Oregon University System

2003

Annual Financial Report

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

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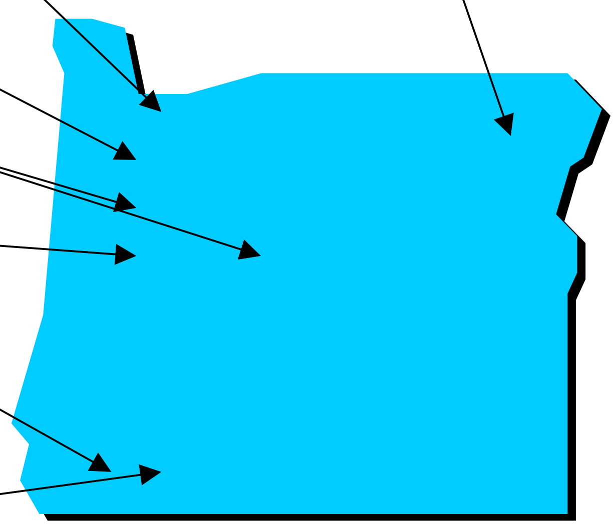


Oregon University System 2003 Annual Financial Report

Message from the Chancellor

When one door closes, another one opens, but we often look so long and regretfully at the closed door that we fail to see the one that has opened for us. --*Alexander Graham Bell*

In times of great challenge it is often difficult to focus on successes. Challenges have a way of overwhelming us by shining a glaring spotlight on current difficulties and obscuring the positives.

Oregon University System faced some of its most daunting challenges in 2002-03, yet we also achieved levels of success that show positive, upward trends in several significant areas. Through its seven, high quality institutions – Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, University of Oregon, and Western Oregon University – OUS delivered higher education programs and services to more than 78,000 students, and thousands more community members across the state.

Moving Past the Closed Door

Oregon's economic downturn affected all state agencies, major industries, and thousands of individuals in the state over the past year. Record unemployment, company downsizing and closures, and other financial factors reduced anticipated tax revenue significantly. This drove the Legislature to mandate a series of budget cuts across all state agencies over five-plus special sessions, the last one coming after the failure of a tax increase referendum put to voters in January 2003. For OUS, this meant reductions in the 2001-03 biennial budget of almost 11%.

For campuses, the **budget cuts** forced a number of measures: tuition surcharges to students, faculty and staff layoffs, program, course and class cuts and other restructuring. For the System office, the reductions also brought staff and program cuts, forcing some system-level functions to be transferred to the campuses at a time when they could least afford to absorb more costs and administrative burden. Critical issues that remain are the inability of the System to increase **faculty salaries** due to state wage freezes, and the implications this has on retaining and recruiting a quality teaching and research workforce; and the serious **deferred maintenance** realities on our campuses, a $500 million problem that will only get worse without significant investment in campus facilities and construction in the near term.

Students were certainly hit the hardest by the state's budget crisis. Unexpected **tuition surcharges** brought unanticipated expenses to students and their families, many of whom were already struggling to pay tuition bills. While campuses worked hard to offset the surcharges with increases in institutional financial aid, it was not always enough to bridge the gap. Inadequate funding of the Oregon Opportunity Grant left behind many eligible, needy students. The "F" grade that Oregon received in the "Affordability" category on the 2002 national report card[1] was an appropriate representation of the financial barriers hobbling our students.

Recognizing the Open Door

While the budget challenges have certainly hindered advances in some areas, OUS institutions remain strong and committed to ensuring higher education opportunities for all Oregonians.

1 "Measuring Up 2002," Report of the National Center for Public Policy in Higher Education

Performance indicators that have been tracked since 1996-97 continue to show significant increases in a number of areas: quality ratings by recent graduates, student diversity, fall credit enrollment, total degrees awarded, R&D support from grants and contracts, and philanthropic support from donors. Areas with lower increases include freshmen persistence to second year, and completion of a bachelor's degree. These latter indicators have been adversely affected by financial pressures on students, under-preparation for college-level work, and cuts in student support services that focus on retention for at-risk students.

