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# Oregon State University

A member of the Oregon University System

## 2013 Annual Financial Report

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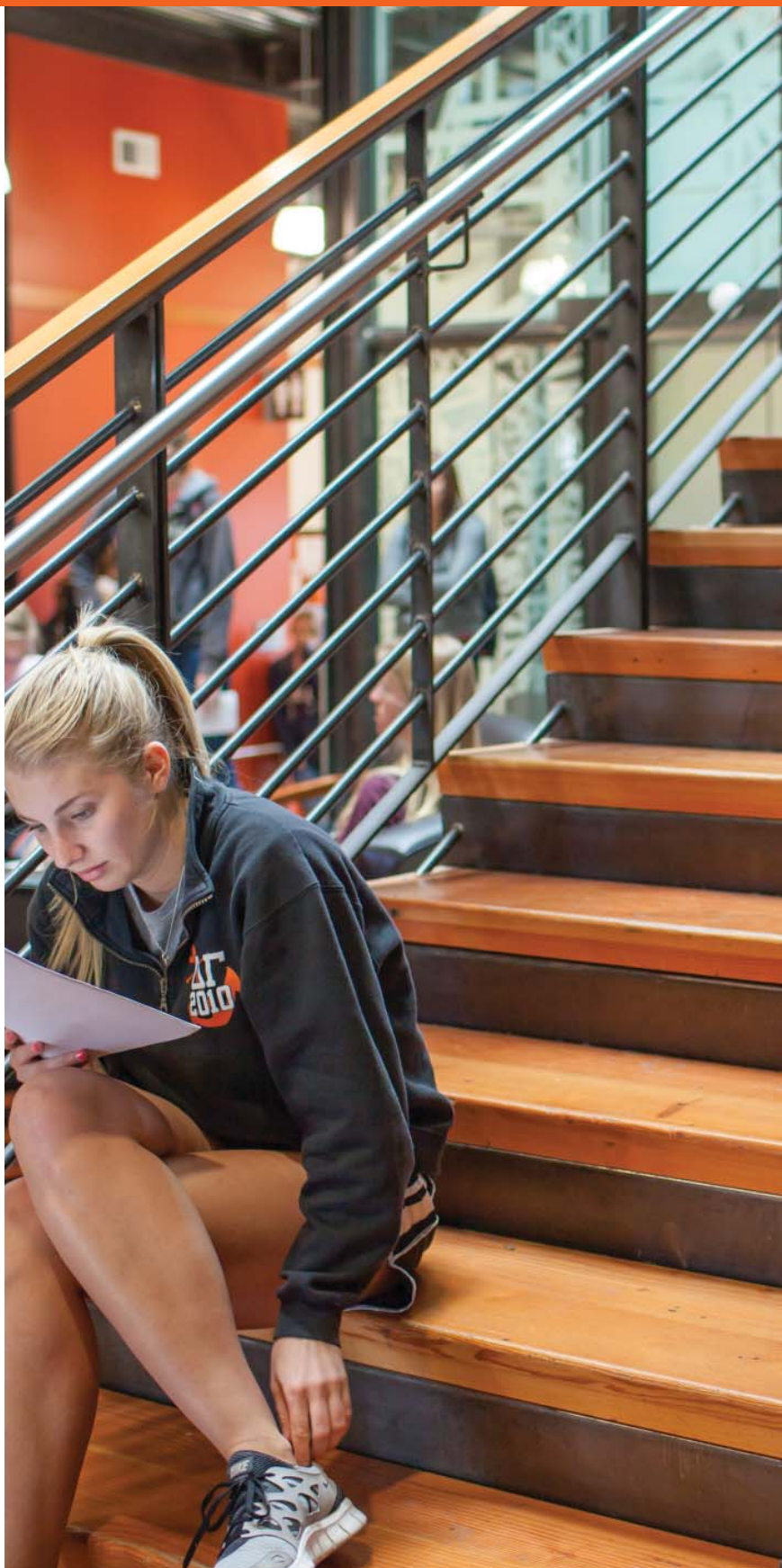


# Oregon State University 2013 Annual Report

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## State Board of Higher Education

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<b>Matthew W. Donegan</b> , <i>Board President</i>	<b>Portland</b>
<b>Jill W. Eiland</b> , <i>Board Vice President</i>	<b>Portland</b>
<b>Lynda M. Ciuffetti</b>	<b>Corvallis</b>
<b>Orcilia Forbes</b>	<b>Corvallis</b>
<b>Allyn C. Ford</b>	<b>Roseburg</b>
<b>James L. Francesconi</b>	<b>Portland</b>
<b>Farbodd Ganjifard</b>	<b>Corvallis</b>
<b>Paul J. Kelly, Jr.</b>	<b>Portland</b>
<b>Brittany Kenison</b>	<b>Portland</b>
<b>James E. Middleton</b>	<b>Bend</b>
<b>Emily J. Plec</b>	<b>Monmouth</b>
<b>Kirk E. Schueler</b>	<b>Bend</b>
<b>David V. Yaden</b>	<b>Lake Oswego</b>

## Oregon State University Executive Officers

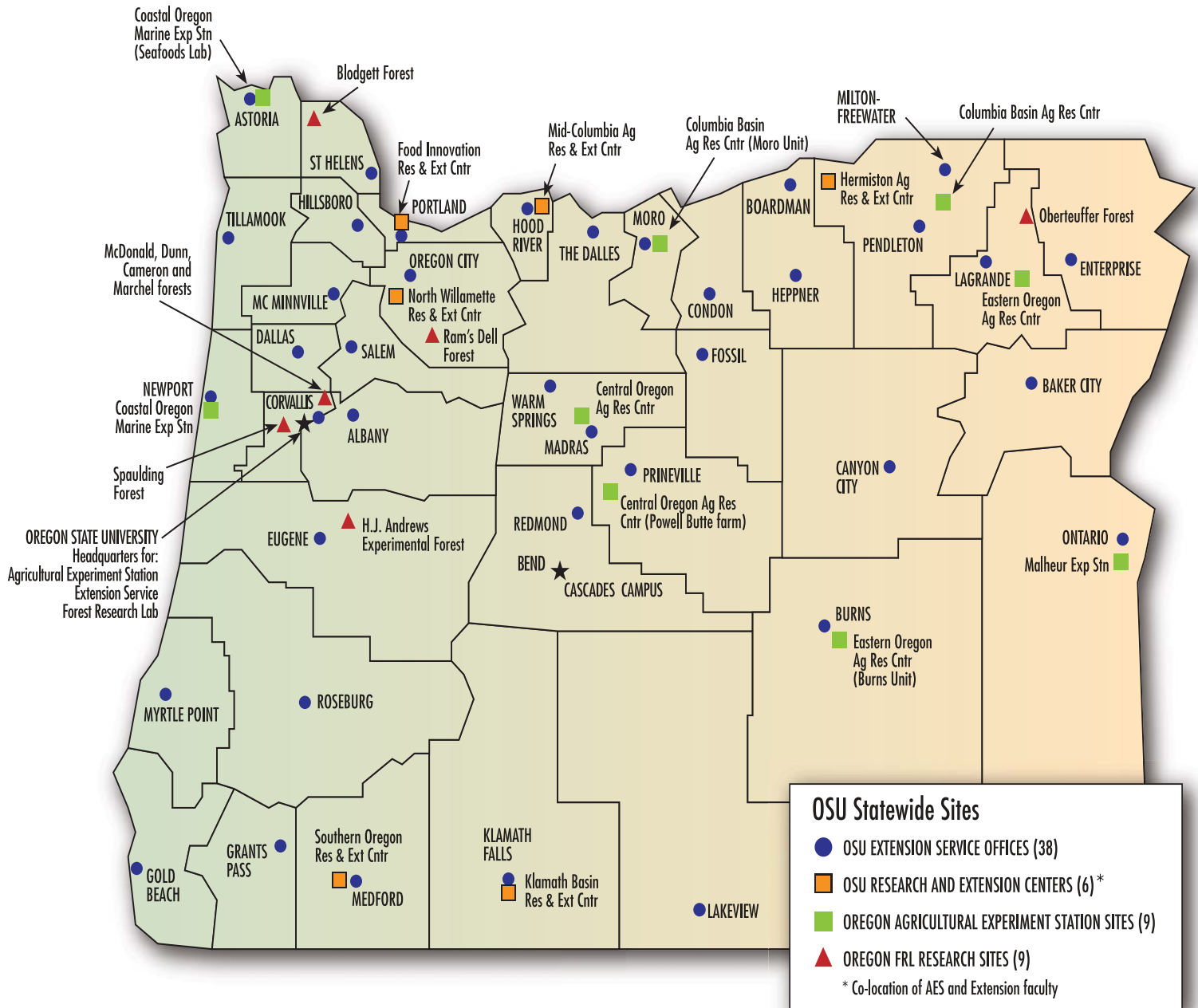
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<b>Edward J. Ray</b> <i>President</i>	
<b>Sabah Randhawa</b> <i>Provost/Executive Vice President</i>	
<b>Glenn Ford</b> <i>Vice President for Finance and Administration/CFO</i>	
<b>Rick Spinrad</b> <i>Vice President for Research</i>	
<b>Steve Clark</b> <i>Vice President for University Relations and Marketing</i>	
<b>Becky Johnson</b> <i>Vice President for OSU - Cascades</i>	
<b>Kathy Bickel</b> <i>Vice President, Alumni Relations</i>	
<b>Becky Warner</b> <i>Senior Vice Provost for Academic Affairs</i>	
<b>Meg Reeves</b> <i>General Counsel</i>	

Oregon State set another enrollment record in 2013 with 28,861 students for the fall term.



Oregon State University is a comprehensive, public, research-intensive university and a member of the Oregon University System, and serves as the state's land-, sea-, space- and sun-grant institution - one of only two universities with such designation in the country. OSU programs and faculty are located in every county of the state and are dedicated to providing solutions for the state's greatest challenges. OSU considers the state of Oregon its campus and works in partnership with many school districts, Oregon's community colleges and other OUS institutions to provide access to high quality educational programs. Meanwhile, strong collaborations with industry and state and federal agencies drive OSU's research enterprise.



