 | 6,015 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | \$ 15,897,199 | \$ 15,788,072 | (354,476) | \$ (16,142,548) |
| Budgetary Fund Balances - Beginning | | | 4,237,187 | |
| Prior Period Adjustments | | | 34,476 | |
| Budgetary Fund Balances - Beginning - As Restated | | | 4,271,663 | |
| Prior Biennium Transactions | | | (299,633) | |
| Budgetary Fund Balances - Ending | | | \$ 3,617,554 | |

| Total All Budgeted Appropriated Funds | | | | |
|---------------------------------------|------------------------------|-----------------------|------------------------------|--|
| 2009-2011 Original Budget | 2009-2011 Final Budget | 1st Year Actual | Variance Over/ (Under) | |
| \$ 11,545,712 | \$ 10,345,280 | \$ 4,817,628 | \$ (5,527,652) | |
| 831,615 | 873,904 | 382,566 | (491,338) | |
| 513,768 | 528,302 | 238,293 | (290,009) | |
| 889,774 | 889,774 | 370,624 | (519,150) | |
| 506,071 | 506,071 | 171,692 | (334,379) | |
| - | - | 219,006 | 219,006 | |
| 628,615 | 628,615 | - | (628,615) | |
| 2,927,422 | 2,863,106 | 410,510 | (2,452,596) | |
| 1,020,658 | 1,017,456 | 393,031 | (624,425) | |
| 11,701,262 | 11,812,425 | 5,290,934 | (6,521,491) | |
| 3,058,898 | 3,064,943 | 1,076,711 | (1,988,232) | |
| 201,930 | 201,930 | 79,396 | (122,534) | |
| 130,795 | 131,230 | 53,504 | (77,726) | |
| 11,473,089 | 11,446,589 | 42,191 | (11,404,398) | |
| 518,880 | 517,930 | 124,820 | (393,110) | |
| 369,598 | 364,578 | 11,671 | (352,907) | |
| - | - | 126,237 | 126,237 | |
| 2,054,565 | 2,063,318 | 352,628 | (1,710,690) | |
| 48,372,652 | 47,255,451 | 14,161,442 | (33,094,009) | |
| 11,213,152 | 11,598,376 | 5,182,954 | (6,415,422) | |
| 13,549,032 | 13,671,859 | 5,983,604 | (7,688,255) | |
| 3,185,657 | 2,993,927 | 1,341,243 | (1,652,684) | |
| 1,079,295 | 1,118,857 | 492,219 | (626,638) | |
| 1,370,534 | 1,409,748 | 521,963 | (887,785) | |
| 4,061,338 | 4,302,229 | 1,660,736 | (2,641,493) | |
| 339,957 | 342,855 | 152,488 | (190,367) | |
| 1,527,725 | 1,538,866 | 704,524 | (834,342) | |
| 157,733 | 151,716 | 36,024 | (115,692) | |
| 573,169 | 601,549 | 386,989 | (214,560) | |
| 37,057,592 | 37,729,982 | 16,462,744 | (21,267,238) | |
| 11,315,060 | 9,525,469 | (2,301,302) | (11,826,771) | |
| 12,542,958 | 12,653,368 | 4,473,212 | (8,180,156) | |
| (12,248,251) | (12,345,082) | (4,209,090) | 8,135,992 | |
| 3,132,230 | 3,360,964 | 1,109,244 | (2,251,720) | |
| - | - | 21,605 | 21,605 | |
| - | - | 13,188 | 13,188 | |
| - | - | 6,015 | 6,015 | |
| <u>\$ 14,741,997</u> | <u>\$ 13,194,719</u> | (887,128) | <u>\$ (14,081,847)</u> | |
| | | 4,539,010 | | |
| | | (3,187) | | |
| | | 4,535,823 | | |
| | | (453,505) | | |
| | | <u>\$ 3,195,190</u> | | |

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The State's budget is approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. The Governor is required to submit budget recommendations to the Legislature no later than December 1 preceding the biennium. The Governor establishes priorities for the State based on function (i.e., Education, Human Services, etc.) and the budget is summarized by these functions. Expenditures are budgeted based on the following revenue sources: general, federal, lottery, and other.

The regular Legislative session begins in January of each odd-numbered year and lasts approximately six months. The budget is adopted by the Legislature's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State. Appropriation bills include one or more appropriations (budgeted expenditure items) which may be at the agency, program, or activity level. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the State may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Also included in the Governor's budget recommendations are legally authorized, nonappropriated budget items that are not legislatively limited by an appropriation bill. These nonlimited funds include other funds, federal funds, and other funds debt service. Spending plans for nonbudgeted financial activities are also established by agencies for certain expenditures to enhance fiscal control. These nonbudgeted items include federal funds and other funds and are not included in the Governor's budget recommendations.

When the Legislature is not in session, the Legislative Emergency Board is authorized to amend the legally adopted budget. The Emergency Board authorizes and allocates all changes in funding and takes other actions to meet emergency needs. Emergency Board approval is required to authorize the transfer of expenditure authority between appropriations. Management can reallocate within an appropriation without Emergency Board approval.

The State does not budget by the prescribed fund types of generally accepted accounting principles (GAAP). Appropriations may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. The Relational Statewide Accounting and Reporting System (R*STARS) controls expenditures by budgeted expenditure item as established in approved appropriation bills. Each item on an approved appropriation bill is assigned an appropriation number. Expenditures may not exceed appropriations. In R*STARS, appropriated funds are tied to one or more appropriation numbers to ensure that appropriated expenditure amounts are not exceeded.

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not presented at the legal level of budgetary control. Such a presentation would be extremely cumbersome. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2009-2011 biennium as of June 30, 2010. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Expenditures are monitored through the use of quarterly allotments. Allotments are required for appropriated and nonappropriated items and are used to establish spending limits. These spending limits are monitored by the Budget and Management Division of the Department of Administrative Services and are controlled by R*STARS. Encumbrance accounting is used for additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end expected to be honored in the following year are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Unexpended appropriations at the end of each biennium are available for subsequent expenditure to the extent that liabilities have been incurred at June 30, provided payment of liabilities is made during the succeeding six month period of July 1 through December 31. Any remaining unexpended appropriations lapse December 31 following the end of the biennium, except for appropriations related to capital construction.

State of Oregon
Notes to Required Supplementary Information – Budgetary Schedule

Agencies are required to provide estimates of expected revenues for program revenue and segregated revenue categories. General fund revenues consist primarily of general taxes and other receipts that are paid into the general fund and are then available for appropriation by the Legislature. Revenues not recorded in the general fund consist of function specific revenues, which are credited by law to an appropriation to finance a specified program and segregated revenues that are paid into separate identifiable funds.

Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the accompanying "Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budget amounts reported for expenditures represent the original budget modified by legally authorized legislative and executive changes as well as Emergency Board actions taken during the year.

The major differences between budgetary (non-GAAP) basis and GAAP basis are:

- Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
- Revenues are recognized when received in cash (budgetary) as opposed to when they are susceptible to accrual (GAAP).
- Expenditures are recognized when paid in cash or encumbered (budgetary) as opposed to when the liability is incurred (GAAP).
- Nonappropriated and nonbudgeted funds are not included in the budgetary schedule.
- Timing differences occur because of a six-month lapse period between June 30 and December 31 of each odd-numbered year.

These different accounting principles may result in basis, perspective, entity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources over (under) expenditures and other uses of financial resources. A reconciliation of these differences is presented in the notes to required supplementary information (Note 2).

The following budgeted appropriated fund types have been established in R*STARS to account for the State's budgetary activities: general funds, federal funds, lottery funds, and other funds.

2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP Basis) - All Budgeted Appropriated Funds" presents comparisons of the legally approved budget (more fully described in Note 1) with actual data on a budgetary basis.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation of the resulting differences in excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2010, is presented below. Governmental funds are reconciled to the net change in fund balances. Proprietary funds and fiduciary fund types are reconciled to the change in net assets.

| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (in thousands) | | | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------|------------------------------|----------------------------|----------------------------|-----------------------|----------------------|-----------------------|------------------|-----------|
| Budgetary Balances Classified into GAAP Fund Structure | | | | | | | | | | |
| GAAP Fund | Budgeted General Fund | Budgeted Federal Funds | Budgeted Lottery Funds | Budgeted Other Funds | Total Budgeted Funds | Timing Differences | Basis Differences | Non-Budgeted Funds | GAAP Balances | |
| General | \$ (806,200) | \$ - | \$ - | \$ - | \$ (806,200) | \$ 294,958 | \$ 258,266 | \$ 95,898 | \$ | (157,078) |
| Health & Social Services | - | (87,209) | (853) | 184,419 | 96,357 | 36,484 | (11,067) | 60 | | 121,834 |
| Public Transportation | - | (939) | - | 111,940 | 111,001 | (45,783) | 32,629 | 8,076 | | 105,923 |
| Environmental Management | - | (23,134) | 44,552 | 46,921 | 68,339 | (27,496) | 5,092 | 31,469 | | 77,404 |
| Common School | - | - | - | (1,032,110) | (1,032,110) | (442) | 1,246,265 | (133,677) | | 80,036 |
| Oregon Rainy Day | - | - | - | - | - | - | - | (211,966) | | (211,966) |
| Nonmajor Governmental | - | 61,938 | 272,999 | 112,993 | 447,930 | (627,677) | (651,531) | 701,611 | | (129,667) |
| Housing & Community Services | - | - | - | 740 | 740 | (635) | 576 | 12,677 | | 13,358 |
| Veterans' Loan | - | - | - | (6,597) | (6,597) | (112) | (156) | 8,387 | | 1,522 |
| Lottery Operations | - | - | - | - | - | - | - | (24,363) | | (24,363) |
| Unemployment Compensation | - | - | - | - | - | - | - | (514,807) | | (514,807) |
| University System | - | - | 5,261 | 198,887 | 204,148 | (90,313) | (113,835) | 188,470 | | 188,470 |
| Nonmajor Proprietary | - | - | 933 | 13,909 | 14,842 | (3,789) | (69,992) | 97,503 | | 38,564 |
| Internal Service | - | - | - | 12,779 | 12,779 | (2,777) | 125,057 | (137,490) | | (2,431) |
| Pension and Other | | | | | | | | | | |
| Employee Benefit Trust | - | - | - | 1,675 | 1,675 | (1,664) | (35,638) | 5,740,178 | | 5,704,551 |
| Private Purpose Trust | - | - | - | (32) | (32) | (6) | (36) | 1,538 | | 1,464 |
| Investment Trust | - | - | - | - | - | - | - | (89,869) | | (89,869) |
| Totals (Memo Only) | \$ (806,200) | \$ (49,344) | \$ 322,892 | \$ (354,476) | \$ (887,128) | \$ (469,252) | \$ 785,630 | \$ 5,773,695 | \$ | 5,202,945 |

Required Supplementary Information
Schedule of Funding Progress
Other Postemployment Benefit Plans
(Dollars in Millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) ³ | Funded Ratio (a/b) ³ | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|-------------------------------------------------------------------------|----------------------------------------|---------------------------------------------------|-------------------------------------------------|---------------------------------------|---------------------------|------------------------------------------------------|
| Public Employees Benefit Board (PEBB) Plan | | | | | | |
| 7/1/2007 | \$ 0 | \$ 323.4 | \$ 323.4 | 0% | \$ 2,187.2 | 14.8% |
| 7/1/2009 ¹ | 0 | 161.7 | 161.7 | 0% | 2,562.5 | 6.3% |
| Retiree Health Insurance Premium Account (PERS Plan)² | | | | | | |
| 12/31/2007 | \$ 7.8 | \$ 23.3 | \$ 15.5 | 33.6% | \$ 2,080.2 | 0.7% |
| 12/31/2008 | 5.7 | 21.3 | 15.6 | 26.7% | 2,217.9 | 0.7% |
| 12/31/2009 | 6.4 | 24.5 | 18.2 | 25.9% | 2,371.8 | 0.8% |

¹ The July 1, 2009 PEBB Plan actuarial valuation included notable changes from the previous valuation. The retiree head count decreased from 3,392 to 2,475, while the ratio of retiree contributions compared to projected retiree claims increased from approximately 65 percent to approximately 75-80 percent. Given that retiree contributions are high in proportion to projected retiree claims, the plan's net obligation is highly sensitive to small changes in these assumptions. As a result, the plan experienced a significant decrease in the actuarial accrued liability and annual required contribution compared to the previous valuation.

² The Public Employees Retirement System (PERS) issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

³ Differences due to rounding.

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Combining Fund Financial Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds from specific revenue sources that are used to finance specified activities as required by law or administrative regulations.

Agricultural Resources Fund

This fund accounts for programs related to the promotion, inspection, and regulation of the State's agricultural industry. Funding for these programs include licenses and fees, charges for services, and federal grants.

Business Development Fund

This fund is used to account for programs that expand existing businesses as well as attract and promote new businesses. Federal grants, transfers from other funds, and revenue bond proceeds comprise the main funding sources for these programs.

Community Protection Fund

This fund accounts for a variety of activities that help to ensure the safety of the State's citizens and their property through the courts, police, military, and correctional facilities. The main funding sources for these programs include federal grants, fines, and state court fees.

Consumer Protection Fund

This fund is used to account for programs that regulate existing businesses and license various professionals and organizations. Funding is generated mainly from public utilities taxes and business license fees.

Educational Support Fund

This fund accounts for programs that provide students with opportunities to develop their academic abilities to the fullest from early childhood to postgraduate research, not including activities accounted for in the Common School Fund. The principal funding sources for these programs include federal grants and transfers from other funds.

Employment Services Fund

This fund accounts for programs that provide workers with a safe and secure workplace. Funding for these employment-related programs include federal grants, employer and employee taxes, and workers' compensation insurance taxes.

Nutritional Support Fund

This fund accounts for programs to improve the diets of low-income households and school children. Federal grants provide the main source of revenue for these programs.

Residential Assistance Fund

This fund accounts for programs that help to meet the housing and energy needs of low-income Oregonians. Major funding sources include federal grants, senior citizen property tax repayments, and public utilities taxes.

Other Special Revenue Funds

This fund accounts for a variety of small programs that are funded mainly by federal grants and charges for services.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for the payment of principal and interest on long-term obligations.

Revenue Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term revenue bonds not reported in proprietary funds. The portion of these bonds that is not self-supporting is funded by a legislative appropriation.

Certificates of Participation Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on certificates of participation not reported in proprietary funds. Debt service requirements are funded by a legislative appropriation.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation bonds not reported in the general fund or in proprietary funds. The issuance of general obligation debt is authorized in the Oregon Constitution. The portion of these bonds that is not self-supporting is funded by a legislative appropriation.

General Appropriation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general appropriation bonds not reported in the general fund or in proprietary funds. The issuance of general appropriation bonds is authorized by the Oregon Legislature. Debt service requirements are funded by a legislative appropriation.

Capital Projects Fund

The capital projects fund is used to account for financial resources, other than general funds, segregated for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund

The permanent fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the State's programs. The interest income provides funding for programs such as the upkeep on fish hatcheries, scholarship funds for injured workers, special library book purchases, and homes for the developmentally disabled.

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010
(In Thousands)

| Special Revenue Funds | | | |
|---------------------------------------------|---------------------------|-------------------------|-------------------------|
| | Agricultural Resources | Business Development | Community Protection |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 22,500 | \$ 149,979 | \$ 162,059 |
| Investments | - | 4,563 | - |
| Custodial Assets | - | 49 | - |
| Securities Lending Collateral | 5,643 | 55,941 | 55,817 |
| Accounts and Interest Receivable (net) | 3,644 | 1,452 | 50,991 |
| Taxes Receivable (net) | - | - | - |
| Due from Other Funds | 1,368 | 152,406 | 74,126 |
| Inventories | 180 | 95 | 3,610 |
| Prepaid Items | 48 | - | 344 |
| Net Contracts, Notes, and Other Receivables | - | 31 | 173,657 |
| Loans Receivable (net) | - | 988 | - |
| Total Assets | \$ 33,383 | \$ 365,504 | \$ 520,604 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts and Interest Payable | \$ 1,158 | \$ 668 | \$ 28,068 |
| Obligations Under Securities Lending | 5,643 | 55,941 | 55,817 |
| Due to Other Funds | 77 | 208,334 | 8,680 |
| Due to Other Governments | - | 1,728 | 7,603 |
| Advances from Other Funds | - | - | - |
| Custodial Liabilities | 803 | 207 | 420 |
| Deferred Revenue | 134 | 432 | 175,703 |
| Contracts, Mortgages, and Notes Payable | - | 35 | - |
| Total Liabilities | 7,815 | 267,345 | 276,291 |
| Fund Balances: | | | |
| Reserved for Encumbrances | 83 | - | 10,893 |
| Reserved for Inventories | 180 | 95 | 3,610 |
| Reserved for Loans Receivable | - | 988 | - |
| Reserved for Prepaid Items | 48 | - | 344 |
| Reserved for Debt Service | - | - | - |
| Reserved for Permanent Fund Principal | - | - | - |
| Reserved for Claims and Judgments Payable | - | - | - |
| Reserved for Revolving Accounts | 26 | - | 72 |
| Unreserved, Undesignated | 25,231 | 97,076 | 229,394 |
| Total Fund Balances | 25,568 | 98,159 | 244,313 |
| Total Liabilities and Fund Balances | \$ 33,383 | \$ 365,504 | \$ 520,604 |

Special Revenue Funds

| Consumer Protection | Education Support | Employment Services | Nutritional Support | Residential Assistance | Other Special Revenue |
|------------------------|----------------------|------------------------|------------------------|---------------------------|--------------------------|
| \$ 123,585 | \$ 159,927 | \$ 35,117 | \$ 28 | \$ 58,844 | \$ 36,269 |
| - | 25,653 | 170,117 | - | 17,266 | - |
| 2,245 | - | - | - | - | - |
| 47,777 | 94,806 | 42,339 | - | 22,829 | 12,131 |
| 1,644 | 164,945 | 58,308 | 19,404 | 9,190 | 935 |
| 7,718 | 2,084 | - | - | - | - |
| 1,194 | 171,798 | 1,769 | - | 3,065 | 3,361 |
| 68 | - | 1,180 | - | 24 | 1,217 |
| 51 | 94 | 601 | - | 4 | 6 |
| 3,703 | - | 53,087 | - | 381 | - |
| - | - | - | - | 132,305 | 48 |
| \$ 187,985 | \$ 619,307 | \$ 362,518 | \$ 19,432 | \$ 243,908 | \$ 53,967 |
| \$ 2,220 | \$ 111,603 | \$ 33,145 | \$ 15,212 | \$ 3,379 | \$ 2,318 |
| 47,777 | 94,806 | 42,339 | - | 22,829 | 12,131 |
| 7,059 | 18,468 | 9,297 | 593 | 830 | 34 |
| 8,026 | 40,582 | - | 1,426 | 3,686 | 22 |
| - | - | 1,108 | - | - | - |
| 2,425 | 107 | 625 | - | - | 10 |
| 3,703 | 2,065 | 53,486 | 185 | 478 | - |
| - | - | - | - | - | - |
| 71,210 | 267,631 | 140,000 | 17,416 | 31,202 | 14,515 |
| 399 | 25,223 | 970 | 1,578 | - | 1,677 |
| 68 | - | 1,180 | - | 24 | 1,217 |
| - | - | - | - | 132,305 | 48 |
| 51 | 94 | 601 | - | 4 | 6 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 149,691 | - | - | - |
| 8 | 9 | 102 | - | - | - |
| 116,249 | 326,350 | 69,974 | 438 | 80,373 | 36,504 |
| 116,775 | 351,676 | 222,518 | 2,016 | 212,706 | 39,452 |
| \$ 187,985 | \$ 619,307 | \$ 362,518 | \$ 19,432 | \$ 243,908 | \$ 53,967 |