Continuing to meet market demands, OUS institutions developed **innovative new program offerings** during the 2001-03 biennium from the Certificate to the Doctoral level. Sixteen new baccalaureate, masters and doctoral programs were introduced, from Computational Physics to Applied Ethics to Mathematical Sciences; as well as eleven new certificate programs including Not-for-Profit Management and Rehabilitation Counseling for Deaf & Hard of Hearing Adults. Overall, **degrees awarded** by OUS institutions increased significantly in FY 2003 to more than 15,100, a growth rate of 11.5% over FY 2002. These increases reflect the continued efforts of the campuses to recruit and retain qualified resident undergraduates and graduate students, and the strong enrollment growth over the past five years.

Oregon's size and geography have made it difficult in the past for students in more remote areas of the state to access a four-year degree program. But with the expansion in offerings at the new **OSU-Cascades campus** in Bend, the **Southwestern Oregon University Center** in Coos Bay, and the growth of distance learning programs at all the campuses, access to a baccalaureate was opened up to thousands of Oregonians. In FY 2003, **distance education enrollments** at campuses increased to more than 25,000 students in almost 2,000 courses. This was up 17% over the prior year, and up 93% from FY 2001, a growth trend that has met the need for flexible learning environments for both on- and off-campus students. **Dual enrollment** options for community college students also provided increased access to baccalaureate degrees in the state, and helped ease the transition and transfer requirements for students moving from a 2-year to a 4-year college environment.

Relationships and program **cooperation between Oregon's public universities, community colleges, and K-12 education** continued to grow in breadth this year. The Joint Boards working group – made up of Board and staff members of the State Board of Higher Education and the State Board of Education – convened throughout the year to align goals, interests and curriculum assessment work. OUS's **Proficiency-based Admission Standards System** – better known as PASS – aligns college admission with Oregon's statewide K-12 school improvement plan. This year a major study, The First Year, verified that students' performance on Oregon's 10th grade benchmark assessments align very closely with their performance once in college. For students showing achievement levels in the 10th grade that do not support their college aspirations, they now have two years to focus on areas where they need greater proficiency. This "early alert" system will help more Oregon students develop the tools they need to succeed in college.

Another new K-12 effort in FY 2003 was OUS's receipt of a $12.5 million federal GEAR UP grant from the U.S. Department of Education, which was matched with $13 million in state, private and in-kind funds. The **Oregon GEAR UP Network** works with 16 middle and high school clusters across the state to provide meaningful enrichment to more than 4,200 under-served students, preparing them to access and succeed in postsecondary education, as well as resulting in systemic school improvement. Through student academic development, teacher and counselor professional development, community involvement and school-college partnerships, GEAR UP is helping Oregon's lowest income students gain the skills and opportunity to make higher education a reality. Working with the Oregon Community Foundation, a major scholarship fund was also created this year with an initial $1.25 million investment – and a goal to reach a $15 million endowment – that will provide financial assistance to GEAR UP graduates once they enter college.

Despite the downturn economy, OUS faculty remained energized and focused on producing **new research and programs**. Campus faculty made substantial gains in the awarding of Research & Development grants and contracts, with a total of $163 million received in FY 2003, an increase of 14% over FY 2002.

Contributions to **economic development** also showed gains this year. The Engineering and Technology Industry Council (ETIC) goals for doubling the number of engineering and computer science graduates and improving program quality and capacity by 2007 continue to meet their annual targets. Industry support of **ETIC** also remains strong, even though many of our most committed supporters faced reduced revenues and downsizing during the year. Industry members championed both ETIC and the proposed **Signature Research Center** in Multi-scale Materials and Devices that will support technology transfer from idea to product stage. The clear commitment of industry leaders to university-industry partnerships that will create new products and jobs secured the legislature's only investment of this kind – a total of $40 million – for the Signature Research Center in the 2003-05 biennium.

Internship programs that place students inside companies to learn how to apply their coursework to workplace projects remain a major component of OUS's collaboration with the private sector. These work-ready programs have helped Oregon "grow our own" engineers, scientists and other professionals to meet the employment demands of the state's largest industry sectors.