### **MISSION**

As a land grant institution committed to teaching, research, and outreach and engagement, Oregon State University promotes economic, social, cultural and environmental progress for the people of Oregon, the nation and the world. This mission is achieved by producing graduates competitive in the global economy, supporting a continuous search for new knowledge and solutions, and maintaining a rigorous focus on academic excellence, particularly in three Signature Areas: Advancing the Science of Sustainable Earth Ecosystems; Improving Human Health and Wellness; and Promoting Economic Growth and Social Progress.

### **VISION**

To best serve its mission, Oregon State University will be among the Top 10 land grant institutions in America and will be recognized as a premier international public research university.

### **GOALS**

Provide outstanding academic programs that further strengthen performance and pre-eminence in three Signature Areas of Distinction: Advancing the Science of Sustainable Earth Ecosystems; Improving Human Health and Wellness; and Promoting Economic Growth and Social Progress.

Provide an excellent teaching and learning environment and achieve student access, persistence and success through graduation and beyond that matches the best land grant universities in the country.

Substantially increase revenues from private fund-raising, partnerships, research grants, and technology transfers while strengthening our ability to more effectively invest and allocate resources to achieve success.

OSU Strategic Plan: <http://oregonstate.edu/leadership/strategicplan/>

## Message from the President

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Through the efforts of many, I am pleased to report that the financial state of Oregon State University is very strong. Our strategic planning and the creativity of this remarkable university community have enabled us to advance our mission in a powerful and fiscally responsible manner.

Oregon State achieved many major accomplishments this past year. The most sweeping change was the decision to pursue a new governance model with an independent board of trustees. We also launched the Oregon State University Advantage to serve business partners and foster economic development throughout the state and nation – especially in the areas of innovative materials, energy and clean technology, and high tech among others. Our Ecampus effort expanded to 33 degree programs and was named the fourth best online program in the country by SuperScholar Smart Choice. We broke ground on a new residence hall and Austin Hall, the future home of OSU’s College of Business. The National Science Foundation selected OSU to lead a project to design up to three new coastal research vessels to bolster U.S. marine science research capabilities. The project could bring \$290 million of revenue to OSU over 10 years if all three vessels are built. These are just some of the highlights of the past year at OSU.

While accomplishing those milestones, Oregon State continued to move to the front ranks of international and comprehensive research land grant universities in America. We have a strong and diverse leadership team in place. They are working on Strategic Plan 3.0, which will be finalized in early 2014, to help guide continued success for OSU during the next five years.

As Oregon’s statewide university, OSU plays a key role in helping to achieve the state’s 40-40-20 educational achievement goals. This ambitious plan calls for 40 percent of adult Oregonians to hold a bachelor’s or advanced degree, 40 percent to have an associate’s degree or a meaningful post-secondary certificate, and all adult Oregonians to hold a high school diploma or equivalent by the year 2025. Oregon State is strongly committed to this plan’s achievement. To help achieve 40-40-20, I have outlined a plan to maintain OSU’s 25 percent enrollment share among state universities. The plan calls for 28,000 students to be enrolled at our Corvallis campus; 3,000-5,000 students at our OSU-Cascades campus in Bend; up to 500 students at a Marine Studies Campus in Newport; and 5,500 degree-seeking students enrolled at Oregon State entirely online.

As part of this effort, the Oregon University System Board has endorsed four-year programs in established degree areas to be offered at our OSU-Cascades branch campus by fall 2015. This campus will serve students who want to remain in Central Oregon and attend a four-year college and will provide out-of-state and international students with an alternative to our Corvallis campus. With the strong support of the

Board, the Governor and key legislators, the legislature approved \$20 million in state bonds, to be combined with private gifts and Cascades Campus reserves to fund the early development of a separate campus for OSU-Cascades. We are now in the process of acquiring 56 acres for the site of this campus. The proposal for a Marine Studies Campus emerged from a study authored by our Office of Research. I am moving this initiative forward through active conversations with many partners along the coast and throughout Oregon.

On the financial front, Oregon State had many successes in 2013. The Campaign for OSU raised \$104.8 million and research funding—despite federal sequestration—reached \$263 million. The university closed FY13 with a fund balance of more than 8 percent of revenue. Our university-industry partnerships produced \$36 million last year, and royalty revenues reached \$7.8 million, an OSU record and 80 percent above the prior year.

Tuition rates and college affordability continued to be a key concern among OSU leadership, students and their families. The 2013 Oregon Legislature approved \$15 million in funding to reduce proposed resident undergraduate tuition rate increases at the state’s public universities for the 2013-14 academic year to an average of 3.5 percent. Meeting in a September 2013 special session, the Legislature authorized additional funds to reduce resident undergraduate tuition rate increases for winter and spring terms to an average of 2 percent and to freeze tuition rate increases for the 2014-15 academic year. It is noteworthy that prior to those tuition buy-down actions the Fiske Guide to Colleges had identified Oregon State as a “best buy” university for both 2013 and 2014.

OSU’s commitment to move to the front ranks of international and comprehensive land grant universities in America remains a top priority. We intend to climb the quality ladder in every dimension in which we operate, and to demonstrate that excellence is achieved through diversity. Over the past five years, OSU has attracted more Oregon high school valedictorians and salutatorians than any other university in the state. This year we launched a long-term effort known as the First-Year Experience program to raise retention rates for all first-time students and attain a higher six-year graduation rate. We also brought in 32 new tenure-track faculty this year whose positions were centrally funded and going forward we plan to hire up to 50 new tenure-track faculty positions and 24 academic support staff each year.

Looking forward, we will implement a faculty salary increase of 3 percent this January and another 3 percent in July, totaling a 6 percent increase in calendar year 2014.



PRESIDENT EDWARD J. RAY

## Message from the President – Continued

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Through our partnership with INTO OSU, international student enrollment last year reached 8.9 percent. That number now exceeds 10 percent this year, up from 4.7 percent in 2007. Founded in 2008, INTO OSU is an initiative to increase the number of and percentage ratio of international students at OSU and to improve the overall level of service that the university provides these students.

With regard to facilities, the Student Success Center is now open, as is Eena Haws, the Native American Longhouse and cultural center. We broke ground on the Centro Cultural César Chávez last fall, and we expect to have that center, along with the Asian and Pacific Cultural Center and the Lonnie B. Harris Black Cultural Center, open by fall 2014. A new campus bookstore has opened, and the renovation of the Memorial Union and construction of the Student Experience Center began this past summer. Our new track and field and basketball practice facilities are also open for use. We anticipate bond sales in the next year to contribute to construction of a new \$65 million classroom building and a \$40 million chemical, biological and environmental engineering building. Meanwhile, our Collaboration Corvallis partnership with the city of Corvallis is progressing and continues to bolster the strong relationship between OSU and the Corvallis community and is helping our students learn to be even better neighbors.

In the coming years, the university board of trustees will help guide changes at Oregon State. We will continue to practice sound financial management in challenging economic times. The issue of stable funding for the university's Statewide programs – the OSU Extension Service, our Forest Research Labs and many agricultural experiment stations located throughout Oregon – remains unresolved and will need to be addressed in a responsible and timely manner.

Now 145 years old, we look to Oregon State University's strong heritage and exciting future as we move toward the celebration of our sesquicentennial in 2018. These coming years will strengthen our capacity to look forward, see change, choose a path and keep moving toward even greater success for our students and those we serve throughout Oregon, the nation and the world.



Edward J. Ray  
President



### OSU-Cascades

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Fall 2013 enrollment at OSU-Cascades increased to 936 students, a 16.9 percent increase over 2012. OSU-Cascades will expand to a four-year branch campus of Oregon State University in 2015.



## Top Campus Accomplishments

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Oregon State's research revenue totaled \$263 million in 2013 – representing a 69 percent increase over the past decade. Oregon State received a record \$7.8 million in licensing and royalty income in 2013. Private sector financing reached nearly \$36 million, a 65 percent increase in the past five years.

The Campaign for OSU – Oregon State's first comprehensive campaign – stands at more than \$953 million of the campaign's lofty \$1 billion goal. The original campaign goal was \$625 million, which was increased to \$850 million and finally, \$1 billion. More than \$166 million has been raised for student scholarships, fellowships and awards.

Oregon State launched the Oregon State University Advantage in 2013 to serve business partners – especially in the areas of innovative materials, advanced manufacturing, energy and clean technology, high tech, health care and innovation related to food, water and the environment.

Oregon State's Ecampus program has expanded to 33 degree programs and was named the fourth best online program in the nation in 2013.

The National Science Foundation in 2013 selected Oregon State to lead a project to design and coordinate construction of up to three new coastal research vessels to bolster U.S. marine science research capabilities. The project could total \$290 million over 10 years if all three vessels are built.



### The Campaign for OSU

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The Campaign for OSU is expected to reach its \$1 billion goal in 2014. The campaign goal includes \$180 million for scholarships and has so far created 76 endowed faculty positions.