(continued on next page)

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010
(In Thousands)
(continued from previous page)

| | Debt Service Funds | | | |
|---------------------------------------------|--------------------|----------------------------------|-------------------------------|----------------------------------|
| | Revenue Bond | Certificates of Participation | General Obligation Bond | General Appropriation Bond |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 122,502 | \$ 14,320 | \$ 43,361 | \$ 61 |
| Investments | 63,406 | - | - | - |
| Custodial Assets | - | - | - | - |
| Securities Lending Collateral | - | - | - | - |
| Accounts and Interest Receivable (net) | 9 | - | - | - |
| Taxes Receivable (net) | - | - | - | - |
| Due from Other Funds | 112,855 | 2,274 | - | - |
| Inventories | - | - | - | - |
| Prepaid Items | - | - | - | - |
| Net Contracts, Notes, and Other Receivables | - | - | - | - |
| Loans Receivable (net) | - | - | - | - |
| Total Assets | \$ 298,772 | \$ 16,594 | \$ 43,361 | \$ 61 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts and Interest Payable | \$ - | \$ 77 | \$ 1 | \$ - |
| Obligations Under Securities Lending | - | - | - | - |
| Due to Other Funds | - | - | - | - |
| Due to Other Governments | - | - | - | - |
| Advances from Other Funds | - | - | - | - |
| Custodial Liabilities | - | - | - | - |
| Deferred Revenue | - | - | - | - |
| Contracts, Mortgages, and Notes Payable | - | - | - | - |
| Total Liabilities | - | 77 | 1 | - |
| Fund Balances: | | | | |
| Reserved for Encumbrances | - | - | - | - |
| Reserved for Inventories | - | - | - | - |
| Reserved for Loans Receivable | - | - | - | - |
| Reserved for Prepaid Items | - | - | - | - |
| Reserved for Debt Service | 298,772 | 16,517 | 43,360 | 61 |
| Reserved for Permanent Fund Principal | - | - | - | - |
| Reserved for Claims and Judgments Payable | - | - | - | - |
| Reserved for Revolving Accounts | - | - | - | - |
| Unreserved, Undesignated | - | - | - | - |
| Total Fund Balances | 298,772 | 16,517 | 43,360 | 61 |
| Total Liabilities and Fund Balances | \$ 298,772 | \$ 16,594 | \$ 43,361 | \$ 61 |

| Capital Projects Fund | Permanent Fund | Total |
|--------------------------|-------------------|---------------------|
| \$ 137,933 | \$ 32,057 | \$ 1,098,542 |
| - | - | 281,005 |
| - | - | 2,294 |
| - | 12,431 | 349,714 |
| 322 | 6 | 310,850 |
| - | - | 9,802 |
| 1,886 | - | 526,102 |
| - | - | 6,374 |
| - | - | 1,148 |
| - | - | 230,859 |
| - | - | 133,341 |
| \$ 140,141 | \$ 44,494 | \$ 2,950,031 |
| | | |
| \$ 9,669 | \$ 82 | \$ 207,600 |
| - | 12,431 | 349,714 |
| 80,028 | - | 333,400 |
| - | - | 63,073 |
| - | - | 1,108 |
| - | - | 4,597 |
| 24 | - | 236,210 |
| - | - | 35 |
| 89,721 | 12,513 | 1,195,737 |
| | | |
| - | - | 40,823 |
| - | - | 6,374 |
| - | - | 133,341 |
| - | - | 1,148 |
| - | - | 358,710 |
| - | 26,997 | 26,997 |
| - | - | 149,691 |
| - | - | 217 |
| 50,420 | 4,984 | 1,036,993 |
| 50,420 | 31,981 | 1,754,294 |
| \$ 140,141 | \$ 44,494 | \$ 2,950,031 |

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010
(In Thousands)

| | Special Revenue Funds | | |
|-----------------------------------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| | Agricultural Resources | Business Development | Community Protection |
| Revenues: | | | |
| Inheritance Taxes | \$ - | \$ - | \$ - |
| Public Utilities Taxes | - | - | - |
| Insurance Premium Tax | - | - | - |
| Employer-Employee Taxes | - | - | - |
| Workers' Compensation Insurance Taxes | - | - | - |
| Other Taxes | - | - | - |
| Licenses and Fees | 17,039 | 2,731 | 34,024 |
| Federal | 6,641 | 17,795 | 177,693 |
| Charges for Services | 7,900 | 2,828 | 20,577 |
| Fines and Forfeitures | 38 | 24 | 73,715 |
| Rents and Royalties | 9 | - | 2,518 |
| Investment Income | 158 | (1,743) | 418 |
| Sales | 6 | 1,706 | 1,363 |
| Donations and Grants | 53 | 11,143 | 942 |
| Contributions to Permanent Funds | - | - | - |
| Pension Bond Debt Service Assessments | - | - | - |
| Other | 579 | 1,888 | 46,410 |
| Total Revenues | 32,423 | 36,372 | 357,660 |
| Expenditures: | | | |
| Current: | | | |
| Education | - | - | - |
| Human Services | - | - | 2,152 |
| Public Safety | - | 2,065 | 371,790 |
| Economic and Community Development | - | 68,157 | - |
| Natural Resources | 35,281 | 236 | - |
| Transportation | - | - | 9,485 |
| Consumer and Business Services | - | 6 | - |
| Administration | - | 46,888 | 13,708 |
| Legislative | - | - | - |
| Judicial | - | - | 56,471 |
| Capital Improvements and Capital Construction | - | - | - |
| Debt Service: | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Other Debt Service | - | 391 | 350 |
| Total Expenditures | 35,281 | 117,743 | 453,956 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (2,858) | (81,371) | (96,296) |
| Other Financing Sources (Uses): | | | |
| Transfers from Other Funds | 7,553 | 561,210 | 204,327 |
| Transfers to Other Funds | (719) | (504,056) | (52,949) |
| Insurance Recoveries | - | - | 178 |
| Long-term Debt Issued | - | 35,372 | 13,204 |
| Debt Issuance Premium | - | 3,731 | 1,129 |
| Refunding Debt Issued | - | - | - |
| Refunded Debt Payment to Escrow Agent | - | - | - |
| Total Other Financing Sources (Uses) | 6,834 | 96,257 | 165,889 |
| Net Change in Fund Balances | 3,976 | 14,886 | 69,593 |
| Fund Balances - Beginning | 21,609 | 83,218 | 172,177 |
| Prior Period Adjustments | - | 3 | 432 |
| Fund Balances - Beginning - As Restated | 21,609 | 83,221 | 172,609 |
| Change in Reserve for Inventories | (17) | 52 | 2,111 |
| Fund Balances - Ending | \$ 25,568 | \$ 98,159 | \$ 244,313 |

Special Revenue Funds

| Consumer Protection | Education Support | Employment Services | Nutritional Support | Residential Assistance | Other Special Revenue |
|------------------------|----------------------|------------------------|------------------------|---------------------------|--------------------------|
| \$ 5,205 | \$ - | \$ - | \$ - | \$ - | \$ - |
| 53,662 | - | - | - | 27,128 | - |
| 12,807 | - | - | - | - | - |
| - | - | 67,170 | - | - | - |
| - | - | 30,065 | - | - | - |
| 35,647 | 131 | - | - | 5,479 | - |
| 88,420 | 348 | 2,507 | - | 461 | - |
| 1,099 | 756,138 | 302,315 | 1,202,713 | 177,994 | 4,085 |
| 2,015 | 3,402 | 19,184 | 1,701 | 3,451 | 14,914 |
| 1,093 | - | 3,346 | - | 30 | - |
| - | 98 | - | - | - | 643 |
| 1,627 | 4,647 | 14,689 | 1 | 9,316 | 213 |
| 28 | 149 | 226 | - | - | 2,070 |
| 148 | 6,397 | 888 | 104 | - | 284 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 575 | 4,064 | 1,434 | 15,080 | 1,361 | 445 |
| 202,326 | 775,374 | 441,824 | 1,219,599 | 225,220 | 22,654 |
| 2,589 | 1,264,514 | 84,643 | 161,745 | - | - |
| - | - | - | 1,044,918 | - | - |
| - | - | - | - | - | - |
| - | - | 168,331 | 1,594 | 206,990 | 2,205 |
| 2,850 | - | - | - | 404 | - |
| 23 | - | - | - | - | - |
| 133,383 | - | 136,078 | - | 4,394 | - |
| 26,688 | 34,517 | 709 | 43 | - | 55,316 |
| - | - | - | - | - | 2,400 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 1,925 | - | - | - | 31 |
| - | 2,209 | - | - | - | 6 |
| - | 125 | 1 | - | 130 | 462 |
| 165,533 | 1,303,290 | 389,762 | 1,208,300 | 211,918 | 60,420 |
| 36,793 | (527,916) | 52,062 | 11,299 | 13,302 | (37,766) |
| 16,815 | 350,509 | 34,114 | - | 15,490 | 38,489 |
| (45,855) | (111,523) | (83,564) | (1,887) | (3,258) | (3,189) |
| - | - | - | - | - | - |
| - | 10,146 | - | - | 12,670 | 5,461 |
| - | 739 | - | - | 862 | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (29,040) | 249,871 | (49,450) | (1,887) | 25,764 | 40,761 |
| 7,753 | (278,045) | 2,612 | 9,412 | 39,066 | 2,995 |
| 109,520 | 589,779 | 225,304 | 1,194 | 173,694 | 35,333 |
| (505) | 39,942 | - | (8,466) | - | 459 |
| 109,015 | 629,721 | 225,304 | (7,272) | 173,694 | 35,792 |
| 7 | - | (5,398) | (124) | (54) | 665 |
| \$ 116,775 | \$ 351,676 | \$ 222,518 | \$ 2,016 | \$ 212,706 | \$ 39,452 |

(continued on next page)

State of Oregon

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010
(In Thousands)
(continued from previous page)

| | Debt Service Funds | | | |
|-----------------------------------------------------------|--------------------|-------------------------------|-------------------------|----------------------------|
| | Revenue Bond | Certificates of Participation | General Obligation Bond | General Appropriation Bond |
| Revenues: | | | | |
| Inheritance and Gift Taxes | \$ - | \$ - | \$ - | \$ - |
| Public Utilities Taxes | - | - | - | - |
| Insurance Premium Tax | - | - | - | - |
| Employer-Employee Taxes | - | - | - | - |
| Workers' Compensation Insurance Taxes | - | - | - | - |
| Other Taxes | - | - | - | - |
| Licenses and Fees | - | - | - | - |
| Federal | - | - | - | - |
| Charges for Services | - | - | 1 | - |
| Fines and Forfeitures | - | - | - | - |
| Rents and Royalties | - | - | - | - |
| Investment Income | 3,095 | 29 | 2,479 | 37 |
| Sales | - | - | - | - |
| Donations and Grants | - | - | - | - |
| Contributions to Permanent Funds | - | - | - | - |
| Pension Bond Debt Service Assessments | - | - | 6,216 | - |
| Other | 167 | - | - | - |
| Total Revenues | 3,262 | 29 | 8,696 | 37 |
| Expenditures: | | | | |
| Current: | | | | |
| Education | - | - | - | - |
| Human Services | - | - | - | - |
| Public Safety | - | - | - | - |
| Economic and Community Development | - | - | - | - |
| Natural Resources | - | - | - | - |
| Transportation | - | - | - | - |
| Consumer and Business Services | - | - | - | - |
| Administration | - | - | - | - |
| Legislative | - | - | - | - |
| Judicial | - | - | - | - |
| Capital Improvements and Capital Construction | - | - | - | - |
| Debt Service: | | | | |
| Principal | 110,001 | 4,461 | 29,385 | 56,340 |
| Interest | 115,589 | 6,678 | 125,179 | 12,518 |
| Other Debt Service | 6 | 761 | - | - |
| Total Expenditures | 225,596 | 11,900 | 154,564 | 68,858 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (222,334) | (11,871) | (145,868) | (68,821) |
| Other Financing Sources (Uses): | | | | |
| Transfers from Other Funds | 283,765 | 7,768 | 147,633 | 68,858 |
| Transfers to Other Funds | (13) | (718) | (113) | - |
| Insurance Recoveries | - | - | - | - |
| Long-term Debt Issued | 3,044 | 13,397 | 57,899 | - |
| Debt Issuance Premium | - | 10,809 | 8,203 | - |
| Refunding Debt Issued | - | 106,354 | - | - |
| Refunded Debt Payment to Escrow Agent | - | (116,429) | (66,102) | - |
| Total Other Financing Sources (Uses) | 286,796 | 21,181 | 147,520 | 68,858 |
| Net Change in Fund Balances | 64,462 | 9,310 | 1,652 | 37 |
| Fund Balances - Beginning | 234,310 | 7,325 | 41,708 | 24 |
| Prior Period Adjustments | - | (118) | - | - |
| Fund Balances - Beginning - As Restated | 234,310 | 7,207 | 41,708 | 24 |
| Change in Reserve for Inventories | - | - | - | - |
| Fund Balances - Ending | \$ 298,772 | \$ 16,517 | \$ 43,360 | \$ 61 |

| Capital Projects Fund | Permanent Fund | Total |
|--------------------------|-------------------|--------------|
| \$ - | \$ - | \$ 5,205 |
| - | - | 80,790 |
| - | - | 12,807 |
| - | - | 67,170 |
| - | - | 30,065 |
| - | - | 41,257 |
| - | - | 145,530 |
| 41,404 | - | 2,687,877 |
| - | - | 75,973 |
| - | - | 78,246 |
| - | - | 3,268 |
| 879 | 234 | 36,079 |
| 55 | - | 5,603 |
| - | - | 19,959 |
| - | 288 | 288 |
| - | - | 6,216 |
| 16 | 34 | 72,053 |
| 42,354 | 556 | 3,368,386 |
| - | - | 1,513,491 |
| - | 2,408 | 1,049,478 |
| - | - | 373,855 |
| - | - | 447,277 |
| - | 15 | 38,786 |
| - | - | 9,508 |
| - | 17 | 273,878 |
| - | - | 177,869 |
| - | - | 2,400 |
| - | - | 56,471 |
| 121,440 | - | 121,440 |
| - | - | 202,143 |
| - | - | 262,179 |
| - | - | 2,226 |
| 121,440 | 2,440 | 4,531,001 |
| (79,086) | (1,884) | (1,162,615) |
| 6,787 | 4,872 | 1,748,190 |
| (68,075) | (54) | (875,973) |
| 59 | - | 237 |
| 57,480 | - | 208,673 |
| 2,525 | - | 27,998 |
| - | - | 106,354 |
| - | - | (182,531) |
| (1,224) | 4,818 | 1,032,948 |
| (80,310) | 2,934 | (129,667) |
| 130,498 | 28,997 | 1,854,690 |
| 232 | 50 | 32,029 |
| 130,730 | 29,047 | 1,886,719 |
| - | - | (2,758) |
| \$ 50,420 | \$ 31,981 | \$ 1,754,294 |

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Nonmajor Enterprise Funds

Enterprise Funds account for goods and services provided to the general public on a continuous basis, either when all or most of the cost involved in operating the enterprise is intended to be financed from user charges, or when periodic measurement of the results of operations is appropriate for management control or accountability.

Energy Loan Fund

This fund accounts for activities to provide low-interest loans for renewable energy resource and energy conservation projects. Funding is from the issuance of bonds that are repaid from the interest and principal payments on loans.

Safe Drinking Water

This fund accounts for the Safe Drinking Water financing program which provides low-cost financing for construction and/or improvements of public and private water systems.

Business Development Fund

This fund accounts for resources used to finance land, buildings, machinery, and permanent working capital for eligible activities including those determined to diversify an economic base.

Special Public Works Fund

This fund accounts for loans and grants to local governments for construction of infrastructure required to support needed public services. The Special Public Works Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

State Hospitals Fund

This fund accounts for the operations of State hospitals and State operated residential group homes that provide treatment services for specific citizens as well as training and care for developmentally disabled persons. Clinical programs include the adult psychiatric program, the child and adolescent treatment program, the forensic and correctional treatment program, and the geropsychiatric treatment and medical service program.

Liquor Control Fund

This fund accounts for the operation of the Oregon Liquor Control Commission that regulates the sale and use of alcoholic beverages and promotes responsible alcohol use.

Veterans' Home Fund

This fund accounts for activities of the Oregon Veterans' Home, which provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans.

Water Fund

This fund accounts for loans and grants to municipalities to improve compliance with federal and State of Oregon water quality standards. The Water Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

Other Enterprise Funds

This fund is used to account for the sale of goods and services to other than governmental entities through activities not specifically accounted for in another enterprise fund. The fund includes programs within the following state agencies: the Business Development Department, the Department of Administrative Services, the Department of Corrections, the Department of Environmental Quality, the Department of Forestry, the Judicial Department, the Legislative Administration Committee, the Office of the State Treasurer, Oregon Corrections Enterprises, the Oregon Facilities Authority, and the Water Resources Department.