Opening New Doors

As we look ahead to next year, OUS is **committed to facing its challenges** and working closely with its partners to invest in our mission of access, affordability and quality in our public universities. Resources will be deployed to reinforce program strengths and support students. We will re-enlist our state partners to continue the support and collaboration that is necessary to protect higher educational opportunity for our students, and to protect our campuses' institutional assets for all Oregonians.

Richard S. Jarvis
Chancellor
October 2003

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the Oregon University System (OUS) for the years ended June 30, 2003 and 2002. OUS comprises the following four-year public universities: Eastern Oregon University (EOU), Oregon Institute of Technology (OIT), Oregon State University (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO), and Western Oregon University (WOU). OUS institutions perform instruction, conduct research and provide public services. This analysis has been prepared by management and should be read in conjunction with the accompanying financial statements and footnote disclosures.

In the fall of 2002, OUS enrolled a total of 78,111 students on its seven campuses, up 5.7% from fall 2001. Specifically contributing to the growth are the large high school graduating class for 2002, and an increase in resident transfer and graduate enrollment. With the continued growth of high school graduates, a broadening gap in income between those with and without a bachelors degree, the trend toward a knowledge-based economy in Oregon, and the loss of job opportunities due to the decline in the Oregon economy, demand for higher education in Oregon will likely only be tempered by affordability in the current decade. See Nonoperating Revenue (Expenses) for information relating to the decline in the Oregon economy. Enrollment increased 20% over the five years from fall 1998 to fall 2002. The 2002 fall student enrollment comprised of 81% undergraduates and 19% enrolled in graduate and professional programs. Fall term enrollment by university is as follows:

	Fall Term Student Enrollment				
University	1998	1999	2000	2001	2002
Eastern Oregon University	2,460	2,611	2,784	2,978	3,418
Oregon Institute of Technology	2,679	2,814	2,842	3,088	3,139
Oregon State University	15,197	16,061	16,777	18,277	19,161
Portland State University	17,303	18,317	19,029	20,185	21,841
Southern Oregon University	5,465	5,751	5,502	5,469	5,478
University of Oregon	17,366	17,278	17,843	19,008	20,044
Western Oregon University	4,519	4,515	4,731	4,878	5,030
Total System	64,989	67,347	69,508	73,883	78,111

OUS has established programs and changed procedures to manage the enrollment increases. One institution, the UO, offered tuition discounts to students willing to attend classes at less popular times. Class registration scheduling was extended at several campuses, and admission requirements were increased, such as requiring higher minimum Grade Point Averages for incoming students.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

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

The following summarizes OUS assets, liabilities and net assets:

As of June 30,	2003	2002	% Change
	(In thousands)		
Assets			
Current Assets	$ 449,656	$ 404,586	11%
Noncurrent Assets	414,574	481,795	-14%
Capital Assets, Net of Accumulated Depreciation	1,070,602	753,061	42%
Total Assets	$ 1,934,832	$ 1,639,442	18%
Liabilities			
Current Liabilities	$ 264,826	$ 241,468	10%
Noncurrent Liabilities	658,226	641,365	3%
Total Liabilities	$ 923,052	$ 882,833	5%
Net Assets			
Invested in Capital Assets, Net of Related Debt	$ 427,084	$ 134,637	217%
Restricted - Nonexpendable	14,686	14,444	2%
Restricted - Expendable	415,575	484,116	-14%
Unrestricted	154,435	123,412	25%
Total Net Assets	$ 1,011,780	$ 756,609	34%

TOTAL ASSETS

Total Assets increased $295.4 million to $1.9 billion during the fiscal year ended 2003 compared to 2002. Current Assets increased $45.1 million mainly due to $25.8 million in increased cash relating to reductions of budgeted expenditures in reaction to State funding uncertainties and $17.5 million in increased Collateral from Securities Lending. Noncurrent Assets declined $67.2 million relating to proceeds from debt issued in 2002 that was expended in 2003 for Construction in Progress. Capital assets increased $317.5 million and can be attributed mainly to a change in accounting principle relating to Accumulated Deprecation and increased Construction in Progress. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