## INDEPENDENT AUDITORS' REPORT

Members of the State Board of Higher Education

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Oregon State University (the University), an institution of higher education of the Oregon University System (the System), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oregon State University Foundation (the Foundation) or the Agricultural Research Foundation (ARF), which represent 100 percent of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation and ARF, is based solely 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 from material misstatement. The financial statements of the Foundation and ARF, discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Oregon State University as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the University, and do not purport to, and do not, present fairly the financial position of the System as of June 30, 2013, the changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Status of Other Postemployment Benefits on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

The Message from the President has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2014, on our consideration of the University'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Greenwood Village, Colorado  
January 23, 2014

## Statement of Net Position

As of June 30,	University 2013
	(In thousands)
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents (Note 2)	\$ 52,195
Collateral from Securities Lending (Note 2)	11,012
Accounts Receivable, Net (Note 3)	81,135
Notes Receivable, Net (Note 4)	4,793
Inventories	1,893
Prepaid Expenses	4,313
<b>Total Current Assets</b>	<b>155,341</b>
<b>Noncurrent Assets</b>	
Cash and Cash Equivalents (Note 2)	82,665
Investments (Note 2)	130,615
Notes Receivable, Net (Note 4)	21,553
Capital Assets, Net of Accumulated Depreciation (Note 5)	789,244
<b>Total Noncurrent Assets</b>	<b>1,024,077</b>
<b>Total Assets</b>	<b>\$ 1,179,418</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Accumulated Decrease in Fair Value of Derivatives	\$ 27
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities (Note 6)	\$ 30,395
Deposits	5,384
Obligations Under Securities Lending (Note 2)	11,012
Current Portion of Long-Term Liabilities (Note 8)	41,554
Unearned Revenues	37,893
<b>Total Current Liabilities</b>	<b>126,238</b>
<b>Noncurrent Liabilities</b>	
Long-Term Liabilities (Note 8)	571,912
<b>Total Noncurrent Liabilities</b>	<b>571,912</b>
<b>Total Liabilities</b>	<b>\$ 698,150</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Accumulated Increase in Fair Value of Derivatives	\$ -
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 285,414
Restricted For:	
Nonexpendable Endowments	3,611
Expendable:	
Gifts, Grants and Contracts	35,721
Student Loans	34,508
Capital Projects	36,188
Debt Service	4,353
Unrestricted (Note 9)	81,500
<b>Total Net Position</b>	<b>\$ 481,295</b>

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



## Statement of Financial Position

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<b>As of June 30,</b>	<b>Component Units 2013</b>
	(In thousands)
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 31,426
Contributions, Pledges and Grants Receivable, Net	43,170
Investments (Note 2)	520,793
Prepaid Expenses and Other Assets	16,250
Property and Equipment, Net	12,617
<b>Total Assets</b>	<b>\$ 624,256</b>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Liabilities	\$ 9,433
Accounts Payable to Universities	8,710
Obligations to Beneficiaries of Split-Interest Agreements	26,319
<b>Total Liabilities</b>	<b>\$ 44,462</b>
<b>NET POSITION</b>	
Unrestricted	\$ (1,794)
Temporarily Restricted	246,764
Permanently Restricted	334,824
<b>Total Net Position</b>	<b>\$ 579,794</b>

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

## Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	University 2013
	(In thousands)
<b>OPERATING REVENUES</b>	
Student Tuition and Fees (Net of Allowances of \$61,633)	\$ 228,436
Federal Grants and Contracts	165,544
State and Local Grants and Contracts	6,994
Nongovernmental Grants and Contracts	18,928
Educational Department Sales and Services	35,401
Auxiliary Enterprises Revenues (Net of Allowances of \$4,530)	124,422
Other Operating Revenues	7,655
<b>Total Operating Revenues</b>	<b>587,380</b>
<b>OPERATING EXPENSES</b>	
Instruction	218,011
Research	179,196
Public Service	75,395
Academic Support	56,501
Student Services	25,319
Auxiliary Programs	129,770
Institutional Support	56,572
Operation and Maintenance of Plant	30,653
Student Aid	28,326
Other Operating Expenses	46,559
<b>Total Operating Expenses (Note 11)</b>	<b>846,302</b>
<b>Operating Loss</b>	<b>(258,922)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Government Appropriations (Note 12)	150,487
Financial Aid Grants	43,193
Investment Activity (Note 10)	15,591
Gain (Loss) on Sale of Assets, Net	(66)
Interest Expense	(27,141)
Other Nonoperating Items	43,127
<b>Net Nonoperating Revenues</b>	<b>225,191</b>
<b>Income (Loss) Before Other Nonoperating Revenues</b>	<b>(33,731)</b>
Capital and Debt Service Appropriations (Note 12)	19,250
Capital Grants and Gifts	17,105
Changes to Permanent Endowments	238
Transfers within OUS	(2,352)
<b>Total Other Nonoperating Revenues</b>	<b>34,241</b>
<b>Increase In Net Position</b>	<b>510</b>
<b>NET POSITION</b>	
Beginning Balance	480,785
<b>Ending Balance</b>	<b>\$ 481,295</b>

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



## Statement of Activities

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	<b>Component Units 2013</b>
<b>For The Year Ended June 30,</b>	<b>2013</b>
	(In thousands)
<b>REVENUES</b>	
Grants, Bequests and Gifts	\$ 59,874
Interest and Dividends	15,068
Investment Income (Loss), Net	27,559
Change in Value of Life Income Agreements	2,009
Other Revenues	15,204
<b>Total Revenues</b>	<b>119,714</b>
<b>EXPENSES</b>	
University Support	55,047
General and Administrative	19,733
Other Expenses	7,846
<b>Total Expenses</b>	<b>82,626</b>
<b>Increase In Net Position</b>	<b>37,088</b>
<b>NET POSITION</b>	
Beginning Balance	542,706
<b>Ending Balance</b>	<b>\$ 579,794</b>

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

## Statement of Cash Flows

<b>For the Year Ended June 30,</b>	<b>University 2013</b>
	(In thousands)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 233,930
Grants and Contracts	190,011
Educational Department Sales and Services	35,401
Auxiliary Enterprises Operations	122,451
Payments to Employees for Compensation and Benefits	(551,911)
Payments to Suppliers	(205,989)
Student Financial Aid	(39,792)
Other Operating Receipts	4,814
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(211,085)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Government Appropriations	148,445
Financial Aid Grants	43,193
Private Gifts Received for Endowment Purposes	238
Other Gifts and Private Contracts	43,127
Net Agency Fund Receipts (Payments)	(4,078)
Net Transfers Within OUS	(4,359)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>226,566</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Debt Service Appropriations	19,250
Capital Grants and Gifts	15,104
Bond Proceeds from Capital Debt	88,339
Sales of Capital Assets	257
Purchases of Capital Assets	(71,459)
Interest Payments on Capital Debt	(27,312)
Principal Payments on Capital Debt	(45,222)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(21,043)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net Sales (Purchases) of Investments	(6,347)
Interest on Investments and Cash Balances	13,011
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>6,664</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,102</b>
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning Balance	133,758
<b>Ending Balance</b>	<b>\$ 134,860</b>

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

## Statement of Cash Flows - Continued

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<b>For the Year Ended June 30,</b>	<b>University 2013</b>
	(In thousands)
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (258,922)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	47,061
Changes in Assets and Liabilities:	
Accounts Receivable	(2,590)
Notes Receivable	487
Inventories	63
Prepaid Expenses	(337)
Accounts Payable and Accrued Liabilities	578
Long-Term Liabilities	1,245
Unearned Revenue	1,330
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (211,085)</b>
<b>NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS</b>	
Capital Assets Acquired by Gifts-in-Kind	\$ 2,001
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	\$ 2,580

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

# Notes to the Financial Statements

## For the Year Ended June 30, 2013 (dollars in thousands)

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. REPORTING ENTITY

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

The OSU financial reporting entity is reported under the heading of University on the Basic Financial Statements. OSU's main campus is in Corvallis and includes a branch campus in Bend and receives separate appropriations for statewide activities including agricultural experiment stations, cooperative extension services and forestry research laboratories. The OSU reporting entity also includes two university foundations which are reported as discretely presented component units in the OSU Financial Statements. See "Note 19. University Foundations" for additional information relating to these component units. Organizations that are not financially accountable to OSU, such as booster and alumni organizations, are not included in the reporting entity.

OSU is also reported as one of the seven universities that make up OUS and is reported as part of the OUS Annual Financial Report. OUS is a part of the primary government of the State of Oregon (State) and is included as a proprietary (enterprise) fund in the Comprehensive Annual Financial Report issued by the State.

These financial statements present only OSU, including the discretely presented component units described above, and are not intended to present the financial position, changes in financial position, or, where applicable, the cash flows of the OUS as a whole in conformity with accounting principles generally accepted in the United States of America.

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 and established Oregon State University as an independent public body legally separate from OUS as of July 1, 2014. OSU will not be included in the OUS financial reporting entity starting with the fiscal year 2015 financial report. OSU will be included as a component unit in the Comprehensive Annual Financial Report issued by the State starting with the fiscal year 2015 financial report.

#### B. FINANCIAL STATEMENT PRESENTATION

OSU financial accounting records are maintained in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial

statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of OSU assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Financial statements of the two university foundations are presented in accordance with generally accepted accounting principles prescribed by the Financial Accounting Standards Board (FASB). In preparing the financial statements, significant interfund transactions and balances between university funds have been eliminated. Unless otherwise stated, dollars are presented in thousands.

#### NEWLY IMPLEMENTED ACCOUNTING STANDARDS

OSU implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* effective for the fiscal year ended June 30, 2013. GASB 60 improves financial reporting by addressing issues relating to certain types of service concession arrangements. OSU has several public private partnerships relating to housing provided to students which were reviewed as possible service concession arrangements. OSU currently has not identified any arrangements that meet the GASB 60 definition for service concession arrangements.

OSU implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the fiscal year ended June 30, 2013. GASB 61 improves financial reporting for a governmental financial reporting entity relating to component units. The adoption of GASB 61 did not materially impact the OSU financial statements.

OSU implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the fiscal year ended June 30, 2013. GASB 62 directly incorporates the applicable guidance from FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards. The statement does not incorporate FASB and AICPA pronouncements that are not applicable or have conflicting and contradictory literature to State and Local Governments. The adoption of GASB 62 did not materially impact the OSU financial statements.

OSU implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for the fiscal year ended June 30, 2013. GASB 63 provides financial reporting guidance for reporting deferred outflows of resources and deferred inflows of resources, and net position in a Statement of Net Position. The former Statement of Net Assets had three elements: Assets, Liabilities, and Net Assets. The new Statement of Net Position adds two new elements – Deferred Outflows of Resources and Deferred



## Notes to the Financial Statements

### For the Year Ended June 30, 2013 (dollars in thousands)

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Inflows of Resources – and changes “Net Assets” to “Net Position.” Deferred Outflows and Deferred Inflows are elements that do not meet the definition of Assets and Liabilities. Currently, GASB 63 applies only to change in fair value of derivatives for OSU. OSU reclassified derivatives associated with foreign currency to deferred outflows of \$27 and had no reportable deferred inflows at June 30, 2013.