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2010
(In Thousands)**

| | Energy Loan | Safe Drinking Water | Business Development |
|-------------------------------------------------|-------------------|------------------------|-------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ - | \$ 36,666 | \$ 7,282 |
| Cash and Cash Equivalents - Restricted | - | - | - |
| Securities Lending Collateral | - | 14,225 | 2,825 |
| Accounts and Interest Receivable (net) | 1,234 | 1,648 | 593 |
| Due from Other Funds | 517 | 81 | - |
| Inventories | - | - | - |
| Prepaid Items | - | - | - |
| Total Current Assets | 1,751 | 52,620 | 10,700 |
| Noncurrent Assets: | | | |
| Cash and Cash Equivalents - Restricted | 41,806 | - | - |
| Deferred Charges | 1,218 | - | - |
| Advances to Other Funds | 57,598 | - | - |
| Net Contracts, Notes, and Other Receivables | - | - | - |
| Loans Receivable (net) | 100,439 | 127,065 | 22,775 |
| Capital Assets: | | | |
| Land | - | - | - |
| Buildings, Property, and Equipment | 264 | - | - |
| Construction in Progress | - | - | - |
| Infrastructure | - | - | - |
| Works of Art and Other Nondepreciable Assets | - | - | - |
| Less Accumulated Depreciation and Amortization | (264) | - | - |
| Total Noncurrent Assets | 201,061 | 127,065 | 22,775 |
| Total Assets | \$ 202,812 | \$ 179,685 | \$ 33,475 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts and Interest Payable | \$ 2,577 | \$ 125 | \$ 13 |
| Obligations Under Securities Lending | - | 14,225 | 2,825 |
| Due to Other Funds | - | - | - |
| Due to Other Governments | - | - | - |
| Matured Bonds/COPS and Coupons Payable | - | - | - |
| Bonds/COPS Payable | 14,170 | - | - |
| Custodial Liabilities | 1,532 | - | - |
| Unearned Revenue | 86 | - | - |
| Compensated Absences Payable | 38 | 21 | 17 |
| Total Current Liabilities | 18,403 | 14,371 | 2,855 |
| Noncurrent Liabilities: | | | |
| Bonds/COPS Payable | 182,237 | - | - |
| Obligations Under Capital Lease | - | - | - |
| Advances from Other Funds | - | 100 | - |
| Custodial Liabilities | - | - | - |
| Compensated Absences Payable | 20 | 11 | 9 |
| Net OPEB Obligation | 8 | 2 | 4 |
| Total Noncurrent Liabilities | 182,265 | 113 | 13 |
| Total Liabilities | 200,668 | 14,484 | 2,868 |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | - | - | - |
| Expendable Restricted Net Assets: | | | |
| Restricted for Debt Service | 2,144 | - | - |
| Unrestricted | - | 165,201 | 30,607 |
| Total Net Assets | 2,144 | 165,201 | 30,607 |
| Total Liabilities and Net Assets | \$ 202,812 | \$ 179,685 | \$ 33,475 |

State of Oregon

| Special Public Works | State Hospitals | Liquor Control | Veterans' Home | Water | Other | Total |
|---------------------------------|----------------------------|---------------------------|---------------------------|--------------|--------------|--------------|
| \$ 80,999 | \$ 19,767 | \$ 30,295 | \$ 2,422 | \$ 12,402 | \$ 23,671 | \$ 213,504 |
| - | - | - | - | - | 64 | 64 |
| 31,424 | 7,662 | 9,697 | 940 | 4,812 | 7,067 | 78,652 |
| 9,139 | 13,807 | 244 | 1,484 | 2,975 | 3,363 | 34,487 |
| 21 | 9 | - | - | - | - | 628 |
| - | 570 | 19,602 | - | - | 5,500 | 25,672 |
| - | 697 | 20 | - | - | 175 | 892 |
| 121,583 | 42,512 | 59,858 | 4,846 | 20,189 | 39,840 | 353,899 |
| 9,760 | - | - | - | 3,114 | - | 54,680 |
| 1,536 | - | - | - | 541 | - | 3,295 |
| - | - | - | - | 100 | - | 57,698 |
| - | - | - | 71 | - | - | 71 |
| 241,458 | - | - | - | 96,663 | 11,310 | 599,710 |
| - | 41 | 1,456 | 600 | - | 3,385 | 5,482 |
| - | 45,614 | 21,788 | 12,681 | - | 39,894 | 120,241 |
| - | 59 | - | - | - | - | 59 |
| - | 880 | - | - | - | - | 880 |
| - | - | - | 40 | - | - | 40 |
| - | (17,602) | (10,241) | (3,895) | - | (21,489) | (53,491) |
| 252,754 | 28,992 | 13,003 | 9,497 | 100,418 | 33,100 | 788,665 |
| \$ 374,337 | \$ 71,504 | \$ 72,861 | \$ 14,343 | \$ 120,607 | \$ 72,940 | \$ 1,142,564 |
| \$ 2,638 | \$ 2,935 | \$ 19,173 | \$ 1,018 | \$ 1,179 | \$ 3,333 | \$ 32,991 |
| 31,424 | 7,662 | 9,697 | 940 | 4,812 | 7,067 | 78,652 |
| - | 391 | 10,694 | 67 | - | 1,706 | 12,858 |
| 1 | - | - | - | 24 | - | 25 |
| - | - | - | - | - | 64 | 64 |
| 6,810 | - | - | - | 2,815 | 1,195 | 24,990 |
| 213 | 7 | 483 | 6 | - | 209 | 2,450 |
| - | - | 93 | 54 | - | - | 233 |
| 46 | 5,694 | 741 | 5 | 18 | 630 | 7,210 |
| 41,132 | 16,689 | 40,881 | 2,090 | 8,848 | 14,204 | 159,473 |
| 108,239 | - | - | - | 46,103 | 5,718 | 342,297 |
| - | 1 | - | - | - | - | 1 |
| - | - | - | - | - | - | 100 |
| 152 | - | - | - | 213 | - | 365 |
| 23 | 2,933 | 382 | 2 | 9 | 238 | 3,627 |
| 15 | 2,172 | 206 | - | 5 | 166 | 2,578 |
| 108,429 | 5,106 | 588 | 2 | 46,330 | 6,122 | 348,968 |
| 149,561 | 21,795 | 41,469 | 2,092 | 55,178 | 20,326 | 508,441 |
| - | 28,991 | 13,003 | 9,426 | - | 14,878 | 66,298 |
| 8,248 | - | - | - | 1,055 | - | 11,447 |
| 216,528 | 20,718 | 18,389 | 2,825 | 64,374 | 37,736 | 556,378 |
| 224,776 | 49,709 | 31,392 | 12,251 | 65,429 | 52,614 | 634,123 |
| \$ 374,337 | \$ 71,504 | \$ 72,861 | \$ 14,343 | \$ 120,607 | \$ 72,940 | \$ 1,142,564 |

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010
(In Thousands)

| | Energy Loan | Safe Drinking Water | Business Development |
|------------------------------------------------------------------------------------------|-----------------|------------------------|-------------------------|
| Operating Revenues: | | | |
| Licenses and Fees | \$ 505 | \$ - | \$ 1 |
| Federal | - | - | - |
| Charges for Services | 625 | - | 55 |
| Fines and Forfeitures | 23 | - | - |
| Rents and Royalties | - | - | - |
| Sales | - | - | - |
| Loan Interest Income | 7,975 | 2,362 | 1,189 |
| Other | 14 | - | 3 |
| Total Operating Revenues | 9,142 | 2,362 | 1,248 |
| Operating Expenses: | | | |
| Salaries and Wages | 821 | 505 | 414 |
| Services and Supplies | 622 | 40 | 120 |
| Cost of Goods Sold | - | - | - |
| Distributions to Other Governments | - | 82 | - |
| Loan Interest Expense | - | - | - |
| Special Payments | - | 6,221 | - |
| Bond and COP Interest | 8,260 | - | - |
| Other Debt Service | 9 | - | - |
| Depreciation and Amortization | 22 | - | - |
| Bad Debt Expense | 8,474 | - | 111 |
| Total Operating Expenses | 18,208 | 6,848 | 645 |
| Operating Income (Loss) | (9,066) | (4,486) | 603 |
| Nonoperating Revenues (Expenses): | | | |
| Investment Income (Loss) | 283 | 240 | 67 |
| Other Taxes | - | - | - |
| Gain (Loss) on Disposition of Assets | - | - | - |
| Insurance Recoveries | - | - | - |
| Other Nonoperating Items | - | (23) | (6) |
| Total Nonoperating Revenues (Expenses) | 283 | 217 | 61 |
| Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers | (8,783) | (4,269) | 664 |
| Capital Contributions | - | - | - |
| Transfers from Other Funds | 817 | 22,806 | - |
| Transfers to Other Funds | (34) | (21) | (17) |
| Change in Net Assets | (8,000) | 18,516 | 647 |
| Net Assets - Beginning | 10,144 | 146,685 | 29,960 |
| Prior Period Adjustments | - | - | - |
| Cumulative Effect of Change in Accounting Principles | - | - | - |
| Net Assets - Beginning - As Restated | 10,144 | 146,685 | 29,960 |
| Net Assets - Ending | \$ 2,144 | \$ 165,201 | \$ 30,607 |

State of Oregon

| Special Public Works | State Hospitals | Liquor Control | Veterans' Home | Water | Other | Total |
|---------------------------------|----------------------------|---------------------------|---------------------------|--------------|--------------|--------------|
| \$ - | \$ - | \$ 4,115 | \$ - | \$ - | \$ 3,185 | \$ 7,806 |
| - | - | - | 3,651 | - | - | 3,651 |
| - | 89,096 | - | 8,182 | - | 18,755 | 116,713 |
| - | - | 611 | - | - | 13 | 647 |
| - | 40 | - | - | - | - | 40 |
| - | 203 | 420,234 | - | - | 15,841 | 436,278 |
| 12,193 | - | - | - | 3,440 | 883 | 28,042 |
| 276 | 1,480 | 409 | 2 | - | 838 | 3,022 |
| 12,469 | 90,819 | 425,369 | 11,835 | 3,440 | 39,515 | 596,199 |
| 1,077 | 175,034 | 15,581 | 202 | 439 | 17,296 | 211,369 |
| 320 | 46,141 | 46,636 | 11,170 | 145 | 6,736 | 111,930 |
| - | - | 204,578 | - | - | 12,588 | 217,166 |
| 1,175 | - | 45,054 | - | 1,879 | 234 | 48,424 |
| - | - | - | - | - | 1 | 1 |
| 6 | 318 | 267 | - | - | - | 6,812 |
| 5,606 | - | - | - | 2,622 | 305 | 16,793 |
| 350 | - | - | - | 96 | - | 455 |
| - | 745 | 872 | 313 | - | 1,246 | 3,198 |
| - | - | - | - | - | - | 8,585 |
| 8,534 | 222,238 | 312,988 | 11,685 | 5,181 | 38,406 | 624,733 |
| 3,935 | (131,419) | 112,381 | 150 | (1,741) | 1,109 | (28,534) |
| 562 | - | - | 13 | 276 | 161 | 1,602 |
| - | - | 16,754 | - | - | - | 16,754 |
| - | (73) | 7 | - | - | 2 | (64) |
| - | - | 6 | - | - | - | 6 |
| (52) | (2,557) | - | (1) | (12) | (12) | (2,663) |
| 510 | (2,630) | 16,767 | 12 | 264 | 151 | 15,635 |
| 4,445 | (134,049) | 129,148 | 162 | (1,477) | 1,260 | (12,899) |
| - | 966 | - | - | - | - | 966 |
| 1,419 | 165,192 | - | 21 | 1,653 | - | 191,908 |
| (4,952) | (6,370) | (127,230) | (8) | (1,615) | (1,164) | (141,411) |
| 912 | 25,739 | 1,918 | 175 | (1,439) | 96 | 38,564 |
| 224,397 | 24,400 | 29,474 | 12,069 | 66,868 | 52,338 | 596,335 |
| (533) | (430) | - | 7 | - | 145 | (811) |
| - | - | - | - | - | 35 | 35 |
| 223,864 | 23,970 | 29,474 | 12,076 | 66,868 | 52,518 | 595,559 |
| \$ 224,776 | \$ 49,709 | \$ 31,392 | \$ 12,251 | \$ 65,429 | \$ 52,614 | \$ 634,123 |

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010
(In Thousands)

| | Energy Loan | Safe Drinking Water | Business Development |
|----------------------------------------------------------------------|------------------------|--------------------------------|---------------------------------|
| Cash Flows from Operating Activities: | | | |
| Receipts from Customers | \$ 1,146 | \$ - | \$ 58 |
| Receipts from Other Funds For Services | - | - | - |
| Loan Principal Repayments | 13,401 | 7,893 | 2,355 |
| Loan Interest Received | 8,120 | 2,718 | 1,189 |
| Payments to Employees for Services | (813) | (495) | (408) |
| Payments to Suppliers | (440) | (18) | (43) |
| Payments to Other Funds for Services | (94) | (25) | (79) |
| Loans Made | (47,387) | (22,797) | (4,887) |
| Distributions to Other Governments | - | (93) | - |
| Other Receipts (Payments) | (1) | 142 | 3 |
| Net Cash Provided (Used) in Operating Activities | (26,068) | (12,675) | (1,812) |
| Cash Flows from Noncapital Financing Activities: | | | |
| Proceeds from Bond/COP Sales | 50,983 | - | - |
| Principal Payments on Bonds/COPS | (12,580) | - | - |
| Interest Payments on Bonds/COPS | (8,313) | - | - |
| Bond/COP Issuance Costs | (136) | - | - |
| Taxes and Assessments Received | - | - | - |
| Insurance Recoveries for Other than Capital Assets | - | - | - |
| Transfers from Other Funds | 300 | 22,824 | - |
| Transfers to Other Funds | (34) | (21) | (50) |
| Net Cash Provided (Used) in Noncapital Financing Activities | 30,220 | 22,803 | (50) |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Principal Payments on Bonds/COPS | - | - | - |
| Interest Payments on Bonds/COPS | - | - | - |
| Acquisition of Capital Assets | - | - | - |
| Proceeds from Disposition of Capital Assets | - | - | - |
| Insurance Recoveries for Capital Assets | - | - | - |
| Net Cash Provided (Used) in Capital and Related Financing Activities | - | - | - |
| Cash Flows from Investing Activities: | | | |
| Proceeds from Sales and Maturities of Investments | - | - | - |
| Interest on Investments and Cash Balances | 283 | 205 | 56 |
| Interest Income from Securities Lending | - | 35 | 10 |
| Interest Expense from Securities Lending | - | (23) | (6) |
| Net Cash Provided (Used) in Investing Activities | 283 | 217 | 60 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 4,435 | 10,345 | (1,802) |
| Cash and Cash Equivalents - Beginning | 37,371 | 26,321 | 9,084 |
| Prior Period Adjustments Restating Beginning Cash Balances | - | - | - |
| Cash and Cash Equivalents - Ending | \$ 41,806 | \$ 36,666 | \$ 7,282 |

State of Oregon

| Special Public Works | State Hospitals | Liquor Control | Veterans' Home | Water | Other | Total |
|---------------------------------|----------------------------|---------------------------|---------------------------|--------------|--------------|--------------|
| \$ - | \$ 77,822 | \$ 424,928 | \$ 12,371 | \$ - | \$ 38,872 | \$ 555,197 |
| - | 3 | - | - | - | 135 | 138 |
| 38,190 | - | - | - | 7,081 | 1,177 | 70,097 |
| 11,439 | - | - | - | 3,752 | 398 | 27,616 |
| (1,154) | (173,900) | (15,543) | (210) | (424) | (16,957) | (209,904) |
| (78) | (44,663) | (248,712) | (10,757) | (31) | (18,509) | (323,251) |
| (243) | (1,755) | (3,799) | (990) | (110) | (560) | (7,655) |
| (18,119) | - | - | - | (15,416) | (2,696) | (111,302) |
| (1,417) | - | (41,275) | - | (2,458) | (211) | (45,454) |
| (1) | 1,395 | 249 | - | (10) | 216 | 1,993 |
| 28,617 | (141,098) | 115,848 | 414 | (7,616) | 1,865 | (42,525) |
| - | - | - | - | - | - | 50,983 |
| (7,074) | - | - | - | (4,420) | (5) | (24,079) |
| (5,297) | - | - | - | (2,436) | - | (16,046) |
| - | - | - | - | - | - | (136) |
| - | - | 16,825 | - | - | - | 16,825 |
| - | - | 5 | - | - | - | 5 |
| 1,419 | 182,429 | - | 21 | 1,653 | - | 208,646 |
| (5,157) | (6,196) | (126,070) | (8) | (1,683) | (1,254) | (140,473) |
| (16,109) | 176,233 | (109,240) | 13 | (6,886) | (1,259) | 95,725 |
| - | - | - | - | - | (1,144) | (1,144) |
| - | - | - | - | - | (346) | (346) |
| - | (938) | (458) | - | - | (1,821) | (3,217) |
| - | - | 7 | - | - | 2 | 9 |
| - | - | 1 | - | - | - | 1 |
| - | (938) | (450) | - | - | (3,309) | (4,697) |
| - | - | - | - | 374 | - | 374 |
| 482 | - | - | 11 | 111 | 143 | 1,291 |
| 81 | - | - | 2 | 18 | 19 | 165 |
| (52) | - | - | (1) | (12) | (12) | (106) |
| 511 | - | - | 12 | 491 | 150 | 1,724 |
| 13,019 | 34,197 | 6,158 | 439 | (14,011) | (2,553) | 50,227 |
| 72,160 | - | 23,844 | 1,983 | 27,581 | 26,288 | 224,632 |
| 5,580 | (14,430) | 293 | - | 1,946 | - | (6,611) |
| \$ 90,759 | \$ 19,767 | \$ 30,295 | \$ 2,422 | \$ 15,516 | \$ 23,735 | \$ 268,248 |

(continued on next page)

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010
(In Thousands)
(continued from previous page)

| | Energy Loan | Safe Drinking Water | Business Development |
|------------------------------------------------------------------------------|----------------|------------------------|-------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) | | | |
| by Operating Activities: | | | |
| Operating Income (Loss) | \$ (9,066) | \$ (4,486) | \$ 603 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided | | | |
| (Used) by Operating Activities: | | | |
| Depreciation and Amortization | 22 | - | - |
| Amortization of Bond/COP Issuance Costs | 153 | - | - |
| Amortization of Bond/COP Premium and Discount | (145) | - | - |
| Amortization of Deferred Charges | 6 | - | - |
| Bad Debt Expense | 8,474 | - | 111 |
| Interest Payments Reported as Operating Expense | 8,313 | - | - |
| Bond/COP Issuance Costs Reported as Operating Expense | 136 | - | - |
| Net Changes in Assets and Liabilities: | | | |
| Accounts and Interest Receivable | 165 | 453 | (524) |
| Due from Other Funds | - | - | - |
| Inventories | - | - | - |
| Prepaid Items | - | - | - |
| Deferred Charges | (207) | - | - |
| Advances to Other Funds | (30,084) | - | - |
| Loans Receivable | (3,901) | (8,552) | (2,006) |
| Net Contracts, Notes, and Other Receivables | - | - | - |
| Accounts and Interest Payable | 93 | (101) | - |
| Due to Other Funds | - | - | - |
| Due to Other Governments | - | - | - |
| Custodial Liabilities | (22) | - | - |
| Unearned Revenue | (20) | - | - |
| Compensated Absences Payable | 14 | 10 | 3 |
| Net OPEB Obligation | 1 | 1 | 1 |
| Total Adjustments | (17,002) | (8,189) | (2,415) |
| Net Cash Provided (Used) by Operating Activities | \$ (26,068) | \$ (12,675) | \$ (1,812) |
| Noncash Investing and Capital and Related Financing Activities: | | | |
| Capital Assets Transferred from Governmental Funds | \$ - | \$ - | \$ - |
| Capital Assets Transferred to Governmental Funds | - | - | - |
| Total Noncash Investing and Capital and Related Financing Activities | \$ - | \$ - | \$ - |

State of Oregon

| Special Public Works | State Hospitals | Liquor Control | Veterans' Home | Water | Other | Total |
|---------------------------------|----------------------------|---------------------------|---------------------------|--------------|--------------|--------------|
| \$ 3,935 | \$ (131,419) | \$ 112,381 | \$ 150 | \$ (1,741) | \$ 1,109 | \$ (28,534) |
| - | 745 | 872 | 313 | - | 1,246 | 3,198 |
| 272 | - | - | - | 78 | - | 503 |
| 15 | - | - | - | 12 | (47) | (165) |
| 78 | - | - | - | 19 | 11 | 114 |
| - | - | - | - | - | - | 8,585 |
| 5,298 | - | - | - | 2,436 | 344 | 16,391 |
| 23 | - | - | - | 10 | - | 169 |
| (1,088) | (11,410) | (47) | 512 | 313 | 14 | (11,612) |
| (21) | 471 | - | - | - | - | 450 |
| - | 19 | (2,185) | - | - | 70 | (2,096) |
| - | (480) | (20) | - | - | 62 | (438) |
| - | - | - | - | - | - | (207) |
| - | - | - | - | - | - | (30,084) |
| 21,168 | - | - | - | (8,333) | (2,371) | (3,995) |
| - | - | - | 102 | - | - | 102 |
| (1,062) | 416 | 4,663 | (572) | (429) | 1,041 | 4,049 |
| - | (429) | - | (5) | - | 151 | (283) |
| 1 | - | - | - | 24 | (3) | 22 |
| (1) | 6 | 104 | (2) | (10) | 141 | 216 |
| - | - | 24 | (76) | - | (3) | (75) |
| (3) | 622 | 23 | (8) | 4 | 77 | 742 |
| 2 | 361 | 33 | - | 1 | 23 | 423 |
| 24,682 | (9,679) | 3,467 | 264 | (5,875) | 756 | (13,991) |
| \$ 28,617 | \$ (141,098) | \$ 115,848 | \$ 414 | \$ (7,616) | \$ 1,865 | \$ (42,525) |
| \$ - | \$ 966 | \$ - | \$ - | \$ - | \$ - | \$ 966 |
| - | 2,557 | - | - | - | - | 2,557 |
| \$ - | \$ 3,523 | \$ - | \$ - | \$ - | \$ - | \$ 3,523 |

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Internal Service Funds

Internal Service Funds account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis.