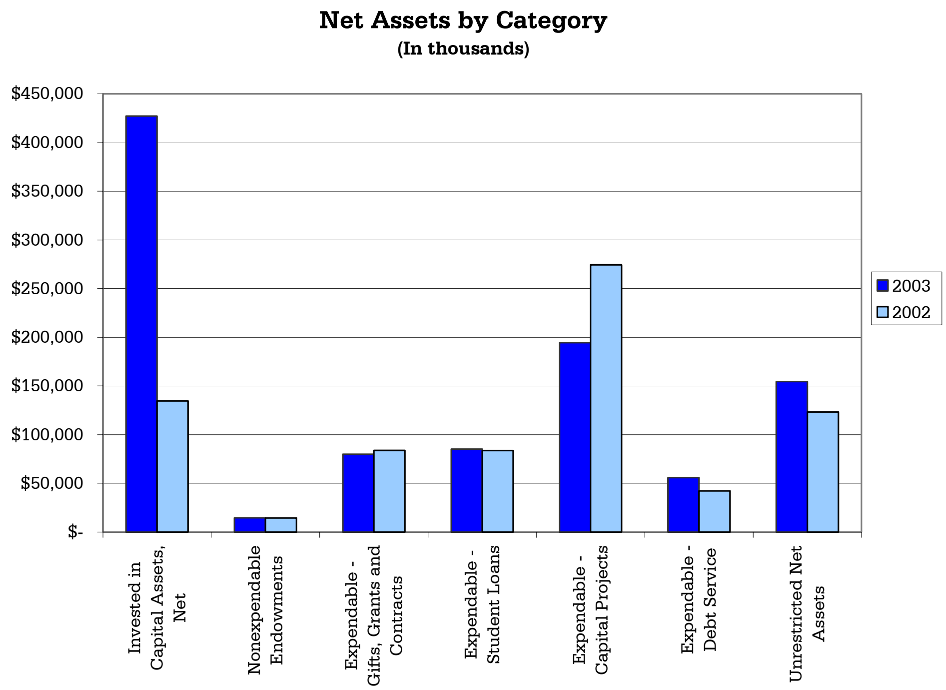
TOTAL LIABILITIES

Total Liabilities increased $40.2 million to $923.1 million during the fiscal year ended 2003 compared to 2002. Current Liabilities increased $23.4 million mainly due to Obligations under Securities Lending. Noncurrent Liabilities increased $16.9 million mainly due to increases in the debt issued to construct or purchase Capital Assets. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

TOTAL NET ASSETS

Overall, OUS's financial position improved in fiscal year 2003. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased $255.2 million to $1.0 billion during the fiscal year ended 2003 compared to 2002. In addition, for both fiscal years, current assets are sufficient to meet current obligations.

The following graph shows the changes by category of net assets between fiscal year 2003 and 2002:



The $255.2 million increase in Total Net Assets primarily related to the change in accounting principle and Investment in Capital Assets, Net of Related Debt. These increases were partially offset by decreased Expendable - Capital Projects due to expenditures for capital projects exceeding capital related debt issuances during the fiscal period ended June 30, 2003. See "Capital Assets and Related Financing Activities," below, for information relating to this net increase.

Although unrestricted net assets are not subject to externally imposed restrictions, substantially all OUS's unrestricted net assets have been designated for various academic, research and public service programs.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

For the Year Ended June 30,	2003	2002	% Change
	(In thousands)		
Operating Revenues	$ 1,183,684	$ 1,066,601	11%
Operating Expenses	1,579,234	1,485,657	6%
Operating Loss	(395,550)	(419,056)	6%
Nonoperating Revenues (Expenses)	446,164	533,371	-16%
Increase In Net Assets Before Change in Accounting Principle	50,614	114,315	-56%
Cumulative Effect of Change in Accounting Principle	204,557	-	*
Increase In Net Assets After Change in Accounting Principle	255,171	114,315	*
Net Assets at Beginning of Year	756,609	1,630,304	*
Cumulative Effect of Change in Accounting Principle	-	(988,010)	*
Net Assets at Beginning of Year (2002 as Restated)	756,609	642,294	*
Net Assets at End of Year	$ 1,011,780	$ 756,609	34%