OSU implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* effective for the fiscal year ended June 30, 2013. GASB 64 improves financial reporting by clarifying when effective hedging relationships continue and hedge accounting should be applied. The adoption of GASB 64 did not materially impact the OSU financial statements.

#### UPCOMING ACCOUNTING STANDARDS

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 provides financial reporting guidance to reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets or liabilities. These requirements are effective for the fiscal year ending June 30, 2014. OSU is not anticipating that the adoption of GASB 65 will have a material impact on its financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. GASB 66 will resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-1989 FASB and AICPA Pronouncements*. These requirements are effective for the fiscal year ending June 30, 2014. OSU is not anticipating that the adoption of GASB 66 will have a material impact on its financial statements.

In June 2012, GASB issued Statements No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary purpose of GASBs 67 and 68 is to improve accounting and financial reporting by state and local governments for pensions and pension plans. These GASBs replace requirements in GASBs 25 and 27. GASB 67 requirements are effective for the fiscal year ending June 30, 2014. GASB 68 requirements are effective for the fiscal year ending June 30, 2015. OSU is analyzing the effects of the adoption of GASBs 67 and 68 and is uncertain of the impact on the financial statements and related reporting requirements at this time.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. GASB 69 requirements are effective for the fiscal year ending June 30, 2015. OSU is analyzing the effects of the adoption of GASB 69 and is uncertain of the impact on the financial statements and related reporting requirements at this time.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of the Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. GASB 70 requirements are effective for the fiscal year ending June 30, 2014. OSU is not anticipating that the adoption of GASB 70 will have a material impact on its financial statements.

#### C. BASIS OF ACCOUNTING

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

#### D. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. Cash and cash equivalents consists of: Cash on hand; cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF); cash and cash equivalents restricted for the payment of the current portion of debt service; and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

Cash and cash equivalents restricted for the long-term portion of debt service, capital construction, and agency funds are classified as noncurrent assets in the Statement of Net Position.

#### E. INVESTMENTS

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

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

## Notes to the Financial Statements

### For the Year Ended June 30, 2013 (dollars in thousands)

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#### F. INVENTORIES

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

#### G. CAPITAL ASSETS

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. OSU capitalizes equipment with unit costs of five thousand dollars or more and an estimated useful life of greater than one year. OSU capitalizes real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization thresholds of \$50 to \$100, depending on the type of real property. Intangible assets valued in excess of \$100 are capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

OSU capitalizes interest expense on projects exceeding \$20 million that are partially or fully funded by XI-F debt or internally generated funds. Total interest costs of \$12,696 was incurred on XI-F debt, of which \$176 was capitalized for the fiscal year ended 2013.

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

#### H. UNEARNED REVENUES

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

#### I. COMPENSATED ABSENCES

OSU accrues a liability for vacation leave and other compensated absences that were earned but not used during the current or prior fiscal year for which employees can receive compensation in a future period. Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists for terminated employees.

#### J. NET POSITION

OSU net position is classified as follows:

##### NET INVESTMENT IN CAPITAL ASSETS

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

##### RESTRICTED – NONEXPENDABLE

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

##### RESTRICTED – EXPENDABLE

Restricted expendable includes resources which OSU is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

##### UNRESTRICTED

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, restricted resources are applied first.

#### K. ENDOWMENTS

Oregon Revised Statutes (ORS) Section 351.130 gives OSU the authority to use the interest, income, dividends, or profits of endowments. Current OUS Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. In accordance with current board policy, the amount available for distribution during fiscal year 2014 is estimated to be \$1,142. For the year ended June 30, 2013, the net amount of appreciation available for authorization for expenditure was \$1,445.

Nonexpendable Endowments on the Statement of Net Position of \$3,611 at June 30, 2013, represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

#### L. INCOME TAXES

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

#### M. REVENUES AND EXPENSES

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

## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

Operating revenues and expenses generally have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include student tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and other operating revenues. Examples of operating expenses include employee compensation, benefits and related expense, scholarships and fellowships, utilities, supplies and other services, professional fees, and depreciation expenses of capital assets.

Nonoperating revenues generally have the characteristics of nonexchange transactions. In a nonexchange transaction, OSU receives value without directly giving equal value in exchange. Examples of nonoperating revenues include state appropriations, nonexchange grants, gifts, and contributions. Nonoperating expenses are defined in GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

### N. ALLOWANCES

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. OSU has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers, provided directly by OSU, amounted to \$31,819 for the fiscal year ended 2013. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be \$30,789 for the fiscal year ended 2013. Bad debt expense is included as an allowance to operating revenues and is estimated to be \$3,555 for the fiscal year ended 2013.

### O. FEDERAL STUDENT LOAN PROGRAMS

OSU receives proceeds from the Federal Direct Student Loan Program. Since OSU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are reported in an agency fund. Federal student loans received by OSU students but not reported in operations was \$150,791 for the fiscal years ended 2013.

### P. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities and dis-

closure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the year. Actual results could differ from those estimates. The estimate for allowance for doubtful accounts was reviewed in fiscal year 2013 which resulted in an increase in the estimate of \$2,440.

## 2. CASH AND INVESTMENTS

OUS maintains centralized management for substantially all of the System's member universities cash and investments. The invested assets of OUS are managed through several investment pools at the Oregon State Treasury (State Treasury), which commingle the invested assets of all member universities including OSU. Each investment pool has a board approved investment policy and set of objectives identifying risk and return parameters for each investment pool.

In general, deposits and investment securities as described below are exposed to various risks such as credit, concentration of credit, custodial credit, interest rate and foreign currency. Although the objective of each investment pool is to preserve capital within defined risk parameters, it is likely that the value of the investment securities will fluctuate during short periods of time, and possible that such changes could materially affect the amounts reported in the financial statements. For more information on the OUS Portfolio exposure to risk, see the OUS 2013 Annual Financial Statements at [www.ous.edu/sites/default/files/cont-div/annual\\_financial\\_reptg/fy2013\\_afs.pdf](http://www.ous.edu/sites/default/files/cont-div/annual_financial_reptg/fy2013_afs.pdf).



Oregon State students engage in traditional classroom lectures, research work, internships and volunteer activities to prepare for success after graduation.



## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

### A. CASH AND CASH EQUIVALENTS

#### DEPOSITS WITH STATE TREASURY

OSU maintains the majority of its cash balances on deposit with the State Treasury. These deposits at the State Treasury are held, on a pooled basis as described above, in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state agencies. The State Treasurer invests these deposits in high-grade short-term investment securities. At the fiscal year ended June 30, 2013, OSU cash and cash equivalents on deposit at State Treasury was \$133,514.

A copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St. NE, Suite 100, Salem, OR 97301-3896 or by linking to [oregon.gov/treasury/AboutTreasury/Pages/Annual-Reports.aspx](http://oregon.gov/treasury/AboutTreasury/Pages/Annual-Reports.aspx).

#### CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to a depositor. Since OSU cash balances held on deposit at the State Treasury are invested consistently, custodial credit risk exposure to the State Treasury is low.

#### FOREIGN CURRENCY RISK—DEPOSITS

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. State Treasury deposits are in U.S. currency and therefore not exposed to foreign currency risk. To facilitate study abroad programs, there are some cash balances held in local currency to pay local expenses. The aggregate foreign denominated account balances converted into U.S. dollars equaled \$191 at June 30, 2013.

To further mitigate foreign currency risks for prospective study abroad activities, OSU periodically enters into forward foreign currency contracts. At June 30, 2013, these contracts totaled \$996 and had a net fair value loss of \$27. The net fair value loss is reported as Deferred Outflows on the Statement of Net Position.

		June 30, 2013				
Currency	Notional	Principal Amount	Effective Date	Maturity Date	Contract Rate	Fair Value
	Amount					
EUR	619	823	5/14/2013	3/31/2014	1.3295	(18)
	88	118	4/3/2013	7/31/2013	1.3500	(4)
JPY	5,000	55	4/3/2013	3/14/2014	0.0111	(5)

#### OTHER DEPOSITS

For the year ended June 30, 2013, OSU had vault and petty cash balances of \$159. Additionally, OSU had small amounts of cash invested with a fiscal agent relating to debt issuances.

### B. INVESTMENTS

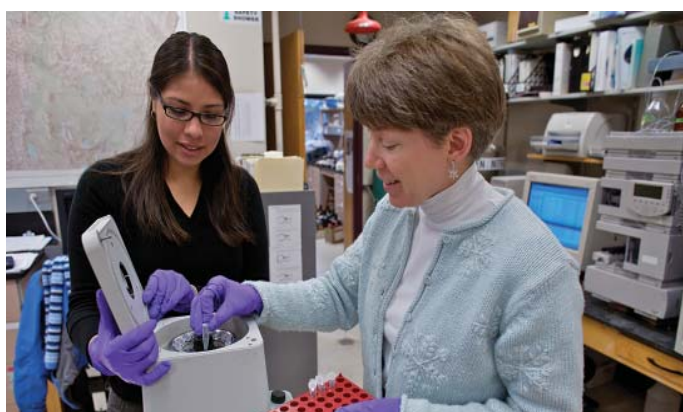
OSU funds are invested by the State Treasury. OSU investments are managed by OUS Treasury Management, which also develops and manages investment policy. OUS investment policies are governed by statute, the Oregon Investment Council (Council), and the Board. In accordance with ORS, investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to utilize demand deposit accounts and fixed-income investments, equity investments must be directed by external investment managers who are under contract to the Council.

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

Significant events in domestic and international investment markets such as sovereign debt concerns across Europe and aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of OSU's portion of OUS pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2013.

OUS monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2013, OSU had no individually named permanent endowment funds with estimated fair values that, in total, were less than their permanently restricted or historical value.

Of OSU's total investments invested through the OUS investment pools, \$34 million are invested in an intermedi-



Oregon State is Oregon's leading public research university, awarded \$263 million in research grants and contracts in 2013.



## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

ate term pool managed by State Treasury, \$62 million are individually held investments, \$33 million are invested in a portfolio that is managed for the benefit of pooled gifts and endowments. Investments of \$2 million are separately invested endowments of OSU. OSU follows the OUS endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Investments of the OSU discretely presented component units are summarized at June 30, 2013 as follows:

### Component Units

Fair Value at June 30, Investment Type:	<u>2013</u>
Corporate Stocks, Bonds, Securities and Mutual Funds	\$ 320,590
Investment in Common Stock, Voting Trust and Partnerships	90,073
US Treasury Notes and Government Obligations	16,162
Money Market Funds and Certificates of Deposit	208
Collateralized Mortgages, Mortgage Notes and Contracts, Realty Funds	21,308
Remainder Trusts, Unitrusts and Gift Annuities	53,300
Alternative Investments	8,682
Investment Receivables	176
Other	10,294
Total Investments	<u>\$ 520,793</u>

### CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS has an investment policy for each segment of its investment portfolio. Of these, the policy on the endowment has the least restrictive credit requirements. Its policy requires fixed income securities to have an average credit quality of A/Aa or better and limits below investment grade bonds to no more than 15% of the bond portfolio, exclusive of guaranteed investment contracts. The policy also permits holding unrated investments such as common stock, venture capital funds, and real estate. OSU, as a member university of the OUS, follows the OUS policy on investments.

### CUSTODIAL CREDIT RISK

Custodial credit risk refers to OUS investments that are held by others and not registered in OUS's or the State Treasury's name. This risk typically occurs in repurchase agreements where one transfers cash to a broker-dealer in exchange for securities, but the securities are held by a separate trustee in the name of the broker-dealer. There are policy provisions around securities lending to control this risk. See "C. Securities Lending" in this footnote for additional information.

### CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. OUS policy for reducing this risk in fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than 10% of the bond portfolio, at market value, will be invested in securities of a single issuer or no more than five percent of the individual issue. For equity securities, not more than five percent of the market value of any investment fund will be invested in any single security, unless part of an index fund. OUS's holding of Federal Home Loan Mortgage Corporation comprised 5.6% of the total investments at June 30, 2013.

### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. OSU's deposits and mutual funds in the OUS investment pool are primarily invested in international debt and equities at June 30, 2013. Approximately \$1.7 million of these investments have foreign currency exchange contracts to offset the associated foreign currency risk. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes adverse changes in the value of the currency and the failure of the counterparty to perform.



### Student Experience Center

Currently under construction adjacent to the Memorial Union, the Student Experience Center will provide a modern and collaborative setting for numerous student-led leadership, engagement and campus involvement programs.

## Notes to the Financial Statements

### For the Year Ended June 30, 2013 (dollars in thousands)

#### INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments.

#### C. SECURITIES LENDING

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions. The securities lending balances relating to investment securities owned by OSU and OSU funds deposited into the OSTF are shown on the following table:

	<u>June 30,</u> <u>2013</u>
OSU Securities on loan:	
Fair Value	\$ 116
Cash Collateral held by OSU:	
Fair Value	124
Reported Value	124
OSTF Securities on loan:	
Fair Value	15,213
Cash Collateral held by OSTF:	
Fair Value	10,888
Reported Value	10,888

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

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

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for OSU securities on loan in the OSTF. At June 30, 2013, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit (TCD), and corporate notes. The funds' rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third party custodian, which holds the funds' securities in the State of Oregon's name. The TCDs, comprising approximately one percent of total OSTF investments, are exposed to custodial credit risk. The TCDs are collateralized by securities pledged by the bank equal to 25% of the Certificates of Participation provided by the bank.

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

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

#### 3. ACCOUNTS RECEIVABLE

Accounts Receivable, including amounts due from component units, comprised the following:

	<u>June 30,</u> <u>2013</u>
Student Tuition and Fees	\$ 35,249
Auxiliary Enterprises and Other	
Operating Activities	6,962
Federal Grants and Contracts	22,669
Component Units	8,709
State, Other Government, and Private	
Gifts, Grants and Contracts	3,443
Other	9,263
	<u>86,295</u>
Less: Allowance for Doubtful Accounts	(5,160)
Accounts Receivable, Net	<u>\$ 81,135</u>

#### 4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2013. The program is funded through interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

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

	<u>June 30, 2013</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Institutional and Other			
Student Loans	\$ 157	\$ 540	\$ 697
Federal Student Loans	4,958	22,302	27,260
	<u>5,115</u>	<u>22,842</u>	<u>27,957</u>
Less: Allowance for Doubtful			
Accounts	(322)	(1,289)	(1,611)
Notes Receivable, Net	<u>\$ 4,793</u>	<u>\$ 21,553</u>	<u>\$ 26,346</u>

Notes to the Financial Statements  
For the Year Ended June 30, 2013 (dollars in thousands)

**5. CAPITAL ASSETS**

The following schedule reflects the changes in capital assets:

	Balance July 1, 2012	Additions	Transfer Completed Assets	Retire. and Adjust.	Balance June 30, 2013
<b>Capital Assets,</b>					
<b>Non-depreciable/Non-amortizable:</b>					
Land	\$ 18,272	\$ -	\$ -	\$ (286)	\$ 17,986
Capitalized Collections	27,365	1,501	-	-	28,866
Construction in Progress	46,430	57,368	(48,318)	527	56,007
<b>Total Capital Assets,</b>					
<b>Non-depreciable/Non-amortizable</b>	<u>92,067</u>	<u>58,869</u>	<u>(48,318)</u>	<u>241</u>	<u>102,859</u>
<b>Capital Assets, Depreciable/ Amortizable:</b>					
Equipment	181,238	11,692	3,284	(4,938)	191,276
Library Materials	82,796	420	-	(465)	82,751
Buildings	912,855	-	41,458	611	954,924
Land Improvements	18,260	-	2,822	(491)	20,591
Improvements Other Than Buildings	10,096	-	-	-	10,096
Infrastructure	23,891	-	754	-	24,645
Intangible Assets	9,976	-	-	-	9,976
<b>Total Capital Assets,</b>					
<b>Depreciable/Amortizable</b>	<u>1,239,112</u>	<u>12,112</u>	<u>48,318</u>	<u>(5,283)</u>	<u>1,294,259</u>
<b>Less Accumulated Depreciation/ Amortization for:</b>					
Equipment	(124,154)	(14,272)	-	4,356	(134,070)
Library Materials	(76,049)	(1,813)	-	449	(77,413)
Buildings	(330,441)	(27,451)	-	(123)	(358,015)
Land Improvements	(7,399)	(1,246)	-	-	(8,645)
Improvements Other Than Buildings	(6,450)	(694)	-	-	(7,144)
Infrastructure	(14,236)	(981)	-	-	(15,217)
Intangible Assets	(6,734)	(604)	-	(32)	(7,370)
<b>Total Accumulated Depreciation/ Amortization</b>	<u>(565,463)</u>	<u>(47,061)</u>	<u>-</u>	<u>4,650</u>	<u>(607,874)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 765,716</u>	<u>\$ 23,920</u>	<u>\$ -</u>	<u>\$ (392)</u>	<u>\$ 789,244</u>
<b>Capital Assets Summary</b>					
Capital Assets, Non-depreciable/ Non-amortizable	\$ 92,067	\$ 58,869	\$ (48,318)	\$ 241	\$ 102,859
Capital Assets, Depreciable/ Amortizable	1,239,112	12,112	48,318	(5,283)	1,294,259
Total Cost of Capital Assets	1,331,179	70,981	-	(5,042)	1,397,118
Less Accumulated Depreciation/ Amortization	(565,463)	(47,061)	-	4,650	(607,874)
<b>Total Capital Assets, Net</b>	<u>\$ 765,716</u>	<u>\$ 23,920</u>	<u>\$ -</u>	<u>\$ (392)</u>	<u>\$ 789,244</u>

## Notes to the Financial Statements

### For the Year Ended June 30, 2013 (dollars in thousands)

#### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2013
Services and Supplies	\$ 23,156
Accrued Interest	10
Salaries and Wages	4,520
Payroll Related Expenses	838
Contract Retainage Payable	1,871
Total	<u>\$ 30,395</u>

#### 7. OPERATING LEASES

##### A. RECEIVABLES/REVENUES

OSU receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was \$2,282 for the year ended June 30, 2013. The original cost of assets leased, net of depreciation, was \$7,972 for the year ended June 30, 2013. Minimum future lease revenue for noncancelable operating leases at June 30, 2013 were:

For the year ending June 30,

2014	\$ 1,936
2015	1,149
2016	967
2017	880
2018	797
2019-2023	1,369
2024-2028	622
2029-2033	622
2034-2038	622
2039-2043	513
2044-2048	258
2049-2053	258
2054-2058	173
Total Minimum Operating Lease Revenues	<u>\$ 10,166</u>

##### B. PAYABLES/EXPENSES

OSU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were \$1,553 for the year ended June 30, 2013.

Minimum future lease payments on operating leases at June 30, 2013 were:

For the year ending June 30,

2014	\$ 1,513
2015	1,288
2016	1,250
2017	1,182
2018	1,167
2019-2023	3,038
2024-2028	3,337
2029-2033	1,953
Total Minimum Operating Lease Payments	<u>\$ 14,728</u>



#### Wave Energy Research in Newport

Oregon State is helping make renewable wave energy a reality by working with companies, non-profit organizations, fishing industry stakeholders and representatives from coastal communities to test and refine technologies and mitigate environmental and other impacts.