Central Services Fund

This fund accounts for activities to provide various services to state agencies. These services include accounting, budgeting, personnel, mail and shuttle, purchasing, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund.

Legal Services Fund

This fund accounts for activities of the Department of Justice Attorney General's office to represent and advise the State's elected and appointed officials, agencies, boards, and commissions.

Banking Services Fund

This fund accounts for activities of the Office of the State Treasurer to provide banking, investment, and debt management services to state agencies.

Audit Services Fund

This fund accounts for activities of the Secretary of State, Audits Division, to provide independent auditing services to state agencies.

Forestry Services Fund

This fund accounts for activities of the Department of Forestry to operate an equipment and maintenance pool that provides transportation, heavy equipment, and aircraft support for operating programs and other state agencies.

Other Internal Service Funds

This fund accounts for the sale of goods and services to other governmental units through activities not specifically accounted for in another internal service fund.

Combining Balance Sheet
Internal Service Funds
June 30, 2010
(In Thousands)

| | Central Services | Legal Services |
|-------------------------------------------------|---------------------|-------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 58,617 | \$ 313 |
| Securities Lending Collateral | 147,233 | 6,169 |
| Accounts and Interest Receivable (net) | 121,658 | 5,066 |
| Due from Other Funds | 18 | 2,007 |
| Inventories | 996 | 222 |
| Prepaid Items | 596 | - |
| Total Current Assets | 329,118 | 13,777 |
| Noncurrent Assets: | | |
| Cash and Cash Equivalents - Restricted | 81,753 | 15,502 |
| Investments - Restricted | 56,263 | - |
| Deferred Charges | 823 | - |
| Advances to Other Funds | 705 | - |
| Net Contracts, Notes, and Other Receivables | 651 | 153 |
| Capital Assets: | | |
| Land | 10,085 | - |
| Buildings, Property, and Equipment | 540,802 | 4,227 |
| Construction in Progress | 10,835 | - |
| Infrastructure | 637 | - |
| Works of Art and Other Nondepreciable Assets | 167 | - |
| Less Accumulated Depreciation and Amortization | (253,483) | (2,190) |
| Total Noncurrent Assets | 449,238 | 17,692 |
| Total Assets | \$ 778,356 | \$ 31,469 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts and Interest Payable | \$ 54,604 | \$ 764 |
| Obligations Under Securities Lending | 147,233 | 6,169 |
| Due to Other Funds | 327 | 27 |
| Obligations Under Capital Leases | 3,827 | - |
| Bonds/COPS Payable | 21,629 | - |
| Claims and Judgments Payable | 30,679 | - |
| Custodial Liabilities | 1,646 | 5 |
| Unearned Revenue | 17,811 | 1,255 |
| Compensated Absences Payable | 2,570 | 2,752 |
| Arbitrage Rebate Payable | 127 | - |
| Total Current Liabilities | 280,453 | 10,972 |
| Noncurrent Liabilities: | | |
| Bonds/COPS Payable | 132,918 | - |
| Obligations Under Capital Leases | 7,623 | - |
| Advances from Other Funds | 259 | - |
| Claims and Judgments Payable | 178,874 | - |
| Custodial Liabilities | 2,337 | - |
| Compensated Absences Payable | 1,324 | 1,418 |
| Arbitrage Rebate Payable | 20 | - |
| Net OPEB Obligation | 685 | 546 |
| Total Noncurrent Liabilities | 324,040 | 1,964 |
| Total Liabilities | 604,493 | 12,936 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 143,062 | 2,037 |
| Unrestricted | 30,801 | 16,496 |
| Total Net Assets | 173,863 | 18,533 |
| Total Liabilities and Net Assets | \$ 778,356 | \$ 31,469 |

State of Oregon

| Banking Services | Audit Services | Forestry Services | Other | Total |
|-----------------------------|---------------------------|------------------------------|--------------|--------------|
| \$ 2,941 | \$ 3,414 | \$ 4,975 | \$ 3,016 | \$ 73,276 |
| 1,141 | 1,324 | 1,936 | 1,170 | 158,973 |
| 260 | 210 | 51 | 297 | 127,542 |
| - | - | - | 82 | 2,107 |
| 14 | - | 221 | 8 | 1,461 |
| - | 4 | - | - | 600 |
| 4,356 | 4,952 | 7,183 | 4,573 | 363,959 |
| - | - | - | - | 97,255 |
| - | - | - | - | 56,263 |
| - | - | - | - | 823 |
| - | - | - | - | 705 |
| - | - | - | - | 804 |
| - | - | - | - | 10,085 |
| 2,456 | 180 | 18,940 | 5,315 | 571,920 |
| - | - | - | - | 10,835 |
| - | - | - | - | 637 |
| - | - | - | - | 167 |
| (2,184) | (177) | (13,592) | (3,048) | (274,674) |
| 272 | 3 | 5,348 | 2,267 | 474,820 |
| \$ 4,628 | \$ 4,955 | \$ 12,531 | \$ 6,840 | \$ 838,779 |
| \$ 219 | \$ 34 | \$ 168 | \$ 87 | \$ 55,876 |
| 1,141 | 1,324 | 1,936 | 1,170 | 158,973 |
| - | - | - | 29 | 383 |
| - | - | - | - | 3,827 |
| - | - | - | - | 21,629 |
| - | - | - | - | 30,679 |
| - | - | - | 1 | 1,652 |
| - | - | - | - | 19,066 |
| 501 | 226 | 105 | 6 | 6,160 |
| - | - | - | - | 127 |
| 1,861 | 1,584 | 2,209 | 1,293 | 298,372 |
| - | - | - | - | 132,918 |
| - | - | - | - | 7,623 |
| - | - | - | - | 259 |
| - | - | - | - | 178,874 |
| - | - | - | - | 2,337 |
| 258 | 117 | 54 | 3 | 3,174 |
| - | - | - | - | 20 |
| 73 | 57 | 28 | 5 | 1,394 |
| 331 | 174 | 82 | 8 | 326,599 |
| 2,192 | 1,758 | 2,291 | 1,301 | 624,971 |
| 272 | 3 | 5,348 | 2,267 | 152,989 |
| 2,164 | 3,194 | 4,892 | 3,272 | 60,819 |
| 2,436 | 3,197 | 10,240 | 5,539 | 213,808 |
| \$ 4,628 | \$ 4,955 | \$ 12,531 | \$ 6,840 | \$ 838,779 |

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2010
(In Thousands)

| | Central Services | Legal Services |
|------------------------------------------------------------------------------------------|---------------------|-------------------|
| Operating Revenues: | | |
| Licenses and Fees | \$ 2,634 | \$ - |
| Charges for Services | 582,775 | 74,202 |
| Rents and Royalties | 42,540 | - |
| Sales | 10,027 | 17 |
| Other | 2,206 | 136 |
| Total Operating Revenues | 640,182 | 74,355 |
| Operating Expenses: | | |
| Salaries and Wages | 50,025 | 54,342 |
| Services and Supplies | 513,613 | 10,383 |
| Cost of Goods Sold | 10,167 | - |
| Distributions to Other Governments | - | 933 |
| Bond and COP Interest | 6,764 | - |
| Other Debt Service | 167 | - |
| Depreciation and Amortization | 36,490 | 379 |
| Total Operating Expenses | 617,226 | 66,037 |
| Operating Income (Loss) | 22,956 | 8,318 |
| Nonoperating Revenues (Expenses): | | |
| Investment Income | 4,231 | - |
| Gain (Loss) on Disposition of Assets | 3,310 | - |
| Insurance Recoveries | 262 | - |
| Loan Interest Income | 43 | - |
| Loan Interest Expense | (47) | - |
| Other Nonoperating Items | (107) | - |
| Total Nonoperating Revenues (Expenses) | 7,692 | - |
| Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers | 30,648 | 8,318 |
| Capital Contributions | 35 | - |
| Transfers from Other Funds | 2,070 | - |
| Transfers to Other Funds | (38,822) | (5,260) |
| Change in Net Assets | (6,069) | 3,058 |
| Net Assets - Beginning | 184,371 | 15,441 |
| Prior Period Adjustments | (4,439) | 34 |
| Net Assets - Beginning - As Restated | 179,932 | 15,475 |
| Net Assets - Ending | \$ 173,863 | \$ 18,533 |

State of Oregon

| Banking Services | | Audit Services | | Forestry Services | | Other | | Total |
|---------------------|--------|-------------------|---------|----------------------|--------|-------|-------|------------|
| \$ | - | \$ | - | \$ | - | \$ | - | \$ 2,634 |
| | 14,618 | | 11,097 | | 4,143 | | 2,094 | 688,929 |
| | - | | - | | 1,220 | | - | 43,760 |
| | - | | - | | 324 | | - | 10,368 |
| | - | | - | | - | | 268 | 2,610 |
| | 14,618 | | 11,097 | | 5,687 | | 2,362 | 748,301 |
| | 9,270 | | 5,298 | | 1,915 | | 330 | 121,180 |
| | 5,357 | | 1,450 | | 2,420 | | 1,163 | 534,386 |
| | - | | - | | - | | - | 10,167 |
| | - | | - | | - | | - | 933 |
| | - | | - | | - | | - | 6,764 |
| | - | | - | | - | | - | 167 |
| | 236 | | - | | 1,527 | | 433 | 39,065 |
| | 14,863 | | 6,748 | | 5,862 | | 1,926 | 712,662 |
| | (245) | | 4,349 | | (175) | | 436 | 35,639 |
| | - | | - | | - | | - | 4,231 |
| | - | | - | | 171 | | (13) | 3,468 |
| | - | | - | | - | | 1 | 263 |
| | - | | - | | - | | - | 43 |
| | - | | - | | - | | - | (47) |
| | - | | - | | - | | - | (107) |
| | - | | - | | 171 | | (12) | 7,851 |
| | (245) | | 4,349 | | (4) | | 424 | 43,490 |
| | - | | - | | - | | - | 35 |
| | - | | - | | 17 | | 129 | 2,216 |
| | (415) | | (2,981) | | (547) | | (147) | (48,172) |
| | (660) | | 1,368 | | (534) | | 406 | (2,431) |
| | 3,096 | | 1,829 | | 10,774 | | 5,133 | 220,644 |
| | - | | - | | - | | - | (4,405) |
| | 3,096 | | 1,829 | | 10,774 | | 5,133 | 216,239 |
| \$ | 2,436 | \$ | 3,197 | \$ | 10,240 | \$ | 5,539 | \$ 213,808 |

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010
(In Thousands)

| | Central Services | Legal Services |
|----------------------------------------------------------------------|-----------------------------|---------------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from Customers | \$ 47,398 | \$ 19,681 |
| Receipts from Other Funds for Services | 565,867 | 62,179 |
| Payments to Employees for Services | (55,865) | (56,496) |
| Payments to Suppliers | (364,279) | (12,337) |
| Payments to Other Funds for Services | (22,736) | (3,725) |
| Claims Paid | (14,859) | - |
| Distributions to Other Governments | - | (933) |
| Other Receipts (Payments) | 2,411 | 79 |
| Net Cash Provided (Used) in Operating Activities | <u>157,937</u> | <u>8,448</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Insurance Recoveries Other than Capital Assets | - | - |
| Transfers from Other Funds | 2,051 | - |
| Transfers to Other Funds | (36,445) | (3,009) |
| Net Cash Provided (Used) in Noncapital Financing Activities | <u>(34,394)</u> | <u>(3,009)</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Proceeds from Bond/COP Sales | 17,884 | - |
| Principal Payments on Bonds/COPS | (44,521) | - |
| Interest Payments on Bonds/COPS | (7,735) | - |
| Bond/COP Issuance Costs | (215) | - |
| Principal Payments on Advances | (32) | - |
| Repayments on Advances Received | 27 | - |
| Interest on Advances | 65 | - |
| Principal Payments on Loans | (4,500) | - |
| Interest Payments on Loans | (47) | - |
| Acquisition of Capital Assets | (9,215) | (380) |
| Payments on Capital Leases | (542) | - |
| Proceeds from Disposition of Capital Assets | 5,796 | - |
| Insurance Recoveries for Capital Assets | 264 | - |
| Net Cash Provided (Used) in Capital and Related Financing Activities | <u>(42,771)</u> | <u>(380)</u> |
| Cash Flows from Investing Activities: | | |
| Purchases of Investments | (21,151) | - |
| Proceeds from Sales and Maturities of Investments | 47,529 | - |
| Interest on Investments and Cash Balances | 3,675 | - |
| Interest Income from Securities Lending | 168 | - |
| Interest Expense from Securities Lending | (108) | - |
| Net Cash Provided (Used) in Investing Activities | <u>30,113</u> | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 110,885 | 5,059 |
| Cash and Cash Equivalents - Beginning | 29,598 | 10,756 |
| Prior Period Adjustments Restating Beginning Cash Balances | (113) | - |
| Cash and Cash Equivalents - Ending | <u><u>\$ 140,370</u></u> | <u><u>\$ 15,815</u></u> |

State of Oregon

| Banking Services | Audit Services | Forestry Services | Other | Total |
|---------------------|-------------------|----------------------|----------|------------|
| \$ - | \$ - | \$ - | \$ - | \$ 67,079 |
| 16,223 | 11,026 | 5,793 | 2,069 | 663,157 |
| (9,569) | (5,487) | (1,984) | (354) | (129,755) |
| (4,193) | (1,135) | (2,283) | (1,016) | (385,243) |
| (1,564) | (468) | (90) | (263) | (28,846) |
| - | - | - | - | (14,859) |
| - | - | - | - | (933) |
| - | - | - | 277 | 2,767 |
| 897 | 3,936 | 1,436 | 713 | 173,367 |
| - | - | - | 1 | 1 |
| 1,528 | 400 | 97 | 741 | 4,817 |
| (1,528) | (3,157) | (548) | (744) | (45,431) |
| - | (2,757) | (451) | (2) | (40,613) |
| - | - | - | - | 17,884 |
| - | - | - | - | (44,521) |
| - | - | - | - | (7,735) |
| - | - | - | - | (215) |
| - | - | - | - | (32) |
| - | - | - | - | 27 |
| - | - | - | - | 65 |
| - | - | - | - | (4,500) |
| - | - | - | - | (47) |
| (293) | - | (615) | (570) | (11,073) |
| - | - | - | - | (542) |
| - | - | 219 | 14 | 6,029 |
| - | - | - | - | 264 |
| (293) | - | (396) | (556) | (44,396) |
| - | - | - | - | (21,151) |
| - | - | - | - | 47,529 |
| - | - | - | - | 3,675 |
| - | - | - | - | 168 |
| - | - | - | - | (108) |
| - | - | - | - | 30,113 |
| 604 | 1,179 | 589 | 155 | 118,471 |
| 2,337 | 2,235 | 4,386 | 2,861 | 52,173 |
| - | - | - | - | (113) |
| \$ 2,941 | \$ 3,414 | \$ 4,975 | \$ 3,016 | \$ 170,531 |

(continued on next page)

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010
(In Thousands)
(continued from previous page)

| | Central Services | Legal Services |
|-------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Operating Income (Loss) | \$ 22,956 | \$ 8,318 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation and Amortization | 36,490 | 379 |
| Amortization of Bond/COP Issuance Costs | 83 | - |
| Amortization of Bond/COP Premium and Discount | (914) | - |
| Amortization of Deferred Charges | 267 | - |
| Interest Payments Reported as Operating Expense | 7,735 | - |
| Bond/COP Issuance Costs Reported as Operating Expense | 215 | - |
| Net Changes in Assets and Liabilities: | | |
| Accounts and Interest Receivable | (44,607) | 295 |
| Due from Other Funds | - | 529 |
| Inventories | 179 | (55) |
| Prepaid Items | (464) | - |
| Deferred Charges | (103) | - |
| Net Contracts, Notes, and Other Receivables | 618 | (91) |
| Accounts and Interest Payable | 30,465 | (2,289) |
| Due to Other Funds | - | (46) |
| Custodial Liabilities | 79 | 36 |
| Deferred Revenue | 17,595 | 1,256 |
| Claims and Judgments Payable | 87,388 | - |
| Contracts, Mortgages, and Notes Payable | (208) | - |
| Compensated Absences Payable | 54 | 26 |
| Net OPEB Obligation | 109 | 90 |
| Total Adjustments | <u>134,981</u> | <u>130</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 157,937</u> | <u>\$ 8,448</u> |
| Noncash Investing and Capital and Related Financing Activities: | | |
| Net Change in Fair Value of Investments | \$ 500 | \$ - |
| Capital Assets Transferred from Governmental Funds | 35 | - |
| Capital Leases Entered into During the Year | 12,244 | - |
| Total Noncash Investing and Capital and Related Financing Activities | <u>\$ 12,779</u> | <u>\$ -</u> |

State of Oregon

| Banking Services | Audit Services | Forestry Services | Other | Total |
|-----------------------------|---------------------------|------------------------------|--------------|--------------|
| \$ (245) | \$ 4,349 | \$ (175) | \$ 436 | \$ 35,639 |
| 236 | - | 1,527 | 434 | 39,066 |
| - | - | - | - | 83 |
| - | - | - | - | (914) |
| - | - | - | - | 267 |
| - | - | - | - | 7,735 |
| - | - | - | - | 215 |
| 1,472 | (71) | 105 | (15) | (42,821) |
| - | - | - | (82) | 447 |
| 2 | 3 | 54 | (1) | 182 |
| - | - | - | - | (464) |
| - | - | - | - | (103) |
| - | - | - | - | 527 |
| (714) | (386) | (86) | (44) | 26,946 |
| - | - | - | (3) | (49) |
| - | - | - | - | 115 |
| - | - | - | - | 18,851 |
| - | - | - | - | 87,388 |
| - | - | - | - | (208) |
| 134 | 32 | 7 | (13) | 240 |
| 12 | 9 | 4 | 1 | 225 |
| 1,142 | (413) | 1,611 | 277 | 137,728 |
| \$ 897 | \$ 3,936 | \$ 1,436 | \$ 713 | \$ 173,367 |
| \$ - | \$ - | \$ - | \$ - | 500 |
| - | - | - | - | 35 |
| - | - | - | - | 12,244 |
| \$ - | \$ - | \$ - | \$ - | 12,779 |

Fiduciary Funds

Combining Pension and Other Employee Benefit Trust Funds

Pension Trust Funds

Pension Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System (PERS) for the payment of retirement, disability, and death benefits to members of the retirement system.

Public Employees Defined Benefit Pension Plan Fund

This fund accounts for the activities of the defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. Also included in this fund are the activities of the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003, as well as inactive PERS members who return to employment following a six-month or greater break in service, participate in the OPSRP pension program. The plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238 and section 401(a) of the Internal Revenue Code.

Individual Account Program Defined Contribution Pension Plan Fund

This fund accounts for the activities of the defined contribution portion of the Oregon Public Service Retirement Plan (OPSRP). Beginning January 1, 2004, PERS member contributions, account earnings and losses, as well as administrative costs of the plan are reflected in this fund. The OPSRP is administered by the Public Employees Retirement System.

Other Employee Benefit Trust Funds

Other Employee Benefit Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System (PERS) for the payment of postemployment healthcare and deferred compensation benefits to members of the retirement system.

Retirement Health Insurance Account (RHIA) OPEB Plan Fund

This fund accounts for the activities of the RHIA cost-sharing multiple-employer Other Postemployment Benefit (OPEB) plan administered by PERS for units of state government, political subdivisions, community colleges, and school districts. The RHIA is a defined benefit OPEB plan established pursuant to section 401(h) of the Internal Revenue Code. The plan authorizes a payment of up to \$60 towards the monthly cost of health insurance for eligible PERS members participating in PERS-sponsored health insurance plans. Employer contributions, investment income, healthcare premium subsidy payments, and administrative costs are accounted for within this fund.

Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund

This fund accounts for the activities of the RHIPA single-employer OPEB plan administered by PERS. The RHIPA is a defined benefit OPEB plan established pursuant to section 401(h) of the Internal Revenue Code. The plan authorizes payment to eligible retired state employees of the average difference between the health insurance premiums paid by retirees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Employer contributions, investment income, healthcare premium subsidy payments, and administrative costs are accounted for within this fund.

Standard Retiree Health Insurance Account Fund

This fund accounts for the collection of health insurance premiums from retirees and the payment of health insurance coverage and administrative costs for units of state government, political subdivisions, community colleges, and school districts that participate in PERS-sponsored health insurance plans. Retirees pay the full amount of the premiums, which are established at age-adjusted, experience-rated amounts.

Deferred Compensation Plan Fund

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

Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2010
(In Thousands)

| | Pension Trust Funds | |
|-----------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------|
| | Public Employees Defined Benefit Pension Plan | Individual Account Program Defined Contribution Pension Plan |
| ASSETS | | |
| Cash and Cash Equivalents | \$ 2,155,996 | \$ 176,884 |
| Investments | | |
| Fixed Income | 12,380,797 | 756,629 |
| Equity | 17,702,647 | 1,032,406 |
| Real Estate | 4,446,783 | 271,757 |
| Private Equity | 10,242,743 | 625,966 |
| Opportunity Portfolio | 985,574 | 60,232 |
| Total Investments | 45,758,544 | 2,746,990 |
| Securities Lending Collateral | 3,748,495 | 231,367 |
| Receivables: | | |
| Employer Contributions | 16,452 | - |
| Plan Member Contributions | - | 12,196 |
| Interest and Dividends | 320,577 | 19,591 |
| Member Loans | - | - |
| Investment Sales | 419,982 | 22,536 |
| From Other Funds | 1,049 | 5 |
| Total Receivables | 758,060 | 54,328 |
| Prepaid Items | 9,127 | 517 |
| Capital Assets (net of \$9,161 accumulated depreciation): | | |
| Land | 944 | - |
| Buildings, Property, and Equipment | 33,640 | 422 |
| Total Assets | 52,464,806 | 3,210,508 |
| LIABILITIES | | |
| Accounts and Interest Payable | 969,552 | 44,705 |
| Obligations Under Securities Lending | 3,748,495 | 231,367 |
| Due to Other Funds | 5 | 886 |
| Bonds/COPS Payable | 4,112 | - |
| Custodial Liabilities | 57,023 | 5,283 |
| Deferred Revenue | 361 | - |
| Net OPEB Obligation | 243 | 60 |
| Total Liabilities | 4,779,791 | 282,301 |
| NET ASSETS | | |
| Held in Trust for: | | |
| Pension Benefits | 47,685,015 | 2,928,207 |
| Other Postemployment Benefits | - | - |
| Other Employee Benefits | - | - |
| Total Net Assets | \$ 47,685,015 | \$ 2,928,207 |

Other Employee Benefit Trust Funds

Other Postemployment Benefits

| Retirement Health Insurance Account OPEB Plan | Retiree Health Insurance Premium Account OPEB Plan | Standard Retiree Health Insurance Account | Deferred Compensation Plan | Total |
|--------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------|----------------------------------|---------------|
| \$ 11,395 | \$ 421 | \$ 8,230 | \$ 58,704 | \$ 2,411,630 |
| 54,212 | 1,466 | - | 240,373 | 13,433,477 |
| 73,972 | 2,000 | - | 606,156 | 19,417,181 |
| 19,471 | 527 | - | - | 4,738,538 |
| 44,850 | 1,212 | - | - | 10,914,771 |
| 4,316 | 117 | - | - | 1,050,239 |
| 196,821 | 5,322 | - | 846,529 | 49,554,206 |
| 16,512 | 452 | 437 | 94 | 3,997,357 |
| 666 | 15 | - | - | 17,133 |
| - | - | 105 | - | 12,301 |
| 1,404 | 38 | - | 301 | 341,911 |
| - | - | - | 7,238 | 7,238 |
| 1,614 | 44 | - | 66 | 444,242 |
| - | - | - | - | 1,054 |
| 3,684 | 97 | 105 | 7,605 | 823,879 |
| 38 | 1 | - | - | 9,683 |
| - | - | - | - | 944 |
| - | - | - | - | 34,062 |
| 228,450 | 6,293 | 8,772 | 912,932 | 56,831,761 |
| 3,172 | 86 | 3 | 253 | 1,017,771 |
| 16,512 | 452 | 437 | 94 | 3,997,357 |
| 13 | 9 | 25 | 116 | 1,054 |
| - | - | - | - | 4,112 |
| - | - | - | - | 62,306 |
| - | - | - | 522 | 883 |
| 7 | 1 | 16 | 6 | 333 |
| 19,704 | 548 | 481 | 991 | 5,083,816 |
| - | - | - | - | 50,613,222 |
| 208,746 | 5,745 | - | - | 214,491 |
| - | - | 8,291 | 911,941 | 920,232 |
| \$ 208,746 | \$ 5,745 | \$ 8,291 | \$ 911,941 | \$ 51,747,945 |

**Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2010
(In Thousands)**

| | Pension Trust Funds | |
|--------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------|
| | Public Employees Defined Benefit Pension Plan | Individual Account Program Defined Contribution Pension Plan |
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 433,268 | \$ - |
| Plan Members | 13,600 | 505,922 |
| Total Contributions | 446,868 | 505,922 |
| Investment Income: | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 6,024,089 | 319,046 |
| Interest, Dividends, and Other Investment Income | 1,567,793 | 92,126 |
| Total Investment Income | 7,591,882 | 411,172 |
| Less Investment Expense | 313,313 | 17,529 |
| Net Investment Income | 7,278,569 | 393,643 |
| Other Income | 1,323 | 8 |
| Total Additions | 7,726,760 | 899,573 |
| DEDUCTIONS | | |
| Pension Benefits | 2,912,154 | 72,801 |
| Death Benefits | 3,415 | - |
| Contributions Refunded | 25,692 | - |
| Healthcare Premium Subsidies | - | - |
| Retiree Healthcare Expenses | - | - |
| Deferred Compensation Benefits | - | - |
| Administrative Expenses | 28,512 | 7,674 |
| Total Deductions | 2,969,773 | 80,475 |
| Change in Net Assets Held in Trust For: | | |
| Pension Benefits | 4,756,987 | 819,098 |
| Other Postemployment Benefits | - | - |
| Other Employee Benefits | - | - |
| Net Assets - Beginning | 42,904,809 | 2,109,109 |
| Prior Period Adjustments | 23,219 | - |
| Net Assets - Beginning - As Restated | 42,928,028 | 2,109,109 |
| Net Assets - Ending | \$ 47,685,015 | \$ 2,928,207 |

Other Employee Benefit Trust Funds

Other Postemployment Benefits

| Retirement Health Insurance Account OPEB Plan | Retiree Health Insurance Premium Account OPEB Plan | Standard Retiree Health Insurance Account | Deferred Compensation Plan | Total |
|--------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------|----------------------------------|---------------|
| \$ 22,351 | \$ 1,498 | \$ - | \$ - | \$ 457,117 |
| - | - | 126,930 | 66,709 | 713,161 |
| 22,351 | 1,498 | 126,930 | 66,709 | 1,170,278 |
| 25,651 | 780 | - | 84,847 | 6,454,413 |
| 6,856 | 198 | 104 | 1,052 | 1,668,129 |
| 32,507 | 978 | 104 | 85,899 | 8,122,542 |
| 1,361 | 39 | 1 | 2,321 | 334,564 |
| 31,146 | 939 | 103 | 83,578 | 7,787,978 |
| - | - | 19 | 840 | 2,190 |
| 53,497 | 2,437 | 127,052 | 151,127 | 8,960,446 |
| - | - | - | - | 2,984,955 |
| - | - | - | - | 3,415 |
| - | - | - | - | 25,692 |
| 28,822 | 2,307 | - | - | 31,129 |
| - | - | 124,449 | - | 124,449 |
| - | - | - | 45,902 | 45,902 |
| 975 | 104 | 2,198 | 890 | 40,353 |
| 29,797 | 2,411 | 126,647 | 46,792 | 3,255,895 |
| - | - | - | - | 5,576,085 |
| 23,700 | 26 | - | - | 23,726 |
| - | - | 405 | 104,335 | 104,740 |
| 185,046 | 5,719 | 7,886 | 807,606 | 46,020,175 |
| - | - | - | - | 23,219 |
| 185,046 | 5,719 | 7,886 | 807,606 | 46,043,394 |
| \$ 208,746 | \$ 5,745 | \$ 8,291 | \$ 911,941 | \$ 51,747,945 |

Agency Fund

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

Combining Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2010

(In Thousands)

| | Balance July 1, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---------------------------------------------|-------------------------|---------------------|---------------------|--------------------------|
| ASSETS | | | | |
| Custodial Assets | \$ 1,727,673 | \$ 1,895,766 | \$ 1,774,499 | \$ 1,848,940 |
| Accounts and Interest Receivable | 7,066 | 1,730 | 29 | 8,767 |
| Net Contracts, Notes, and Other Receivables | 94,750 | 32,334 | 22,588 | 104,496 |
| Receivership Assets | 67,278 | - | 242 | 67,036 |
| Total Assets | \$ 1,896,767 | \$ 1,929,830 | \$ 1,797,358 | \$ 2,029,239 |
| LIABILITIES | | | | |
| Accounts and Interest Payable | \$ 455 | \$ 290,934 | \$ 290,852 | \$ 537 |
| Due to Other Governments | 4,569 | 8,345 | 4,569 | 8,345 |
| Custodial Liabilities | 1,891,743 | 1,416,334 | 1,287,720 | 2,020,357 |
| Total Liabilities | \$ 1,896,767 | \$ 1,715,613 | \$ 1,583,141 | \$ 2,029,239 |



Statistical Section

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Statistical Section Index

This part of the State of Oregon's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.

| | |
|------------|----------------------------------------------|
| Schedule 1 | Net Assets by Component |
| Schedule 2 | Changes in Net Assets |
| Schedule 3 | Fund Balance – Governmental Funds |
| Schedule 4 | Changes in Fund Balance – Governmental Funds |

Revenue Capacity

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

| | |
|------------|----------------------------------------------------------|
| Schedule 5 | Personal Income by Industry |
| Schedule 6 | Personal Income Tax Rates |
| Schedule 7 | Personal Income Tax Filers and Liability by Income Level |

Debt Capacity

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

| | |
|-------------|-------------------------------------------|
| Schedule 8 | Outstanding Debt by Type |
| Schedule 9 | Ratios of General Bonded Debt Outstanding |
| Schedule 10 | Legal Debt Margin Calculation |
| Schedule 11 | Legal Debt Margin Information |
| Schedule 12 | Pledged Revenues |

Demographic and Economic Information

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

| | |
|-------------|-------------------------------------|
| Schedule 13 | Demographic and Economic Indicators |
| Schedule 14 | Employment by Industry |

Operating Information

These schedules contain operating data to help the reader understand how the information in the State's financial report relates to the services it provides and the activities it performs.

| | |
|-------------|----------------------------------------------------------------|
| Schedule 15 | Government Employees |
| Schedule 16 | Operating Indicators and Capital Asset Information by Function |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in fiscal year 2002; schedules presenting government-wide information include information beginning in that year.

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

| | 2002 | 2003 | 2004 | 2005 |
|----------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental Activities | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 10,031,651 | \$ 9,928,983 | \$ 9,555,705 | \$ 9,151,443 |
| Restricted | 526,189 | 342,793 | 334,292 | 904,848 |
| Unrestricted | (70,371) | 131,349 | (2,158,668) | 155,880 |
| Total Governmental Activities Net Assets | <u>\$ 10,487,469</u> | <u>\$ 10,403,125</u> | <u>\$ 7,731,329</u> | <u>\$ 10,212,171</u> |
| Business-type Activities | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 282,782 | \$ 579,928 | \$ 549,148 | \$ 562,325 |
| Restricted | 2,477,458 | 2,453,241 | 2,233,534 | 2,550,548 |
| Unrestricted | 539,431 | 223,601 | 527,165 | 570,121 |
| Total Business-type Activities Net Assets | <u>\$ 3,299,671</u> | <u>\$ 3,256,770</u> | <u>\$ 3,309,847</u> | <u>\$ 3,682,994</u> |
| Primary Government | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 10,314,433 | \$ 10,508,911 | \$ 10,104,853 | \$ 9,713,768 |
| Restricted | 3,003,647 | 2,796,034 | 2,567,826 | 3,455,396 |
| Unrestricted | 469,060 | 354,950 | (1,631,503) | 726,001 |
| Total Primary Government Net Assets | <u>\$ 13,787,140</u> | <u>\$ 13,659,895</u> | <u>\$ 11,041,176</u> | <u>\$ 13,895,165</u> |

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

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

| 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 8,901,594 | \$ 8,696,793 | \$ 8,554,126 | \$ 9,094,498 | \$ 8,672,407 |
| 1,021,026 | 1,098,817 | 950,491 | 1,126,942 | 1,287,403 |
| 1,116,586 | 1,077,586 | 954,809 | (99,401) | (82,337) |
| <u>\$ 11,039,206</u> | <u>\$ 10,873,196</u> | <u>\$ 10,459,426</u> | <u>\$ 10,122,039</u> | <u>\$ 9,877,473</u> |
| | | | | |
| \$ 594,247 | \$ 756,814 | \$ 807,968 | \$ 897,150 | \$ 977,224 |
| 2,857,577 | 2,998,195 | 3,177,420 | 2,399,089 | 556,589 |
| 584,655 | 640,968 | 656,919 | 677,037 | 2,201,451 |
| <u>\$ 4,036,479</u> | <u>\$ 4,395,977</u> | <u>\$ 4,642,307</u> | <u>\$ 3,973,276</u> | <u>\$ 3,735,264</u> |
| | | | | |
| \$ 9,495,841 | \$ 9,453,607 | \$ 9,362,094 | \$ 9,991,648 | \$ 9,649,631 |
| 3,878,603 | 4,097,012 | 4,127,911 | 3,526,031 | 1,843,992 |
| 1,701,241 | 1,718,554 | 1,611,728 | 577,636 | 2,119,114 |
| <u>\$ 15,075,685</u> | <u>\$ 15,269,173</u> | <u>\$ 15,101,733</u> | <u>\$ 14,095,315</u> | <u>\$ 13,612,737</u> |

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

| | 2002 | 2003 | 2004 |
|------------------------------------------------|---------------|---------------|---------------|
| Expenses | | | |
| Governmental activities: | | | |
| Education | \$ 3,363,716 | \$ 2,915,016 | \$ 3,485,891 |
| Human Services | 4,399,183 | 4,348,175 | 4,276,235 |
| Public Safety | 862,219 | 842,881 | 857,643 |
| Economic and Community Development | 289,051 | 328,202 | 296,497 |
| Natural Resources | 494,385 | 523,941 | 488,514 |
| Transportation | 1,239,599 | 1,417,844 | 1,410,741 |
| Consumer and Business Services | 319,913 | 278,486 | 388,336 |
| Administration | 567,717 | 700,611 | 2,693,591 |
| Legislative | 27,914 | 30,717 | 25,480 |
| Judicial | 232,185 | 205,874 | 239,773 |
| Interest on Long-term Debt | N/A | 4,106 | 164,461 |
| Total governmental activities expenses | 11,795,882 | 11,595,853 | 14,327,162 |
| Business-type activities: | | | |
| Housing and Community Services | 94,686 | 93,326 | 88,653 |
| Veterans' Loan | 79,922 | 73,663 | 59,106 |
| Lottery Operations | 485,299 | 505,038 | 494,628 |
| Unemployment Compensation | 1,030,423 | 1,287,629 | 1,106,005 |
| University System | 1,551,981 | 1,605,464 | 1,617,687 |
| State Hospitals | N/A | N/A | N/A |
| Liquor Control | N/A | N/A | N/A |
| Other Business-type Activities | 409,472 | 411,495 | 442,676 |
| Total business-type activities expenses | 3,651,783 | 3,976,615 | 3,808,755 |
| Total primary government expenses | \$ 15,447,665 | \$ 15,572,468 | \$ 18,135,917 |
| Program Revenues | | | |
| Governmental activities: | | | |
| Charges for Services: | | | |
| Human Services | \$ 282,692 | \$ 196,489 | \$ 139,353 |
| Public Safety | 46,360 | 37,561 | 138,377 |
| Natural Resources | 233,344 | 293,441 | 252,952 |
| Transportation | 113,083 | 103,888 | 106,598 |
| Consumer and Business Services | 127,581 | 130,866 | 152,899 |
| Administration | 25,734 | 72,910 | 94,970 |
| Judicial | 97,782 | 137,126 | 78,870 |
| Other governmental activities | 38,685 | 35,716 | 41,379 |
| Operating Grants and Contributions | 4,036,264 | 4,452,645 | 4,378,480 |
| Capital Grants and Contributions | 9,957 | 3,414 | 5,869 |
| Total governmental activities program revenues | 5,011,482 | 5,464,056 | 5,389,747 |