Notes to the Financial Statements  
For the Year Ended June 30, 2013 (dollars in thousands)

**8. LONG-TERM LIABILITIES**

Long-term liability activity was as follows:

	Balance July 1, 2012			Balance June 30, 2013			Amounts Due Within One Year	Long-term Portion
		Additions	Reductions					
Long-Term Debt								
Due to OUS:								
General Obligation Bonds XI-F(1)	\$ 35,819	\$ 10,512	\$ (10,687)	\$ 35,644	\$ -	\$ 35,644		
Internal Bank Loans	244,233	28,176	(8,505)	263,904	18,743	245,161		
General Obligation Bonds XI-G	133,386	17,160	(22,519)	128,027	-	128,027		
General Obligation Bonds XI-Q	6,864	4,896	(133)	11,627	82	11,545		
Certificates of Participation (COPs)	28,313	-	(7,655)	20,658	2,630	18,028		
Lottery Bonds	45,680	37,071	(4,107)	78,644	1,338	77,306		
Oregon Department of Energy Loans (SELP)	9,211	-	(485)	8,726	451	8,275		
Capital Leases	2	-	(2)	-	-	-		
Installment Purchase	369	-	(79)	290	88	202		
Total Long-Term Debt	<u>503,877</u>	<u>97,815</u>	<u>(54,172)</u>	<u>547,520</u>	<u>23,332</u>	<u>524,188</u>		
Other Noncurrent Liabilities								
PERS pre-SLGRP pooled Liability	35,470	-	(773)	34,697	645	34,052		
Compensated Absences	22,481	20,556	(19,171)	23,866	17,184	6,682		
Other Postemployment Benefits	5,804	1,086	-	6,890	-	6,890		
Employee Deferred Compensation	50	50	-	100	-	100		
Employee Termination Liabilities	425	-	(425)	-	-	-		
Early Retirement Liability	995	-	(602)	393	393	-		
Total Other Noncurrent Liabilities	<u>65,225</u>	<u>21,692</u>	<u>(20,971)</u>	<u>65,946</u>	<u>18,222</u>	<u>47,724</u>		
<b>Total Long-Term Liabilities</b>	<b>\$ 569,102</b>	<b>\$ 119,507</b>	<b>\$ (75,143)</b>	<b>\$ 613,466</b>	<b>\$ 41,554</b>	<b>\$ 571,912</b>		

The schedule of principal and interest payments for OSU debt is as follows:

For the Year Ending June 30,	General Obligation Bonds					Lottery Bonds	Internal Bank Loans	Other Borrowings	Total Payments	Principal	Interest
	XI-F(1)	XI-G	XI-Q	SELP	COPs						
2014	\$ -	\$ -	\$ 687	\$ 892	\$ 3,401	\$ 4,133	\$ 31,875	\$ 115	\$ 41,103	\$ 22,395	\$ 18,708
2015	2,352	10,264	684	859	2,602	4,737	23,189	115	44,802	19,280	25,522
2016	2,448	10,289	680	823	2,600	5,150	26,588	114	48,692	24,010	24,682
2017	2,393	10,317	674	823	2,605	5,156	23,719	-	45,687	21,931	23,756
2018	2,326	10,235	1,028	823	2,231	4,973	21,515	-	43,131	20,475	22,656
2019-2023	10,008	48,153	5,152	3,385	6,386	31,132	93,954	-	198,170	102,739	95,431
2024-2028	7,688	43,870	4,566	3,292	5,145	36,504	86,345	-	187,410	122,526	64,884
2029-2033	5,264	33,283	2,212	2,441	995	20,332	70,189	-	134,716	99,302	35,414
2034-2038	545	23,329	1,326	-	-	-	43,210	-	68,410	53,700	14,710
2039-2043	412	11,489	-	-	-	-	15,061	-	26,962	24,594	2,368
Accreted Interest										11,320	(11,320)
										<u>\$ 522,272</u>	<u>\$ 316,811</u>
<b>Total Future Debt Service</b>	<b>33,436</b>	<b>201,229</b>	<b>17,009</b>	<b>13,338</b>	<b>25,965</b>	<b>112,117</b>	<b>435,645</b>	<b>344</b>	<b>839,083</b>		
Less: Interest Component of Future Payments	(5,594)	(74,211)	(6,499)	(4,612)	(6,258)	(40,419)	(179,164)	(54)	(316,811)		
<b>Principal Portion of Future Payments</b>	<b>27,842</b>	<b>127,018</b>	<b>10,510</b>	<b>8,726</b>	<b>19,707</b>	<b>71,698</b>	<b>256,481</b>	<b>290</b>	<b>522,272</b>		
Adjusted by:											
Unamortized Bond Premiums	15,683	3,291	1,785	-	951	6,927	7,423	-	36,060		
Deferred Gain on Refunding	(7,881)	(2,282)	(668)	-	-	19	-	-	(10,812)		
<b>Total Long-Term Debt</b>	<b>\$ 35,644</b>	<b>\$ 128,027</b>	<b>\$ 11,627</b>	<b>\$ 8,726</b>	<b>\$ 20,658</b>	<b>\$ 78,644</b>	<b>\$ 263,904</b>	<b>\$ 290</b>	<b>\$ 547,520</b>		

## Notes to the Financial Statements

### For the Year Ended June 30, 2013 (dollars in thousands)

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The State of Oregon and the OUS Board issue various debt instruments to fund capital projects at all OUS institutions, including OSU. These debt instruments include General Obligation Bonds under articles XI-F(1), XI-G, and XI-Q of the Oregon Constitution, Certificates of Participation (COPs) and Lottery Bonds. In addition, OSU also borrows funds from the OUS internal bank and the Oregon Department of Energy. Principal and interest amounts due relating to OSU's share of these debt issuances, as well as OSU internal bank loans, are payable to OUS.

#### A. OUS INTERNAL BANK LOANS

OUS manages an internal bank on behalf of the system universities. One primary role of the internal bank is to provide capital construction funding for OUS universities, including OSU. The internal bank provides the construction funding in the form of loans from the internal bank to the university. Internal bank loans, with effective yields ranging from 1.55 percent to 6.75 percent are due serially through 2043. During the fiscal year ended June 30, 2013, OSU entered into \$28,176 of internal bank loans with an effective rate of 3.76 percent that are due serially through 2043 for capital construction.

#### B. GENERAL OBLIGATION BONDS XI-F(1)

XI-F(1) bonds, with effective yields ranging from 0.23 percent to 7.0 percent, are due serially through 2043. During the fiscal year ended June 30, 2013, the OUS Board issued \$231,970 of Series 2013 AB XI-F(1) taxable and non-taxable bonds with an effective rate of 2.9% that are due serially through 2043 for capital construction and refunding.

OSU's portion of the 2013 AB bond sale for new money projects was a par value of \$22,150, the proceeds of which funded the following projects:

- Gill Coliseum Renovation \$235
- Sports Performance Center \$10,580
- New Residence Hall \$8,820
- Sackett Hall Renovation \$2,515

#### C. GENERAL OBLIGATION BONDS XI-G

XI-G bonds, with effective yields ranging from 0.25 percent to 7.0 percent, are due serially through 2042. During the fiscal year ended June 30, 2013, the OUS Board issued \$71,345 of Series 2013 CD XI-G taxable and tax exempt bonds with an effective rate of 2.8 percent that are due serially through 2037 for capital construction and refunding.

To effect debt service savings, \$69,945 of the proceeds from the 2013 CD sale were used to refund a portion of the Series 2004 E, Series 2005 B and Series 2005 D Bonds. OSU received no new money from the 2013 CD sale. All proceeds for OSU were applied to the refunding.

#### D. GENERAL OBLIGATION BONDS XI-Q

XI-Q bonds, with effective yields ranging from 0.46 percent to 3.7 percent, are due serially through fiscal year 2036. During the fiscal year ended June 30, 2013, the State issued on OUS's behalf, \$4,543 of Series 2013 J XI-Q tax exempt bonds with an effective rate of 2.78 percent that are due serially through 2027 for refunding.

To effect debt service savings all of the proceeds allocated to OUS from the 2013 J sale were used to partially refund 2007 A Certificates of Participation. OSU received no new money from the 2013 J sale. All the proceeds from the sale were applied to a refunding which only affected OSU.

#### E. OREGON DEPARTMENT OF ENERGY LOANS

OSU has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at OSU. OSU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 2.0 percent to 6.0 percent, are due through 2033.

#### F. CERTIFICATES OF PARTICIPATION

COPs, with effective yields ranging from 1.7 percent to 6.2 percent, are due through fiscal year 2035. The State has not issued COPs on behalf of OUS since fiscal year 2010. During 2013, Series 2007 A COPs were partially reduced by proceeds from the Series 2013 J XI-Q tax exempt bonds.

#### G. LOTTERY BONDS

Lottery Bonds, with effective yields ranging from 0.24 percent to 5.3 percent, are due through fiscal year 2033. During the fiscal year ended June 30, 2013, the State issued on OUS's behalf, \$108,414 of Series 2013 ABC taxable and tax exempt, with an effective rate of 3.2 percent due serially through 2033 for technology projects, construction and refunding.

OSU's portion of the 2013 ABC sale for new money projects was a par value \$28,103, the proceeds of which funded the following projects:

- Deferred Maintenance Projects \$7,334
- Austin Business Center \$20,769

#### H. DEFEASED DEBT

OSU participates in a debt portfolio managed by OUS. From time to time and when fiscally appropriate, OUS will sell bonds and use the proceeds to defease other debt. During the year ended June 30, 2013, OUS issued \$196,135 in XI-F(1) bonds with an average interest rate of 3.2 percent to refund \$184,615 in XI-F(1) bonds with an average interest rate of 5.1 percent. The net proceeds of the bonds were \$208,711 (after bond premium of \$13,911 and payment of \$1,335 in underwriting costs).

## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$16,462. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 23 years by \$25,014 and resulted in an economic gain of \$19,773.

During the year ended June 30, 2013, OUS issued \$69,945 in XI-G bonds with an average interest rate of 3.2 percent to refund \$64,840 in XI-G bonds with an average interest rate of 5.1 percent. The net proceeds of the bonds were \$71,636 (after bond premium of \$2,173 and payment of \$482 in underwriting costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$6,278. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 13 years by \$9,072 and resulted in an economic gain of \$7,130.

During the year ended June 30, 2013, OUS issued \$4,543 in XI-Q bonds with an average interest rate of 5.0 percent to refund \$4,675 in COPs with an average interest rate of 5.0 percent. The net proceeds of the bonds were \$5,605 (after bond premium of \$1,086 and payment of \$24 in underwriting and issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$734. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 19 years by \$224 and resulted in an economic gain of \$180.

During the year ended June 30, 2013, OUS issued \$11,703 in Lottery Bonds with an average interest rate of 1.7 percent to refund \$10,995 in Lottery Bonds with an average interest rate of 5.1 percent. The net proceeds of the bonds were \$11,638 (after payment of \$65 in underwriting costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$648. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 10 years by \$1,478 and resulted in an economic gain of \$1,419.