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

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

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------|---------------|---------------|---------------|---------------|---------------|
| \$ 3,204,580 | \$ 3,622,117 | \$ 3,761,800 | \$ 4,174,928 | \$ 4,224,991 | \$ 4,303,106 |
| 4,675,846 | 4,873,613 | 4,814,964 | 5,316,540 | 6,057,047 | 6,861,998 |
| 928,483 | 1,008,285 | 1,023,202 | 1,183,931 | 1,185,507 | 1,199,579 |
| 340,653 | 311,713 | 335,103 | 355,133 | 397,032 | 455,453 |
| 582,788 | 541,084 | 580,778 | 613,329 | 658,553 | 593,122 |
| 1,882,649 | 1,598,419 | 1,709,786 | 2,251,391 | 2,249,632 | 1,858,705 |
| 282,875 | 394,886 | 340,266 | 461,015 | 408,803 | 463,489 |
| 622,036 | 640,561 | 467,931 | 570,903 | 470,583 | 474,624 |
| 31,447 | 29,602 | 36,660 | 39,142 | 44,683 | 33,012 |
| 249,036 | 271,714 | 286,460 | 311,828 | 307,916 | 308,574 |
| 254,840 | 242,664 | 265,100 | 315,530 | 297,308 | 299,467 |
| 13,055,233 | 13,534,658 | 13,622,050 | 15,593,670 | 16,302,055 | 16,851,129 |
| 89,583 | 93,288 | 98,683 | 100,706 | 91,010 | 84,337 |
| 51,479 | 49,730 | 53,279 | 46,652 | 26,855 | 19,685 |
| 504,102 | 525,277 | 564,110 | 573,203 | 537,332 | 518,076 |
| 577,396 | 535,190 | 546,970 | 687,363 | 1,875,259 | 3,020,372 |
| 1,729,107 | 1,858,254 | 1,893,227 | 1,808,424 | 1,948,793 | 2,003,668 |
| 162,651 | 166,810 | 184,513 | 203,818 | 215,576 | 222,311 |
| 237,604 | 263,725 | 284,298 | 307,380 | 314,563 | 312,980 |
| 75,182 | 76,804 | 76,911 | 75,134 | 87,977 | 89,505 |
| 3,427,104 | 3,569,078 | 3,701,991 | 3,802,680 | 5,097,365 | 6,270,934 |
| \$ 16,482,337 | \$ 17,103,736 | \$ 17,324,041 | \$ 19,396,350 | \$ 21,399,420 | \$ 23,122,063 |
| \$ 221,522 | \$ 298,666 | \$ 215,222 | \$ 230,058 | \$ 250,524 | \$ 237,722 |
| 35,107 | 70,979 | 48,170 | 67,869 | 94,613 | 75,511 |
| 270,465 | 284,857 | 325,638 | 300,685 | 282,380 | 313,587 |
| 129,351 | 108,552 | 104,830 | 153,423 | 138,400 | 115,507 |
| 158,999 | 202,305 | 239,561 | 258,299 | 313,602 | 276,359 |
| 203,275 | 214,866 | 230,328 | 282,977 | 111,537 | 107,625 |
| 29,522 | 130,549 | 132,447 | 136,327 | 158,736 | 145,548 |
| 32,442 | 26,909 | 32,829 | 32,467 | 28,662 | 37,507 |
| 4,850,141 | 4,952,825 | 5,097,007 | 5,162,489 | 6,017,307 | 7,691,076 |
| 6,566 | 14,992 | 21,718 | 27,611 | 86,563 | 45,398 |
| 5,937,390 | 6,305,500 | 6,447,750 | 6,652,205 | 7,482,324 | 9,045,840 |

(continued on next page)

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

| | 2002 | 2003 | 2004 |
|--------------------------------------------------|----------------|----------------|----------------|
| Business-type activities: | | | |
| Charges for Services: | | | |
| Lottery Operations | 817,490 | 853,812 | 892,672 |
| Unemployment Compensation | 649,892 | 588,003 | 726,680 |
| University System | 650,248 | 663,214 | 735,556 |
| Liquor Control | N/A | N/A | N/A |
| Other Business-type Activities | 522,951 | 526,603 | 507,666 |
| Operating Grants and Contributions | 848,800 | 1,196,853 | 908,594 |
| Capital Grants and Contributions | 85,982 | - | - |
| Total business-type activities program revenues | 3,575,363 | 3,828,485 | 3,771,168 |
| Total primary government program revenues | \$ 8,586,845 | \$ 9,292,541 | \$ 9,160,915 |
| Net (Expense)/Revenue | | | |
| Governmental activities | \$ (6,784,400) | \$ (6,131,797) | \$ (8,937,415) |
| Business-type activities | (76,420) | (148,130) | (37,587) |
| Total primary government net expense | \$ (6,860,820) | \$ (6,279,927) | \$ (8,975,002) |
| General Revenues and Other Changes in Net Assets | | | |
| Governmental activities: | | | |
| Taxes: | | | |
| Personal Income Taxes | \$ 4,096,359 | \$ 4,073,262 | \$ 4,294,369 |
| Corporate Income Taxes | 190,346 | 220,175 | 314,510 |
| Tobacco Taxes | 175,115 | 255,482 | 252,885 |
| Healthcare Provider Taxes | N/A | N/A | N/A |
| Inheritance and Gift Taxes | N/A | N/A | N/A |
| Public Utilities Taxes | N/A | N/A | N/A |
| Insurance Premium Taxes | N/A | N/A | N/A |
| Other Taxes | 356,319 | 369,614 | 412,531 |
| Motor Fuels Taxes | 397,713 | 406,736 | 406,317 |
| Weight Mile Taxes | 201,315 | 213,935 | 224,078 |
| Vehicle Registration Taxes | 113,262 | 120,711 | 165,270 |
| Workers' Compensation Insurance Taxes | N/A | N/A | N/A |
| Employer-Employee Taxes | 255,279 | 252,810 | 249,822 |
| Unrestricted Investment Earnings | 17,146 | 29,737 | 11,134 |
| Contributions to Permanent Fund | 48,638 | - | 4,701 |
| Capital Contributions | 1,475 | 1,736 | 389 |
| Transfers | (61,903) | 16,428 | (44,272) |
| Total governmental activities | 5,791,064 | 5,960,626 | 6,291,734 |
| Business-type activities: | | | |
| Other Taxes | 12,676 | 13,327 | 13,666 |
| Capital Contributions | 649 | 658 | 660 |
| Additions to Permanent Endowments | - | - | - |
| Special Items | - | - | 21,868 |
| Transfers | 61,903 | (16,428) | 44,272 |
| Total business-type activities | 75,228 | (2,443) | 80,466 |
| Total primary government | \$ 5,866,292 | \$ 5,958,183 | \$ 6,372,200 |
| Change in Net Assets | | | |
| Governmental activities | \$ (993,336) | \$ (171,171) | \$ (2,645,681) |
| Business-type activities | (1,192) | (150,573) | 42,879 |
| Total primary government | \$ (994,528) | \$ (321,744) | \$ (2,602,802) |

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

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------|----------------|----------------|----------------|----------------|----------------|
| 938,370 | 1,093,196 | 1,203,821 | 1,229,486 | 1,100,228 | 1,027,735 |
| 783,594 | 758,350 | 676,838 | 638,186 | 662,346 | 859,790 |
| 799,122 | 860,042 | 887,183 | 954,039 | 1,003,897 | 1,156,843 |
| 313,308 | 349,454 | 379,741 | 406,421 | 418,559 | 425,374 |
| 210,964 | 192,481 | 217,402 | 213,758 | 236,151 | 267,585 |
| 770,971 | 803,972 | 891,998 | 664,179 | 1,064,383 | 2,238,266 |
| - | - | - | - | 87,425 | 108,257 |
| 3,816,329 | 4,057,495 | 4,256,983 | 4,106,069 | 4,572,989 | 6,083,850 |
| \$ 9,753,719 | \$ 10,362,995 | \$ 10,704,733 | \$ 10,758,274 | \$ 12,055,313 | \$ 15,129,690 |
| \$ (7,117,843) | \$ (7,229,158) | \$ (7,174,300) | \$ (8,941,465) | \$ (8,819,731) | \$ (7,805,289) |
| 389,225 | 488,417 | 554,992 | 303,389 | (524,376) | (187,084) |
| \$ (6,728,618) | \$ (6,740,741) | \$ (6,619,308) | \$ (8,638,076) | \$ (9,344,107) | \$ (7,992,373) |
| \$ 4,746,727 | \$ 5,404,020 | \$ 4,486,068 | \$ 6,102,900 | \$ 5,182,743 | \$ 4,958,569 |
| 211,016 | 443,425 | 518,260 | 448,010 | 253,685 | 387,639 |
| 255,035 | 254,836 | 276,419 | 254,524 | 250,243 | 250,135 |
| N/A | 131,371 | 128,199 | 154,460 | 143,535 | 192,077 |
| N/A | N/A | 81,068 | 116,186 | 77,622 | 91,845 |
| N/A | N/A | 84,455 | 89,621 | 88,295 | 80,790 |
| N/A | N/A | 55,463 | 42,721 | 46,952 | 70,291 |
| 503,666 | 419,786 | 106,101 | 123,907 | 140,726 | 144,931 |
| 407,729 | 417,916 | 416,792 | 413,858 | 399,048 | 406,179 |
| 253,419 | 266,221 | 256,000 | 237,296 | 210,055 | 208,573 |
| 204,787 | 207,581 | 205,205 | 201,245 | 185,202 | 245,699 |
| N/A | N/A | 47,745 | 40,733 | 36,635 | 30,065 |
| 266,688 | 281,974 | 77,504 | 76,576 | 71,119 | 65,977 |
| 44,662 | 37,934 | 90,210 | 81,815 | 17,717 | 3,193 |
| 11,453 | - | 4,192 | - | 259 | 288 |
| 407 | 1,473 | 2,853 | 4,482 | - | - |
| 31,901 | 124,307 | 214,557 | 154,510 | 157,663 | 129,016 |
| 6,937,490 | 7,990,844 | 7,051,091 | 8,542,844 | 7,261,499 | 7,265,267 |
| 13,964 | 14,851 | 15,203 | 16,086 | 16,340 | 16,754 |
| 700 | 855 | 3,615 | 71,716 | - | - |
| - | 2,580 | 70 | - | - | - |
| - | - | - | - | - | - |
| (31,901) | (124,307) | (214,557) | (154,510) | (157,663) | (129,016) |
| (17,237) | (106,021) | (195,669) | (66,708) | (141,323) | (112,262) |
| \$ 6,920,253 | \$ 7,884,823 | \$ 6,855,422 | \$ 8,476,136 | \$ 7,120,176 | \$ 7,153,005 |
| \$ (180,353) | \$ 761,686 | \$ (123,209) | \$ (398,621) | \$ (1,558,232) | \$ (540,022) |
| 371,988 | 382,396 | 359,323 | 236,681 | (665,699) | (299,346) |
| \$ 191,635 | \$ 1,144,082 | \$ 236,114 | \$ (161,940) | \$ (2,223,931) | \$ (839,368) |

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

| | 2002 | 2003 | 2004 | 2005 |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | | | | |
| Reserved | \$ 204,730 | \$ 83,063 | \$ 157,183 | \$ 63,788 |
| Unreserved | (1,178,320) | 19,298 | (501,913) | 237,769 |
| Total General Fund | <u>\$ (973,590)</u> | <u>\$ 102,361</u> | <u>\$ (344,730)</u> | <u>\$ 301,557</u> |
| All Other Governmental Funds | | | | |
| Reserved | \$ 1,055,359 | \$ 760,307 | \$ 799,074 | \$ 785,135 |
| Unreserved, reported in: | | | | |
| Special revenue funds | 1,629,004 | 1,414,757 | 1,517,921 | 1,911,255 |
| Capital projects fund | 63,506 | 32,073 | 37,305 | 64,405 |
| Permanent fund | 28,972 | 3,875 | 5,823 | 5,749 |
| Total all other governmental funds | <u>\$ 2,776,841</u> | <u>\$ 2,211,012</u> | <u>\$ 2,360,123</u> | <u>\$ 2,766,544</u> |

Note: Due to changes in the State's fund structure initiated when GASB Statement No. 34 was implemented, fund balance information is only available beginning in 2002.

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

| 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 86,253 | \$ 70,317 | \$ 202,823 | \$ 29,040 | \$ 35,403 |
| 736,196 | 113,579 | 1,095 | (333,796) | (542,747) |
| <u>\$ 822,449</u> | <u>\$ 183,896</u> | <u>\$ 203,918</u> | <u>\$ (304,756)</u> | <u>\$ (507,344)</u> |
| | | | | |
| \$ 823,590 | \$ 953,764 | \$ 1,180,823 | \$ 1,082,369 | \$ 1,429,016 |
| 2,640,061 | 3,658,675 | 3,446,971 | 3,523,322 | 3,544,868 |
| 118,136 | 47,930 | 23,218 | 130,498 | 50,420 |
| 6,757 | 6,691 | 8,067 | 3,788 | 4,984 |
| <u>\$ 3,588,544</u> | <u>\$ 4,667,060</u> | <u>\$ 4,659,079</u> | <u>\$ 4,739,977</u> | <u>\$ 5,029,288</u> |

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

| | 2002 | 2003 | 2004 |
|---------------------------------------------------------|---------------------|-------------------|---------------------|
| Revenues | | | |
| Taxes | \$ 5,728,923 | \$ 5,836,554 | \$ 6,303,389 |
| Licenses and Fees | 275,439 | 286,619 | 312,609 |
| Federal | 3,767,499 | 4,160,747 | 4,233,648 |
| Charges for Services | 232,711 | 234,459 | 214,485 |
| Fines and Forfeitures | 81,899 | 91,349 | 116,191 |
| Rents and Royalties | 6,331 | 6,015 | 7,244 |
| Investment Income | 90,423 | 98,185 | 76,594 |
| Sales | 112,287 | 110,945 | 111,905 |
| Donations and Grants | 116,152 | 138,599 | 12,409 |
| Contributions to Permanent Funds | - | - | 4,701 |
| Tobacco Settlement Proceeds | 86,524 | 85,255 | 72,065 |
| Pension Bond Debt Service Assessments | - | - | 21,579 |
| Unclaimed Property Revenue | - | - | - |
| Other | 280,478 | 244,775 | 288,622 |
| Total Revenues | 10,778,666 | 11,293,502 | 11,775,441 |
| Expenditures | | | |
| Education | 3,347,415 | 2,900,408 | 3,484,917 |
| Human Services | 4,402,681 | 4,347,675 | 4,269,562 |
| Public Safety | 778,997 | 783,712 | 842,487 |
| Economic and Community Development | 281,481 | 319,732 | 298,654 |
| Natural Resources | 460,214 | 508,367 | 484,410 |
| Transportation | 1,016,600 | 1,184,102 | 1,266,474 |
| Consumer and Business Services | 323,653 | 325,140 | 338,971 |
| Administration | 511,415 | 652,000 | 663,545 |
| Legislative | 26,718 | 29,637 | 25,181 |
| Judicial | 231,580 | 204,908 | 239,157 |
| Capital Improvements/Construction | 81,681 | 63,726 | 32,576 |
| Debt Service: | | | |
| Principal | 58,859 | 88,379 | 85,736 |
| Interest | 60,041 | 113,765 | 164,461 |
| Other Debt Service | 3,637 | 5,610 | 10,773 |
| Total Expenditures | 11,584,972 | 11,527,161 | 12,206,904 |
| Excess of Revenues Over (Under) Expenditures | (806,306) | (233,659) | (431,463) |
| Other Financing Sources (Uses) | | | |
| Transfers from Other Funds | 3,300,534 | 1,691,017 | 1,292,842 |
| Transfers to Other Funds | (3,438,615) | (1,670,815) | (3,413,477) |
| Insurance Recoveries | - | - | - |
| Debt Issued | 302,638 | 704,710 | 2,241,043 |
| Refunding Debt Issued | 260,435 | 60,130 | 127,577 |
| Leases Incurred | 7 | 107 | - |
| Refunded Debt Payment to Escrow Agent | (270,769) | (62,543) | (144,206) |
| Contributions to Permanent Funds | 48,638 | - | - |
| Total Other Financing Sources (Uses) | 202,868 | 722,606 | 103,779 |
| Net Change in Fund Balances | \$ (603,438) | \$ 488,947 | \$ (327,684) |
| Debt service as a percentage of noncapital expenditures | 1.07% | 1.84% | 2.14% |

Note: Due to changes in the State's fund structure initiated when GASB Statement No. 34 was implemented, changes in fund balance information is only available beginning in 2002.

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

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 6,817,329 | \$ 7,839,265 | \$ 6,783,293 | \$ 8,259,483 | \$ 7,004,715 | \$ 7,123,205 |
| 369,626 | 389,766 | 407,044 | 438,508 | 450,855 | 486,159 |
| 4,608,759 | 4,661,448 | 4,670,353 | 4,973,781 | 6,044,251 | 7,413,272 |
| 223,109 | 228,606 | 249,069 | 307,778 | 269,196 | 275,885 |
| 68,399 | 89,559 | 101,714 | 100,175 | 87,915 | 88,718 |
| 20,226 | 16,387 | 15,092 | 18,185 | 15,779 | 14,428 |
| 205,808 | 253,152 | 438,158 | 168,314 | (95,131) | 198,153 |
| 125,399 | 128,945 | 127,808 | 125,282 | 107,427 | 106,400 |
| 13,447 | 20,637 | 33,525 | 36,940 | 71,339 | 24,552 |
| 11,453 | - | 4,192 | - | 259 | 288 |
| 73,142 | 67,145 | 70,281 | 90,297 | 98,078 | 82,327 |
| 121,895 | 119,778 | 120,139 | 121,035 | 4,509 | 6,216 |
| - | - | - | - | - | 13,716 |
| 275,937 | 360,081 | 328,888 | 354,518 | 345,339 | 298,061 |
| 12,934,529 | 14,174,769 | 13,349,556 | 14,994,296 | 14,404,531 | 16,131,380 |
| 3,203,813 | 3,620,721 | 3,762,869 | 4,174,922 | 4,224,170 | 4,304,099 |
| 4,665,643 | 4,877,485 | 4,825,597 | 5,347,990 | 6,120,267 | 7,031,421 |
| 905,510 | 984,969 | 1,016,728 | 1,175,881 | 1,170,452 | 1,177,382 |
| 341,807 | 309,614 | 333,064 | 354,396 | 397,936 | 456,169 |
| 573,781 | 538,831 | 603,695 | 629,624 | 658,484 | 600,470 |
| 1,767,779 | 1,461,987 | 1,656,189 | 1,636,160 | 1,709,819 | 1,898,077 |
| 362,765 | 381,576 | 424,068 | 466,917 | 480,212 | 446,994 |
| 587,665 | 626,743 | 436,933 | 526,691 | 417,348 | 435,164 |
| 30,688 | 29,381 | 35,711 | 37,456 | 39,977 | 32,036 |
| 250,438 | 270,927 | 288,445 | 311,716 | 317,665 | 310,468 |
| 83,784 | 114,088 | 123,885 | 78,195 | 90,695 | 121,440 |
| 131,004 | 131,702 | 136,294 | 179,171 | 229,599 | 264,679 |
| 266,330 | 238,247 | 259,986 | 306,488 | 288,892 | 315,650 |
| 4,959 | 4,823 | 5,588 | 2,320 | 8,162 | 9,248 |
| 13,175,966 | 13,591,094 | 13,909,052 | 15,227,927 | 16,153,678 | 17,403,297 |
| (241,437) | 583,675 | (559,496) | (233,631) | (1,749,147) | (1,271,917) |
| 1,596,919 | 1,655,297 | 2,212,181 | 2,215,963 | 2,407,080 | 2,450,401 |
| (1,474,364) | (1,530,001) | (1,997,976) | (2,058,113) | (2,216,338) | (2,277,548) |
| - | 1,432 | 3,718 | 4,046 | 5,002 | 2,476 |
| 593,065 | 586,744 | 786,524 | 99,721 | 1,166,080 | 1,058,693 |
| 21,625 | 29,610 | 200,745 | 14,310 | 33,997 | 106,354 |
| 3,939 | - | - | 134 | 17 | 558 |
| (130,389) | (38,777) | (210,383) | (15,036) | (35,261) | (182,531) |
| - | - | - | - | - | - |
| 610,795 | 704,305 | 994,809 | 261,025 | 1,360,577 | 1,158,403 |
| \$ 369,358 | \$ 1,287,980 | \$ 435,313 | \$ 27,394 | \$ (388,570) | \$ (113,514) |
| 3.17% | 2.84% | 3.03% | 3.24% | 3.27% | 3.55% |