### I. STATE AND LOCAL GOVERNMENT RATE POOL

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and

wages, to all proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid in the amount of \$2,293 for June 30, 2013. Principal payments of \$773 were applied to the liability for June 30, 2013.

### 9. UNRESTRICTED NET POSITION

Unrestricted Net Position comprised the following:

	<b>June 30, 2013</b>
Education and General Funds	\$ 11,257
Designated Operating Funds	12,266
Service Department Funds	374
Housing Funds	9,021
Intercollegiate Athletics Funds	(2,529)
Other Auxiliary Funds and Other Funds	34,414
Repair and Replacement Funds	14,349
Unrestricted Endowment Funds	2,348
<b>Total Unrestricted Net Position</b>	<b>\$ 81,500</b>

### 10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	<b>June 30, 2013</b>
Interest Income	\$ 248
Net Appreciation of Investments	2,544
Royalties and Technology Transfer Income	9,060
Endowment Income	1,169
Internal Bank Investment Earnings	2,528
Other	42
<b>Total Investment Activity</b>	<b>\$ 15,591</b>

### 11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position report operating expenses by their functional classification. The following displays operating expenses by natural classification:

	<b>June 30, 2013</b>
Compensation and Benefits	\$ 554,534
Services and Supplies	203,589
Scholarships and Fellowships	39,792
Depreciation and Amortization	47,061
Other Expenses	1,326
<b>Total Operating Expenses</b>	<b>\$ 846,302</b>

Notes to the Financial Statements  
For the Year Ended June 30, 2013 (dollars in thousands)

**12. GOVERNMENT APPROPRIATIONS**

Government appropriations comprised the following:

	June 30, 2013		
	General Operations	Debt Service	Total
General Fund	\$ 130,168	\$ 15,124	\$ 145,292
Lottery Funding	907	4,126	5,033
Harvest Tax	3,116	-	3,116
Total State	134,191	19,250	153,441
Federal Appropriations	8,972	-	8,972
County Appropriations	7,324	-	7,324
<b>Total Appropriations</b>	<b>\$ 150,487</b>	<b>\$ 19,250</b>	<b>\$ 169,737</b>

**13. EMPLOYEE RETIREMENT PLANS**

Oregon State University, as a member university of the OUS, offers various retirement plans to qualified employees as described below.

**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM/ OREGON PUBLIC SERVICE RETIREMENT PLAN**

Oregon Public Employees Retirement System (System) holds assets in a pension trust and offers two retirement plans in which OSU employees are eligible to participate, the State of Oregon Public Employees Retirement System and the Oregon Public Service Retirement Plan. These plans are administered by the Public Employees Retirement Board (Retirement Board) as required by Chapters 238 and 238A of the ORS. An employee is considered vested and eligible for retirement benefits if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment.

The **State of Oregon Public Employees Retirement System** (PERS) is a single pension plan that features both a cost-sharing multi-employer defined benefit plan and an agency multiple-employer pension plan. The 1995 Oregon Legislature enacted a law creating two tiers of PERS benefits. Employees hired into an eligible position prior to January 1, 1996 are enrolled in Tier One, while employees hired into an eligible position on or after January 1, 1996 but before August 29, 2003 are enrolled in Tier Two.

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

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

PERS contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee’s contribution rate of 6 percent has been paid by the employer. The OSU employer contribution rates for Tier One and Two for the year ended June 30, 2013 was 9.55%.

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

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

The payroll assessment for the pension obligation bond began May 2004 and is currently at a rate of 6.33 percent. Payroll assessments for the fiscal year ended June 30, 2013 was \$11,906.

The **Oregon Public Service Retirement Plan** (OPSRP) is a single pension plan that features both a defined benefit plan and a defined contribution plan. The 2003 Oregon Legislature enacted a law creating OPSRP. Employees hired into eligible positions after August 28, 2003 are enrolled.

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

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee’s contribution rate of 6 percent has been paid by the employer. The OSU employer contribution rate for OPSRP for the year ended June 30, 2013 was 8.05%.

PERS members as of January 1, 2004 have their employee contribution (paid by the employer) deposited to the defined contribution portion of the OPSRP and their employer contribution credited to the defined benefit portion of the OPSRP. They continue to retain their existing PERS accounts and other benefits associated with PERS membership.

OSU employer contributions to PERS and OPSRP for the year ended June 30, 2013 was \$16,827, equal to the required



## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

contributions for that year.

An actuarial valuation of the System is performed every two years to determine the level of employer contributions. The most recently completed valuation was performed as of December 31, 2011. The valuation included projected payroll growth at 3.75 percent. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. It is adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The actuarial accrued liability at December 31, 2011, for PERS and OPSRP, determined through an actuarial valuation performed as of that date, was \$60.2 billion and \$986.4 million, respectively. PERS and OPSRP net assets available for benefits on that date (valued at market) were \$44.1 billion and \$840.5 million, respectively. Information for OUS, including OSU as a member university, as a stand-alone entity is not available.

The System issues a separate, publicly available financial report that contains audited financial statements and required supplementary information. The report includes ten-year historical trend information showing the progress made in accumulating sufficient assets to pay benefits when due. That report may be obtained by writing to Fiscal Services Division, PERS, 11410 SW 68th Parkway, Tigard, OR 97223, or by linking on the Internet at [oregon.gov/pers/docs/financial\\_reports/2012\\_cafr.pdf](http://oregon.gov/pers/docs/financial_reports/2012_cafr.pdf), or by calling 1-888-320-7377 or 1-503-598-7377 (in Portland Metro area).

### OPTIONAL RETIREMENT PLAN

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

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

	<u>2013</u>
ORP Tier One	16.14%
ORP Tier Two	16.14%
OPSRP Equivalent	6.21%

### TEACHER'S INSURANCE AND ANNUITY ASSOCIATION/ COLLEGE RETIREMENT EQUITIES FUND

Eligible unclassified employees may participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) retirement program, a defined contribution plan, on all salary in excess of forty-eight hundred dollars per calendar year. Employee contributions are directed to PERS on the first forty-eight hundred dollars. The employer contribution to TIAA-CREF is an amount sufficient to provide an annuity pension equal to the employee's contributions. To participate in this retirement option, employees must have been hired on or before September 9, 1995. This plan was closed to new enrollment at the time the ORP started in 1996.

### FEDERAL CIVIL SERVICE RETIREMENT

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

The Federal Employees Retirement System (FERS) was created beginning January 1, 1987. Employees on Federal appointment hired after December 31, 1983 were automatically converted to FERS. Other federal employees not covered by FERS had a one-time option to transfer to FERS up to December 31, 1987. New FERS employees contribute 0.8 percent with an employer contribution rate of 10.7 percent, which changed to 11.9 percent effective October 1, 2004. FERS employees are not eligible for membership in PERS and they contribute at the full FICA rate. They also participate in a Thrift Savings Plan (TSP) with an automatic employer contribution of 1 percent. Employees may also contribute to this plan at variable rates up to the limit set by the Internal Revenue Service, in which case the employer contributes at a variable rate up to 5 percent. CSRS employees are also eligible for participation in the Thrift Savings Plan but without employer contributions.

### SUPPLEMENTAL RETIREMENT PLAN (SRP)

OSU maintains an IRC Section 414(d) cash balance defined benefit plan to provide a specific benefit value to the OSU university president upon separation. The 414(d) plan is qualified under IRC Section 401(a) as a governmental plan. As of June 30, 2013, the plan was fully funded.

## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

### SUMMARY OF PENSION PAYMENTS

OSU total payroll for the year ended June 30, 2013 was \$373,432, of which \$290,008 was subject to retirement contributions. The following schedule lists payments made by OSU for the fiscal year:

	June 30, 2013			
	As a % of		As a % of	
	Employer Contribution	Covered Payroll	Employee Contribution	Covered Payroll
PERS/OPSRP	\$ 16,827	5.80%	\$ 11,356	3.92%
ORP	9,791	3.38%	5,577	1.92%
TIAA-CREF	52	0.02%	52	0.02%
Federal	406	0.14%	123	0.04%
FERS - TSP	115	0.04%	356	0.12%
SRP	138	0.05%	-	0.00%
<b>Total</b>	<b>\$ 27,329</b>	<b>9.43%</b>	<b>\$ 17,464</b>	<b>6.02%</b>

Of the employee share, the employer paid \$11,337 of PERS/OPSRP, \$5,577 of ORP, and \$52 of TIAA-CREF during the fiscal year ended June 30, 2013. The federal contributions of \$123 represent FERS and CSRS employees, and the \$356 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched from one to five percent by the employer in fiscal year 2013.

### 14. OTHER POSTEMPLOYMENT BENEFITS

During the year ended June 30, 2013, OSU was a part of OUS as a participant in the defined benefit postemployment health care plan.

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

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

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to OSU's share, estimated at 10 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation

was based on health insurance premiums paid by state agencies during fiscal year 2013.

*Funding Policy.* OSU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2013, OSU paid healthcare insurance premiums of \$71,428. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be \$866 for the fiscal year ended 2013.

*Annual OPEB Cost and Net OPEB Obligation.* OSU's annual OPEB expense is calculated based on OSU's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over thirty years.

The following table shows the components of OSU's annual OPEB expense for the year, the amount actually contributed to the plan, and changes in OSU's net OPEB obligation:

	June 30, 2013
Annual Required Contribution	\$ 2,165
Interest on Net OPEB Obligation	235
Adjustment to Annual Required Contribution	(448)
Annual OPEB Cost	1,952
Contributions Made	(866)
Increase in Net OPEB Obligation	1,086
Net OPEB Obligation - Beginning of Year	5,804
Net OPEB Obligation - End of Year	\$ 6,890

The OSU annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2013 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 2,165	50%	\$ 1,086

*Funding Status and Funding Progress.* The funded status of the OSU OPEB plan for June 30, 2013 was as follows:

	June 30, 2013
Actuarial Accrued Liabilities	\$ 16,012
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$ 16,012
Funded Ratio	0.00%
Covered Payroll (active plan members)	\$ 286,923
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	5.58%

## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

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

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

Significant methods and assumptions were as follows:

	<b>June 30, 2013</b>
Actuarial Valuation Date	<b>7/1/2011</b>
Actuarial Cost Method	<b>Entry Age Normal</b>
Amortization Method	<b>Level Percentage</b>
Amortization Period	<b>15 Years (open)</b>
Investment Rate of Return	<b>3.5%</b>
Projected Salary Increases	<b>3.5%</b>
Initial Healthcare Inflation Rates	<b>4% (medical), 2.7% (dental)</b>
Ultimate Healthcare Inflation Rates	<b>5.5% (medical), 5% (dental)</b>

### 15. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others, for which OSU is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2013 was \$1,795.