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

| | 2000 | 2001 | 2002 | 2003 |
|-------------------------------------------|---------------|----------------|----------------|----------------|
| Farm earnings | \$ 821,652 | \$ 828,185 | \$ 829,111 | \$ 1,133,222 |
| Forestry, fishing, and related activities | 1,264,569 | 1,202,356 | 1,268,658 | 1,312,549 |
| Mining | 112,699 | 95,413 | 108,317 | 110,338 |
| Utilities | 430,949 | 487,042 | 493,940 | 499,151 |
| Construction | 5,886,555 | 5,683,098 | 5,519,066 | 5,420,905 |
| Manufacturing | 12,350,161 | 12,068,658 | 11,477,755 | 11,692,933 |
| Wholesale trade | 4,804,888 | 4,590,286 | 4,684,768 | 4,932,924 |
| Retail trade | 5,884,619 | 5,940,814 | 6,012,167 | 6,143,951 |
| Transportation and warehousing | 2,731,715 | 2,652,130 | 2,699,411 | 2,794,115 |
| Information | 2,269,716 | 2,314,135 | 2,152,139 | 2,232,758 |
| Finance and insurance | 3,454,109 | 3,691,743 | 3,910,658 | 4,203,121 |
| Real estate, rental, and leasing | 1,627,261 | 1,759,380 | 1,786,438 | 1,798,816 |
| Professional and technical services | 4,852,821 | 5,191,634 | 5,062,805 | 5,032,742 |
| Management of companies | 1,989,083 | 2,085,570 | 1,988,387 | 2,082,404 |
| Administrative and waste services | 2,494,865 | 2,632,039 | 2,803,570 | 2,856,657 |
| Educational services | 628,321 | 692,734 | 765,148 | 825,098 |
| Health care and social assistance | 6,523,155 | 7,274,163 | 7,885,861 | 8,546,013 |
| Arts, entertainment, and recreation | 685,123 | 682,171 | 728,496 | 707,968 |
| Accommodation and food services | 2,334,619 | 2,383,381 | 2,449,514 | 2,592,964 |
| Other services | 3,007,548 | 2,730,684 | 3,080,209 | 3,128,763 |
| Federal government, civilian | 2,075,709 | 2,102,828 | 2,208,127 | 2,318,754 |
| Military | 255,683 | 269,098 | 344,069 | 465,924 |
| State government | 2,488,737 | 2,702,590 | 3,166,059 | 3,350,143 |
| Local government | 7,107,519 | 7,814,702 | 9,190,074 | 9,747,125 |
| Other ¹ | 22,447,730 | 23,562,995 | 24,075,056 | 24,557,572 |
| Total personal income | \$ 98,529,806 | \$ 101,437,829 | \$ 104,689,803 | \$ 108,486,910 |
| Overall effective tax rate ² | 5.9% | 5.6% | 5.5% | 5.6% |

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

¹ Includes income from all sources other than wages, salaries, tips, etc.

² Overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). Overall effective tax rate for 2009 will not be available until May 2011.

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

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----|-------------|----------------|----------------|----------------|----------------|----------------|
| \$ | 1,266,992 | \$ 1,251,155 | \$ 1,395,741 | \$ 1,331,125 | \$ 1,291,601 | \$ 1,170,126 |
| | 1,331,352 | 1,285,359 | 1,325,672 | 1,336,670 | 1,286,332 | 1,194,628 |
| | 129,145 | 149,690 | 176,688 | 168,259 | 184,185 | 150,999 |
| | 544,222 | 493,631 | 578,150 | 559,647 | 606,942 | 624,716 |
| | 5,735,371 | 6,300,773 | 7,136,634 | 7,296,870 | 6,766,649 | 5,513,610 |
| | 12,444,768 | 12,995,354 | 13,581,233 | 13,810,244 | 13,722,760 | 12,152,364 |
| | 5,369,704 | 5,727,877 | 6,117,489 | 6,511,252 | 6,502,896 | 6,117,182 |
| | 6,427,161 | 6,720,002 | 7,117,110 | 7,276,570 | 6,918,054 | 6,480,635 |
| | 3,032,861 | 3,237,643 | 3,398,816 | 3,515,872 | 3,492,597 | 3,240,076 |
| | 2,347,099 | 2,361,907 | 2,574,771 | 2,810,004 | 2,912,539 | 2,719,544 |
| | 4,207,548 | 4,549,970 | 4,937,162 | 4,982,846 | 4,808,297 | 4,666,935 |
| | 1,797,189 | 1,914,613 | 1,905,530 | 1,613,593 | 1,566,981 | 1,502,508 |
| | 5,451,694 | 5,844,322 | 6,445,319 | 6,874,117 | 7,541,426 | 7,307,159 |
| | 2,192,056 | 2,388,593 | 2,648,253 | 2,934,554 | 2,997,696 | 2,824,651 |
| | 2,960,600 | 3,272,372 | 3,571,935 | 3,661,469 | 3,669,829 | 3,309,604 |
| | 940,048 | 970,480 | 1,064,265 | 1,080,392 | 1,165,787 | 1,221,766 |
| | 9,193,333 | 9,663,907 | 10,423,447 | 11,091,584 | 11,899,035 | 12,271,662 |
| | 703,050 | 704,638 | 753,178 | 818,517 | 826,719 | 774,929 |
| | 2,771,718 | 2,923,274 | 3,093,413 | 3,334,636 | 3,239,696 | 3,106,742 |
| | 3,331,909 | 3,638,057 | 3,880,457 | 3,968,283 | 3,903,430 | 3,770,592 |
| | 2,483,111 | 2,556,461 | 2,637,867 | 2,725,309 | 2,832,694 | 2,906,921 |
| | 495,087 | 562,473 | 536,067 | 549,063 | 591,300 | 682,112 |
| | 4,075,149 | 2,937,564 | 3,067,642 | 3,257,375 | 3,515,533 | 3,694,216 |
| | 8,167,816 | 8,789,153 | 9,062,157 | 9,530,383 | 10,164,532 | 10,487,088 |
| | 25,574,851 | 26,394,808 | 29,974,094 | 32,624,258 | 36,797,713 | 40,312,435 |
| \$ | 112,973,834 | \$ 117,634,076 | \$ 127,403,090 | \$ 133,662,892 | \$ 139,205,223 | \$ 138,203,200 |
| | 5.7% | 5.7% | 5.7% | 5.7% | 5.5% | N/A |

Schedule 6
PERSONAL INCOME TAX RATES
Last Ten Calendar Years

Top Income Tax Rate is
Applied to Taxable Income in
Excess of

| Year | Top Rate | Single & Married Filing Separately | Married Filing Jointly & Head of Household | Overall Effective Tax Rate ¹ |
|------|----------|------------------------------------------|--------------------------------------------------|-----------------------------------------------|
| 2000 | 9.0% | 6,100 | 12,200 | 5.9% |
| 2001 | 9.0% | 6,300 | 12,600 | 5.6% |
| 2002 | 9.0% | 6,250 | 12,500 | 5.5% |
| 2003 | 9.0% | 6,350 | 12,700 | 5.6% |
| 2004 | 9.0% | 6,500 | 13,000 | 5.7% |
| 2005 | 9.0% | 6,650 | 13,300 | 5.7% |
| 2006 | 9.0% | 6,850 | 13,700 | 5.7% |
| 2007 | 9.0% | 7,150 | 14,300 | 5.7% |
| 2008 | 9.0% | 7,300 | 14,600 | 5.5% |
| 2009 | 9.0% | 7,600 | 15,200 | N/A |

Source: Oregon Department of Revenue

¹ Overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). Overall effective tax rate for 2009 will not be available until May 2011.

Schedule 7
PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
 Calendar Years 1999 and 2008
 (Dollars In Thousands)

| 1999 | | | | |
|----------------------|------------------|---------------------|-------------------------------|---------------------|
| Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| \$500,001 and higher | 4,967 | 0.31% | \$ 540,146 | 13.95% |
| \$100,001–\$500,000 | 95,573 | 5.96% | 1,085,774 | 28.04% |
| \$80,001–\$100,000 | 67,094 | 4.19% | 364,822 | 9.42% |
| \$60,001–\$80,000 | 135,820 | 8.47% | 536,953 | 13.87% |
| \$40,001–\$60,000 | 236,594 | 14.76% | 618,993 | 15.99% |
| \$20,001–\$40,000 | 396,343 | 24.73% | 542,834 | 14.02% |
| \$10,001–\$20,000 | 295,638 | 18.44% | 145,813 | 3.77% |
| \$10,000 and lower | 370,821 | 23.14% | 36,442 | 0.94% |
| Total | 1,602,850 | 100.00% | \$ 3,871,777 | 100.00% |

| 2008 | | | | |
|----------------------|------------------|---------------------|-------------------------------|---------------------|
| Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| \$500,001 and higher | 7,357 | 0.41% | \$ 704,159 | 14.04% |
| \$100,001–\$500,000 | 188,529 | 10.44% | 1,897,652 | 37.83% |
| \$80,001–\$100,000 | 112,990 | 6.26% | 537,177 | 10.71% |
| \$60,001–\$80,000 | 176,092 | 9.75% | 608,663 | 12.13% |
| \$40,001–\$60,000 | 259,737 | 14.38% | 607,133 | 12.10% |
| \$20,001–\$40,000 | 414,067 | 22.93% | 512,951 | 10.22% |
| \$10,001–\$20,000 | 279,788 | 15.49% | 121,203 | 2.42% |
| \$10,000 and lower | 367,283 | 20.34% | 27,555 | 0.55% |
| Total | 1,805,843 | 100.00% | \$ 5,016,493 | 100.00% |

Source: Oregon Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Tax year 2008 is the most current year available.

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

| Year | Governmental Activities | | | | | Business-type Activities | | | | Total Primary Government | Percentage of Personal Income ¹ | Per Capita ¹ |
|------|--------------------------|---------------|-------------------------------|-----------------------------|----------------|--------------------------|---------------|-------------------------------|----------------|--------------------------|--------------------------------------------|-------------------------|
| | General Obligation Bonds | Revenue Bonds | Certificates of Participation | General Appropriation Bonds | Capital Leases | General Obligation Bonds | Revenue Bonds | Certificates of Participation | Capital Leases | | | |
| 2001 | 77,845 | 502,025 | 784,849 | - | - | 2,205,097 | 1,323,938 | 30,736 | 3,066 | 4,927,556 | 4.86% | 1.42 |
| 2002 | 68,715 | 749,042 | 784,839 | - | 5 | 2,317,143 | 1,441,640 | 28,018 | 1,381 | 5,390,783 | 5.15% | 1.53 |
| 2003 | 163,231 | 807,478 | 779,105 | 469,960 | 79 | 2,149,557 | 1,574,960 | 25,475 | 897 | 5,970,742 | 5.50% | 1.68 |
| 2004 | 2,347,854 | 763,110 | 783,180 | 466,214 | 47 | 2,016,631 | 1,667,734 | 18,288 | 527 | 8,063,585 | 7.14% | 2.26 |
| 2005 | 2,336,014 | 1,093,936 | 895,231 | 440,372 | 3,954 | 2,009,091 | 1,783,305 | 20,633 | 711 | 8,583,247 | 7.30% | 2.37 |
| 2006 | 2,321,899 | 1,458,648 | 1,090,086 | 413,026 | 3,464 | 1,991,627 | 1,694,009 | 22,916 | 490 | 8,996,165 | 7.06% | 2.45 |
| 2007 | 2,334,620 | 2,098,181 | 1,090,193 | 383,655 | 2,949 | 2,065,472 | 1,672,267 | 31,589 | 335 | 9,679,261 | 7.24% | 2.59 |
| 2008 | 2,325,539 | 2,040,137 | 1,081,694 | 351,958 | 2,480 | 2,271,016 | 1,761,874 | 31,320 | 164 | 9,866,182 | 7.09% | 2.61 |
| 2009 | 2,361,621 | 2,770,290 | 1,283,559 | 296,002 | 1,899 | 2,335,703 | 1,669,920 | 97,097 | 137 | 10,816,228 | 7.83% | 2.83 |
| 2010 | 2,333,486 | 3,326,393 | 1,496,727 | 235,916 | 13,250 | 2,265,774 | 1,645,617 | 120,933 | 697 | 11,438,793 | 8.17% | 2.96 |

Note: Details regarding the State's debt can be found in Note 10 of the financial statements. Amounts of outstanding debt for bonds and certificates of participation represent the outstanding principal, net of discounts, premiums and other adjustments, except for amounts prior to 2002 when GASB Statement No. 34 was implemented.

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

Schedule 9
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
 Last Ten Fiscal Years
 (Dollars In Thousands)

| Year | General Obligation Bonds | Percentage of Personal Income ¹ | Per Capita |
|-------------|-----------------------------------------|-------------------------------------------------------|-------------------|
| 2001 | \$ 2,282,942 | 2.25% | \$ 0.66 |
| 2002 | 2,385,858 | 2.28% | 0.68 |
| 2003 | 2,312,788 | 2.13% | 0.65 |
| 2004 | 4,364,485 | 3.86% | 1.22 |
| 2005 | 4,345,105 | 3.69% | 1.20 |
| 2006 | 4,313,526 | 3.39% | 1.17 |
| 2007 | 4,400,092 | 3.29% | 1.18 |
| 2008 | 4,596,555 | 3.30% | 1.22 |
| 2009 | 4,697,324 | 3.40% | 1.23 |
| 2010 | 4,599,260 | 3.29% | 1.19 |

Note: Details regarding the State's debt can be found in Note 10 of the financial statements. Amounts of outstanding general bonded debt represent the outstanding principal, net of discounts, premiums and other adjustments, except for amounts prior to 2002 when GASB Statement No. 34 was implemented.

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

Schedule 10
LEGAL DEBT MARGIN CALCULATION
For Fiscal Year 2010

| | Constitutional/Statutory Provision | Constitutional Debt Limit ¹ | Statutory Debt Limit |
|----------------------------------------------|---------------------------------------|-------------------------------------------|-------------------------|
| General Obligation Bonds | | | |
| General Purpose | Article XI Section 7 | 0.00% | \$ - |
| State Highway | Article XI Section 7 | 1.00% | - |
| Veterans' Welfare | Article XI-A | 8.00% | - |
| State Power Development | Article XI-D | 1.50% | - |
| Forest Rehabilitation ² | Article XI-E | 0.19% | - |
| Higher Education | Article XI-F(1) & XI-G | 1.50% | - |
| Pollution Control | Article XI-H/ORS 468.195 | 1.00% | 260,000,000 |
| Water Resources | Article XI-I(1) | 1.50% | - |
| Elderly and Disabled Housing | Article XI-I(2) | 0.50% | - |
| Alternate Energy Projects | Article XI-J | 0.50% | - |
| Oregon School Bond Guaranty | Article XI-K | 0.50% | - |
| Oregon Opportunity Bonds (OHSU) ³ | Article XI-L/ORS 353.556 | 0.50% | 203,175,000 |
| Seismic Rehab-Public Education Buildings | Article XI-M | 0.20% | - |
| Seismic Rehab-Emergency Service Building | Article XI-N | 0.20% | - |
| Pension Obligation | Article XI-O | 1.00% | - |
| Revenue Bonds | | | |
| Transportation Infrastructure Bank | ORS 367.030 | 0.00% | \$ 200,000,000 |
| Highway User Tax | ORS 367.620 | 0.00% | 3,240,000,000 |
| Single and Multi-Family Housing Programs | ORS 456.661 | 0.00% | 2,500,000,000 |
| Oregon State Fair | ORS 565.095 | 0.00% | 10,000,000 |

Source: Office of the State Treasurer, Debt Management Division, and Oregon Constitution

Note: The legal debt limit for lottery revenue bonds is based on the requirement that unobligated net lottery proceeds be at least 400 percent of the maximum annual debt service on outstanding bonds, including the estimated debt service on proposed new bonds. The debt limit for lottery bonds is not a specific dollar amount; the limit varies based on changes in the amount of net lottery proceeds and changes in estimated debt service on proposed new bonds. Therefore, lottery revenue bonds are not included in this schedule.

¹ Percentages listed are of Real Market Value (RMV) of all taxable real property in the State, based on the January 1, 2009 RMV of \$498,684,550,831.

² Issuance of Forest Rehabilitation bonds is limited by statute to \$750,000 per year.

³ Bonds issued to finance capital costs of Oregon Health and Science University shall be in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million plus the amount of any costs and expenses of issuing the bonds.

Schedule 10 (continued)
LEGAL DEBT MARGIN CALCULATION
For Fiscal Year 2010

| Legal Debt Limit | Amount Outstanding | Legal Debt Margin |
|-----------------------------|-------------------------------|------------------------------|
| \$ 50,000 | \$ - | \$ 50,000 |
| 4,986,845,508 | - | 4,986,845,508 |
| 39,894,764,066 | 440,894,401 | 39,453,869,665 |
| 7,480,268,262 | - | 7,480,268,262 |
| 935,033,533 | - | 935,033,533 |
| 7,480,268,262 | 1,546,089,361 | 5,934,178,901 |
| 260,000,000 | 41,274,996 | 218,725,004 |
| 7,480,268,262 | - | 7,480,268,262 |
| 2,493,422,754 | 172,025,992 | 2,321,396,762 |
| 2,493,422,754 | 190,934,507 | 2,302,488,247 |
| 2,493,422,754 | - | 2,493,422,754 |
| 203,175,000 | 165,250,042 | 37,924,958 |
| 997,369,102 | - | 997,369,102 |
| 997,369,102 | - | 997,369,102 |
| 4,986,845,508 | 2,042,790,000 | 2,944,055,508 |
| <u>\$ 83,182,524,867</u> | <u>\$ 4,599,259,299</u> | <u>\$ 78,583,265,568</u> |
| | | |
| \$ 200,000,000 | \$ - | \$ 200,000,000 |
| 3,240,000,000 | 2,800,336,802 | 439,663,198 |
| 2,500,000,000 | 1,429,277,779 | 1,070,722,221 |
| 10,000,000 | - | 10,000,000 |
| <u>\$ 5,950,000,000</u> | <u>\$ 4,229,614,581</u> | <u>\$ 1,720,385,419</u> |

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

| | 2001 | 2002 | 2003 | 2004 |
|---------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
| General Obligation Bonds | | | | |
| Debt limit | \$ 38,185,215 | \$ 41,878,725 | \$ 45,244,118 | \$ 52,440,336 |
| Total debt applicable to limit | 2,282,942 | 2,385,858 | 2,312,788 | 4,364,485 |
| Legal debt margin | <u>\$ 35,902,273</u> | <u>\$ 39,492,867</u> | <u>\$ 42,931,330</u> | <u>\$ 48,075,851</u> |
| Total debt applicable to the limit as a percentage of debt limit | 5.98% | 5.70% | 5.11% | 8.32% |
| Revenue Bonds | | | | |
| Debt limit | \$ 2,548,400 | \$ 3,110,000 | \$ 3,110,000 | \$ 4,838,000 |
| Total debt applicable to limit | 1,371,417 | 1,702,414 | 1,790,178 | 1,877,507 |
| Legal debt margin | <u>\$ 1,176,983</u> | <u>\$ 1,407,586</u> | <u>\$ 1,319,822</u> | <u>\$ 2,960,493</u> |
| Total debt applicable to the limit as a percentage of debt limit | 53.81% | 54.74% | 57.56% | 38.81% |

Source: Office of the State Treasurer, Debt Management Division

Note: Amounts of outstanding debt applicable to the debt limit represent the outstanding principal, net of discounts, premiums and other adjustments, except for amounts prior to 2002 when GASB Statement No. 34 was implemented.

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

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 56,691,300 | \$ 60,648,799 | \$ 72,505,925 | \$ 83,591,921 | \$ 87,606,697 | \$ 83,182,525 |
| 4,345,105 | 4,313,526 | 4,400,092 | 4,596,555 | 4,697,324 | 4,599,259 |
| <u>\$ 52,346,195</u> | <u>\$ 56,335,273</u> | <u>\$ 68,105,833</u> | <u>\$ 78,995,366</u> | <u>\$ 82,909,373</u> | <u>\$ 78,583,266</u> |
| 7.66% | 7.11% | 6.07% | 5.50% | 5.36% | 5.53% |
| | | | | | |
| \$ 4,838,000 | \$ 4,938,000 | \$ 4,938,000 | \$ 5,110,000 | \$ 5,950,000 | \$ 5,950,000 |
| 2,326,329 | 2,472,294 | 3,051,456 | 3,086,639 | 3,728,117 | 4,229,615 |
| <u>\$ 2,511,671</u> | <u>\$ 2,465,706</u> | <u>\$ 1,886,544</u> | <u>\$ 2,023,361</u> | <u>\$ 2,221,883</u> | <u>\$ 1,720,385</u> |
| 48.08% | 50.07% | 61.80% | 60.40% | 62.66% | 71.09% |

Schedule 12
PLEDGED REVENUES
 Lottery Revenue Bonds
 Last Ten Fiscal Years
 (Dollars In Thousands)

| Year | Revenues | Expenses | Net Revenues | | | | Coverage |
|------|------------|------------|----------------------------|----------------------|-----------|-----------|----------|
| | | | Available for Debt Service | Service Requirements | | Total | |
| | | | | Principal | Interest | | |
| 2001 | \$ 794,787 | \$ 473,729 | \$ 321,058 | \$ 16,535 | \$ 21,775 | \$ 38,310 | 8.38 |
| 2002 | 820,646 | 489,470 | 331,176 | 27,295 | 23,441 | 50,736 | 6.53 |
| 2003 | 860,767 | 511,310 | 349,457 | 27,860 | 21,391 | 49,251 | 7.10 |
| 2004 | 883,446 | 502,100 | 381,346 | 36,410 | 26,718 | 63,128 | 6.04 |
| 2005 | 944,466 | 511,528 | 432,938 | 44,715 | 26,769 | 71,484 | 6.06 |
| 2006 | 1,092,446 | 533,895 | 558,551 | 47,670 | 27,159 | 74,829 | 7.46 |
| 2007 | 1,219,556 | 577,103 | 642,453 | 48,970 | 25,984 | 74,954 | 8.57 |
| 2008 | 1,262,601 | 583,829 | 678,772 | 56,795 | 33,714 | 90,509 | 7.50 |
| 2009 | 1,111,945 | 543,662 | 568,283 | 65,985 | 32,380 | 98,365 | 5.78 |
| 2010 | 1,033,880 | 517,196 | 516,684 | 73,051 | 51,802 | 124,853 | 4.14 |

Source: Oregon State Lottery financial statements and the Oregon Department of Administrative Services, Budget and Management Division.

Note: The State also issues revenue bonds that are primarily paid using loan repayments. Schedules for these bonds are not presented because an association of net revenues with debt service requirements is not meaningful.

Schedule 13
DEMOGRAPHIC AND ECONOMIC INDICATORS
 Last Ten Calendar Years

| Year | Population | Personal Income ¹ | Per Capita Personal Income | Unemployment Rate |
|-------------|-------------------|-----------------------------------------|-------------------------------------------|------------------------------|
| 2001 | 3,470,382 | \$101,437,829 | \$ 29,230 | 6.4% |
| 2002 | 3,517,111 | 104,689,803 | 29,766 | 7.6% |
| 2003 | 3,550,180 | 108,486,910 | 30,558 | 8.1% |
| 2004 | 3,573,505 | 112,973,834 | 31,614 | 7.3% |
| 2005 | 3,617,869 | 117,634,076 | 32,515 | 6.2% |
| 2006 | 3,677,545 | 127,403,090 | 34,644 | 5.3% |
| 2007 | 3,732,957 | 133,662,892 | 35,806 | 5.1% |
| 2008 | 3,782,991 | 139,205,223 | 36,798 | 6.5% |
| 2009 | 3,825,657 | 138,203,200 | 36,125 | 11.1% |
| 2010 | 3,858,000 | 140,000,000 | 36,288 | 10.8% |

Source: 2001 through 2009 US Department of Commerce, Bureau of Economic Analysis

Note: 2010 population and personal income estimates were made by the Oregon Office of Economic Analysis. The unemployment rate for 2010 was provided by the Oregon Employment Department.

¹ Personal income presented in thousands.

Schedule 14
EMPLOYMENT BY INDUSTRY
Calendar Year 2009 and Nine Years Prior

| | 2000 | | 2009 | |
|-------------------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | Number of Employees | Percent of Total | Number of Employees | Percent of Total |
| Farm employment | 65,674 | 3.13% | 70,124 | 3.17% |
| Forestry, fishing, and related activities | 29,421 | 1.40% | 28,641 | 1.30% |
| Mining | 3,392 | 0.16% | 5,055 | 0.23% |
| Utilities | 5,385 | 0.26% | 5,117 | 0.23% |
| Construction | 123,381 | 5.89% | 114,798 | 5.19% |
| Manufacturing | 233,175 | 11.13% | 178,692 | 8.08% |
| Wholesale trade | 83,518 | 3.99% | 83,288 | 3.77% |
| Retail trade | 242,170 | 11.56% | 228,772 | 10.34% |
| Transportation and warehousing | 64,107 | 3.06% | 62,658 | 2.83% |
| Information | 45,365 | 2.17% | 40,554 | 1.83% |
| Finance and insurance | 82,443 | 3.94% | 95,578 | 4.32% |
| Real estate, rental, and leasing | 78,405 | 3.74% | 103,197 | 4.67% |
| Professional and technical services | 112,880 | 5.39% | 132,222 | 5.98% |
| Management of companies | 26,863 | 1.28% | 31,560 | 1.43% |
| Administrative and waste services | 109,666 | 5.24% | 109,802 | 4.96% |
| Educational services | 32,769 | 1.56% | 49,942 | 2.26% |
| Health care and social assistance | 188,948 | 9.02% | 249,158 | 11.27% |
| Arts, entertainment, and recreation | 42,364 | 2.02% | 52,961 | 2.39% |
| Accommodation and food services | 139,124 | 6.64% | 154,030 | 6.96% |
| Other services | 107,931 | 5.15% | 118,269 | 5.35% |
| Federal government, civilian | 31,172 | 1.49% | 29,974 | 1.36% |
| Military | 12,907 | 0.62% | 12,465 | 0.56% |
| State government | 61,181 | 2.92% | 69,335 | 3.14% |
| Local government | 172,584 | 8.24% | 185,348 | 8.38% |
| Total employment | 2,094,825 | 100.00% | 2,211,540 | 100.00% |

Source: US Department of Commerce, Bureau of Economic Analysis

Note: Due to confidentiality issues, the names of the ten principal employers are not available. The categories presented are intended to provide alternative information regarding the concentration of employment in various business sectors.

Schedule 15
GOVERNMENT EMPLOYEES
Last Ten Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Education | 12,081 | 12,402 | 12,402 | 12,691 | 12,691 | 12,411 | 12,411 | 13,117 | 13,117 | 13,394 |
| Human Services | 8,678 | 8,983 | 8,983 | 9,281 | 9,281 | 9,200 | 9,200 | 9,753 | 9,753 | 11,145 |
| Public Safety | 7,949 | 8,265 | 8,265 | 7,810 | 7,810 | 8,187 | 8,187 | 9,021 | 9,021 | 9,069 |
| Economic and Community Services | 1,881 | 1,940 | 1,940 | 1,846 | 1,846 | 1,753 | 1,753 | 1,650 | 1,650 | 1,991 |
| Natural Resources | 4,042 | 4,272 | 4,272 | 4,163 | 4,163 | 4,272 | 4,272 | 4,367 | 4,367 | 4,332 |
| Transportation | 4,796 | 4,742 | 4,742 | 4,602 | 4,602 | 4,579 | 4,579 | 4,535 | 4,535 | 4,554 |
| Consumer and Business Services | 1,627 | 1,589 | 1,589 | 1,559 | 1,559 | 1,550 | 1,550 | 1,593 | 1,593 | 1,592 |
| Administration | 2,583 | 2,736 | 2,736 | 2,817 | 2,817 | 2,879 | 2,879 | 2,958 | 2,958 | 2,882 |
| Legislative Branch | 417 | 418 | 418 | 394 | 394 | 393 | 393 | 404 | 404 | 381 |
| Judicial Branch | 1,725 | 1,865 | 1,865 | 1,896 | 1,896 | 1,907 | 1,907 | 1,975 | 1,975 | 1,766 |
| Total FTE Positions | 45,779 | 47,212 | 47,212 | 47,059 | 47,059 | 47,131 | 47,131 | 49,373 | 49,373 | 51,106 |

Source: Department of Administrative Services, Budget and Management

Note: The number of full time equivalent (FTE) positions is established in the legislatively adopted biennial budget. A distinction between governmental and business-type activities is not available.

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

| | 2001 | 2002 | 2003 |
|-----------------------------------------------------------------|------------|------------|------------|
| Governmental Activities | | | |
| Education | | | |
| Number of PreK-12 students | 545,680 | 551,679 | 554,071 |
| Number of FTE community college students | 96,037 | 102,019 | 100,023 |
| Special education school campuses | 2 | 2 | 2 |
| Human Services | | | |
| Number of individuals eligible for Oregon Health Plan | 344,992 | 376,063 | 380,646 |
| Average number of basic TANF individuals | 36,050 | 39,366 | 41,272 |
| Public Safety | | | |
| Number of sworn state police officers | 735 | 753 | 699 |
| Prison inmate population | 10,668 | 11,448 | 12,000 |
| Number of correctional facilities | 12 | 12 | 12 |
| Economic and Community Development | | | |
| Community development grants provided (in dollars) | 18,185,247 | 10,914,364 | 12,340,280 |
| Number of technical assistance grants provided | 14 | 7 | 3 |
| Natural Resources | | | |
| Forest acres burned | 51,438 | 99,166 | 9,346 |
| State park day use visitors (in millions) | 37.9 | 37.9 | 38.4 |
| Acreage of state parks | 94,937 | 95,462 | 95,313 |
| Miles of forest roads | 3,035 | 3,055 | 3,059 |
| Transportation | | | |
| Licensed drivers (in millions) | 2.8 | 2.9 | 2.8 |
| Vehicle miles traveled on state highway system (in billions) | 20.5 | 20.9 | 20.8 |
| State highway system miles | 7,485 | 7,476 | 7,448 |
| Number of state owned bridges | 2,653 | 2,658 | 2,664 |
| Consumer and Business Services | | | |
| Number of employers covered by workers' compensation | 83,816 | 84,432 | 85,310 |
| Historic premiums written for all insurance lines (in billions) | 12.5 | 13.9 | 13.7 |
| Average bank and credit union assets (in billions) | 32.9 | 32.5 | 37.4 |
| Construction employment (in thousands) | 80.5 | 78.3 | 77.0 |
| Administration | | | |
| Number of tax returns filed | 1,623,813 | 1,616,700 | 1,611,785 |
| Percent of returns filed electronically | 25.5% | 30.6% | 34.7% |
| Uniform rent square footage | 1,690,606 | 1,690,606 | 1,690,606 |
| Leased office space square footage | 3,398,067 | 3,522,641 | 3,522,641 |
| Number of motor pool vehicles | 3,913 | 3,923 | 3,682 |
| Legislative | | | |
| Number of bills introduced | 3,106 | - | 2,769 |
| Number of bills becoming law | 989 | - | 817 |
| Length of legislative session (in days) | 181 | 52 | 227 |
| Capital building | 1 | 1 | 1 |
| Judicial | | | |
| Cases filed in circuit courts | 654,822 | 645,956 | 655,574 |
| Number of circuit court judges | 163 | 163 | 168 |

Sources: Various state agencies

Note: Figures for 2009 and 2010 that are not available until a later date are indicated with N/A.

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

| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------|------------|------------|-----------|------------|-----------|------------|
| 551,407 | 552,320 | 559,215 | 562,828 | 566,067 | 564,064 | 561,698 |
| 93,221 | 92,054 | 91,401 | 91,456 | 94,587 | 105,149 | 121,815 |
| 2 | 2 | 2 | 2 | 2 | 2 | 1 |
| 359,325 | 374,751 | 381,343 | 365,940 | 386,662 | 426,578 | 495,872 |
| 40,598 | 42,119 | 40,527 | 39,096 | 41,243 | 48,321 | 54,994 |
| 610 | 582 | 607 | 557 | 646 | 604 | 660 |
| 12,776 | 12,875 | 13,229 | 13,497 | 13,553 | 13,925 | 14,021 |
| 12 | 13 | 13 | 13 | 14 | 14 | 14 |
| 13,319,246 | 11,454,006 | 17,040,564 | 9,607,717 | 10,704,034 | 2,791,056 | 15,065,341 |
| 6 | 6 | 8 | 3 | 6 | 5 | 4 |
| 5,941 | 11,588 | 11,458 | 54,104 | 7,860 | 7,000 | 5,765 |
| 42.4 | 40.6 | 40.1 | 41.4 | 40.3 | 40.1 | 41.2 |
| 99,030 | 101,010 | 97,340 | 97,447 | 97,446 | 100,379 | 103,474 |
| 3,082 | 3,123 | 3,155 | 3,202 | 3,225 | 3,255 | 3,305 |
| 2.9 | 3.0 | 3.0 | 3.1 | 3.1 | 3.1 | N/A |
| 20.8 | 20.7 | 20.7 | 20.6 | 19.5 | 19.8 | N/A |
| 7,441 | 7,426 | 7,420 | 7,416 | 7,415 | 7,422 | N/A |
| 2,670 | 2,664 | 2,676 | 2,666 | 2,671 | 2,681 | 2,693 |
| 86,115 | 87,150 | 89,685 | 91,551 | 92,058 | 90,400 | N/A |
| 14.4 | 15.0 | 16.2 | 17.4 | 17.9 | 17.7 | N/A |
| 37.7 | 35.4 | 46.0 | 58.7 | 40.7 | 42.0 | N/A |
| 82.7 | 90.8 | 100.9 | 104.2 | 94.7 | 73.9 | N/A |
| 1,653,203 | 1,697,166 | 1,755,568 | 1,835,095 | 1,805,843 | N/A | N/A |
| 45.3% | 50.7% | 56.0% | 60.0% | 63.0% | N/A | N/A |
| 1,796,482 | 1,796,482 | 1,810,942 | 1,896,185 | 1,904,531 | 1,953,760 | 1,953,760 |
| 3,522,641 | 3,522,641 | 3,784,762 | 4,372,625 | 4,425,500 | 4,532,405 | 4,676,051 |
| 3,605 | 3,689 | 3,814 | 3,922 | 3,922 | 4,247 | 4,247 |
| - | 2,957 | - | 2,744 | 87 | 2,613 | 195 |
| - | 844 | - | 909 | 54 | 914 | 105 |
| - | 208 | 1 | 171 | 19 | 169 | 25 |
| 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 607,539 | 611,946 | 602,896 | 605,753 | 610,334 | 599,605 | N/A |
| 169 | 169 | 173 | 173 | 173 | 173 | 173 |

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

| | 2001 | 2002 | 2003 |
|------------------------------------------------------|-----------|-----------|-----------|
| Business-Type Activities | | | |
| Housing and Community Services | | | |
| Number of low income single family home loans closed | 1,337 | 1,322 | 1,014 |
| Number of affordable rental units produced | 1,327 | 206 | 978 |
| Veterans' Loan | | | |
| Number of outstanding loans | 22,296 | 18,014 | 13,788 |
| Percent of delinquent loans | 0.42% | 0.43% | 0.54% |
| Lottery Operations | | | |
| Number of retailers | 3,198 | 3,300 | 3,368 |
| Number of video terminals | 8,903 | 9,259 | 9,434 |
| Unemployment Compensation | | | |
| Number of claims paid | 3,025,616 | 4,648,216 | 5,025,707 |
| Amount of claims paid (in millions) | 705.3 | 1,153.0 | 1,277.8 |
| University System | | | |
| Total headcount enrollment | 73,883 | 78,111 | 79,558 |
| Degrees awarded | 13,288 | 13,729 | 15,274 |
| Number of university campuses | 7 | 7 | 7 |
| State Hospitals | | | |
| Number of mental health clients served | 288,792 | 291,527 | 282,675 |
| Number of state owned hospital beds | 820 | 880 | 833 |
| Liquor Control | | | |
| Number of state retail outlets | 237 | 238 | 237 |
| Number of cases sold | 1,763,159 | 1,812,009 | 1,889,240 |
| Other Business-type Activities | | | |
| Number of residents in Oregon Veterans' Home | 125 | 96 | 104 |
| Number of state owned parking spaces | 4,323 | 4,700 | 4,700 |

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

| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1,051 | 1,447 | 1,149 | 1,195 | 1,850 | 836 | 171 |
| 1,062 | 719 | 608 | 522 | 1,003 | 421 | - |
| 10,176 | 8,013 | 6,612 | 5,672 | 4,883 | 4,069 | 3,404 |
| 0.39% | 0.21% | 0.32% | 0.25% | 0.10% | 0.47% | 0.73% |
| 3,421 | 3,484 | 3,579 | 3,691 | 3,785 | 3,855 | 3,916 |
| 10,194 | 10,438 | 11,125 | 11,831 | 12,205 | 12,365 | 12,344 |
| 2,903,857 | 2,209,165 | 1,923,182 | 2,050,678 | 3,275,097 | 8,422,488 | N/A |
| 718.1 | 558.0 | 503.4 | 569 | 955 | 2,688 | N/A |
| 80,066 | 80,888 | 81,002 | 82,249 | 86,546 | 91,580 | 96,960 |
| 16,349 | 16,694 | 16,979 | 17,116 | 16,897 | 16,944 | 17,920 |
| 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| 295,183 | 304,731 | 284,265 | 282,993 | 284,640 | 268,052 | 247,104 |
| 810 | 834 | 781 | 790 | 788 | 756 | 709 |
| 239 | 241 | 243 | 241 | 242 | 240 | 243 |
| 2,014,098 | 2,108,035 | 2,295,797 | 2,431,531 | 2,551,732 | 2,572,865 | 2,573,935 |
| 120 | 132 | 135 | 140 | 140 | 138 | 144 |
| 4,507 | 4,507 | 4,507 | 4,656 | 4,665 | 4,568 | 4,545 |

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