### 16. RISK FINANCING

OSU participates in the OUS Risk Management Fund managed by the OUS Office of Risk Management. The following risks have been transferred to the OUS fund:

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

OUS Risk Management purchases commercial insurance for claims in excess of coverage provided by the self-insurance program and for all other risk of loss. The self-insured property coverage for OUS as a whole is based on a total insurable value of \$9.3 billion with a \$500 million limit of liability with sub-limits for earthquake and flood. The casualty program provides coverage for a variety of torts, perils, hazards and potential specialty losses under the Risk Management property and casualty program as well as specific student related policies.

Limits of liability for this program including excess layers include \$50 million for:

- General liability including sexual molestation coverage and liability for students in supervised internships or others as directed by the university
- Educator's legal liability (including D&O and employment liability)
- Limited professional liability for veterinarians, architects & engineers, and law clinics, plus student health employee coverage for medical malpractice
- Automobile liability
- Workers' compensation excess coverage with an attachment point of underlying coverage of \$1 million for each injury, illness and disease.

Additional specialty coverage is in place to include crime, marine liability, aircraft liability for owned and non-owned coverage, and fiduciary liability for our involvement in retirement funds. In addition, student-specific coverage is maintained for intercollegiate athletics, student health insurance, study abroad insurance, medical malpractice for student practicums, and camps and clinics. Settled claims have not exceeded this commercial coverage in this first year of the program.

OSU is charged an assessment to cover the OUS Risk Management Fund's cost of servicing claims and payments based on the OUS Risk Allocation Model and actuarial estimates of the amounts needed to pay prior and current-year claims.

### 17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects authorized by the Oregon State Legislature totaled approximately \$160,751 at June 30, 2013. These commitments will be primarily funded from gifts and grants, bond proceeds, and other OSU funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2013.

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

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

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to ORS 657. OSU reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are bud-

## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

geted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to OSU cannot be reasonably determined at June 30, 2013.

### CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2013

	Total Commitment	Completed to Date	Outstanding Commitment
<b>Oregon State University:</b>			
Austin Hall	\$ 24,100	\$ 6,655	\$ 17,445
Campus Wide Critical Repair	3,341	1,899	1,442
Capital Repair	5,905	3,265	2,640
Collaborative Life Sciences Bldg	31,312	20,575	10,737
Cultural Centers	5,322	1,439	3,883
Engineering Building	1,000	2	998
MU Renovation	9,620	207	9,413
Multi Animal Teaching Facility	6,240	948	5,292
New Residence Hall	38,000	1,411	36,589
Radiation Center Renovation	1,449	396	1,053
Reser Phase 2 - Gill Annex	5,000	1,027	3,973
Sackett Hall Renovation	6,000	2,853	3,147
Sports Performance Center	12,000	11,053	947
Steam Line Repair	3,000	2,112	888
Strand Agriculture Hall	13,437	1,741	11,696
Student Experience Center	42,700	797	41,903
Student Success Center	7,392	6,376	1,016
UHDS Renovations	4,430	1,291	3,139
Weniger Renovation	2,810	289	2,521
<b>Projects with &lt;\$500 thousand remaining to be spent</b>	<b>38,573</b>	<b>37,092</b>	<b>1,481</b>
<b>Project Budgets &lt;\$1 million</b>	<b>585</b>	<b>37</b>	<b>548</b>
	<b>\$ 262,216</b>	<b>\$ 101,465</b>	<b>\$ 160,751</b>

## 18. SUBSEQUENT EVENTS

### BONDED INDEBTEDNESS

Subsequent to the fiscal year ended June 30, 2013, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bonds 2013 Series N, \$106,940, average coupon of 5.0 percent for capital construction with a final maturity of 2043.
  - OSU's share of the debt from the 2013 N sale for new money projects is \$2,300 for the Cultural Centers.
- XI-F(1) Taxable Bonds 2013 Series O, \$8,165, average coupon of 4.2 percent for capital construction with a final maturity of 2033.
  - OSU's share of the debt from the 2013 O sale for new money projects is \$4,000 for the Cascades Campus.

### OREGON UNIVERSITY SYSTEM STRUCTURE CHANGES

During the 2013 Legislative Session, the Legislative Assembly enacted Senate Bill 270 (SB 270), Chapter 768, Oregon Laws 2013, which, among other things, establishes independent governing boards for Portland State University (PSU) and the University of Oregon (UO), and authorizes Oregon State University (OSU) to elect to establish an independent governing board. OSU has notified the Governor of its election to establish an independent governing board. SB 270 became effective August 14, 2013, however, certain provisions of SB 270, including the authority of the independent governing boards, will not be effective until July 1, 2014. Beginning with fiscal year ending June 30, 2015, OSU will issue annual financial reports independent from the Oregon University System Annual Financial Report.

### POLLUTION REMEDIATION OBLIGATION

Subsequent to the fiscal year ended June 30, 2013 an obligation to remove hazardous materials was brought to the attention of management. The obligation is the result of a routine waste compliance inspection by the U.S. Environmental Protection Agency and the Oregon Department of Environmental Quality of the OSU chemical waste accumulation Annex and several science laboratories. OSU responded to the inspection and has removed identified hazards to the environment and public health and is in the process of developing an internal lab audit program. Management estimates the remaining expected outlay for removal of hazardous waste from the affected sites, legal fees and fines will range between \$160 and \$510.

## 19. UNIVERSITY FOUNDATIONS

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

The financial activity is reported for the year ended June 30, 2013.

During the year ended June 30, 2013 gifts of \$47,867 were transferred from university foundations to OSU. Both OSU affiliated foundations are audited annually and received unqualified audit opinions.

Please see the combining financial statements for the OSU component units on the following page.



## Notes to the Financial Statements For the Year Ended June 30, 2013 (dollars in thousands)

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Complete financial statements for the foundations may be obtained by writing to the following:

- Oregon State University Foundation, 850 SW 35th Street, PO Box 1438, Corvallis, OR 97339-1438
- Agricultural Research Foundation, 100 Strand Agriculture Hall, Oregon State University, Corvallis, OR 97331-8521



### Student Loans

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To supplement federal and state-funded financial aid programs, Oregon State offers a variety of merit and need-based scholarships at the university, college and department levels.

Notes to the Financial Statements  
For the Year Ended June 30, 2013 (dollars in thousands)

Component Units  
Combining Financial Statements

Statements of Financial Position

As of June 30, 2013

	Oregon State University Foundation	Agricultural Research Foundation	Total Component Units
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 30,161	\$ 1,265	\$ 31,426
Contributions, Pledges and Grants Receivable, Net	42,019	1,151	43,170
Investments	499,486	21,307	520,793
Prepaid Expenses and Other Assets	15,784	466	16,250
Property and Equipment, Net	12,590	27	12,617
<b>Total Assets</b>	<b>\$ 600,040</b>	<b>\$ 24,216</b>	<b>\$ 624,256</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 3,462	\$ 5,971	\$ 9,433
Accounts Payable to Universities	2,782	5,928	8,710
Obligations to Beneficiaries of Split-Interest Agreements	26,319	-	26,319
<b>Total Liabilities</b>	<b>\$ 32,563</b>	<b>\$ 11,899</b>	<b>\$ 44,462</b>
<b>NET POSITION</b>			
Unrestricted Surplus (Deficit)	\$ (3,912)	\$ 2,118	\$ (1,794)
Temporarily Restricted	237,531	9,233	246,764
Permanently Restricted	333,858	966	334,824
<b>Total Net Position</b>	<b>\$ 567,477</b>	<b>\$ 12,317</b>	<b>\$ 579,794</b>

Statements of Activities

For the Year Ended June 30, 2013

<b>REVENUES</b>			
Grants, Bequests and Gifts	\$ 52,603	\$ 7,271	\$ 59,874
Interest and Dividends	15,068	-	15,068
Investment Income, Net	27,339	220	27,559
Change in Value of Life Income Agreements	2,009	-	2,009
Other Revenues	15,204	-	15,204
<b>Total Revenues</b>	<b>112,223</b>	<b>7,491</b>	<b>119,714</b>
<b>EXPENSES</b>			
University Support	48,746	6,301	55,047
General and Administrative	18,375	1,358	19,733
Other Expenses	7,839	7	7,846
<b>Total Expenses</b>	<b>74,960</b>	<b>7,666</b>	<b>82,626</b>
<b>Increase (Decrease) In Net Position</b>	<b>37,263</b>	<b>(175)</b>	<b>37,088</b>
<b>NET POSITION</b>			
Beginning Balance	530,214	12,492	542,706
<b>Ending Balance</b>	<b>\$ 567,477</b>	<b>\$ 12,317</b>	<b>\$ 579,794</b>

**Funding Status of Other Postemployment Benefits**

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2009	\$ -	\$ 27,843	\$ 27,843	0.0%	\$ 240,332	11.6%
6/30/2010	-	14,369	14,369	0.0%	248,419	5.8%
6/30/2011	-	15,314	15,314	0.0%	254,043	6.0%
6/30/2012	-	15,170	15,170	0.0%	265,095	5.7%
6/30/2013	-	16,012	16,012	0.0%	286,923	5.6%

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

Glenn Ford  
Vice President for Finance and Administration  
Oregon State University  
640 Kerr Administration Building  
Corvallis, OR 97331-2156  
541-737-2447



Oregon State University

**oregonstate.edu**; 541-737-2447

Office of the Vice President for Finance and Administration

640 Kerr Administration Building

Corvallis, OR 97331-2156

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