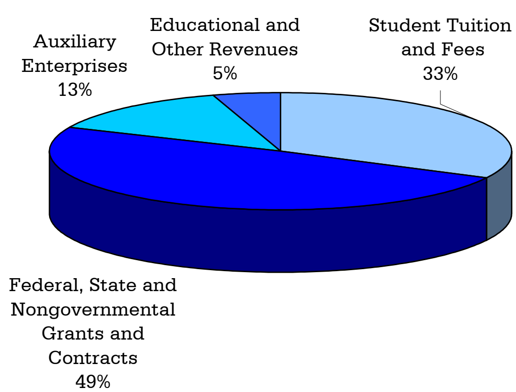
* Not meaningful

OPERATING REVENUES

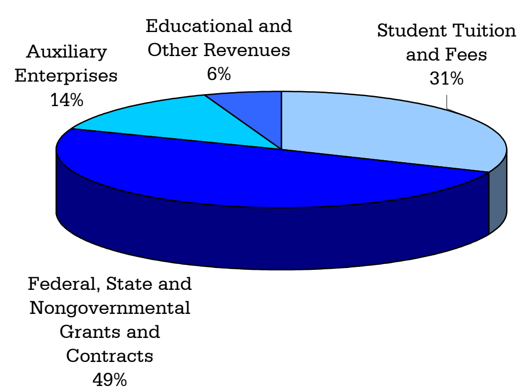
Operating revenues increased $117.1 million, or 11% over fiscal year 2002, to $1.2 billion in fiscal year 2003. This variance is due to increases in student tuition and fees, grants and contracts, and auxiliary operations.

For the Year Ended June 30,	2003	2002	% Change
	(In thousands)		
Operating Revenues			
Student Tuition and Fees	$ 385,983	$ 335,413	15%
Federal, State and Nongovernmental Grants and Contracts	582,210	526,171	11%
Auxiliary Enterprises	158,744	146,315	8%
Educational and Other Revenues	56,747	58,702	-3%
Total Operating Revenues	$ 1,183,684	$ 1,066,601	11%

2003 Operating Revenues - $1.2 Billion



2002 Operating Revenues - $1.1 Billion



Student tuition and fees increased $50.6 million in 2003 compared to 2002 due to increased student enrollment which accounted for $22.4 million, increased tuition and fee rates which accounted for $20.7 million, and a tuition surcharge that began in January 2003 and affected the winter and spring terms which accounted for $17.0 million. This surcharge became necessary to cover the funding reductions in State appropriations. Partially offsetting these revenue increases were increased fee remissions of $7.5 million relating to the increased rates, increased enrollment and the surcharge. In 2003, student tuition and fees comprised a larger component of OUS revenues than State Appropriations. See "Nonoperating Revenues (Expenses) - Government and Capital Appropriations" in this MD&A for further discussion of the decline in State appropriations. See "Introduction" in this MD&A for further discussion of the increased student enrollment.

Federal, State and Nongovernmental Grants and Contracts increased $56.0 million in 2003 compared to 2002. Federal Student Aid grants increased $35.7 million due to higher student enrollment and tuition and fees. Research and Development grants increased $17.1 million mainly due to increased Federal grants received from the Department of Agriculture, the Department of Health and Human Services, the National Science Foundation, the Department of Energy and the Department of the Interior. Other federal grants remained the same in fiscal year 2003 when compared to prior year.

Auxiliary Enterprise revenue increased $12.4 million compared to the prior year. Intercollegiate Athletics revenues grew $7.2 million mainly due to the increased seating capacity at UO's football stadium and more home football games at OSU. Housing, health services, parking and bookstore sales increased $6.8 million in 2003 relating to higher student enrollment and rate increases.

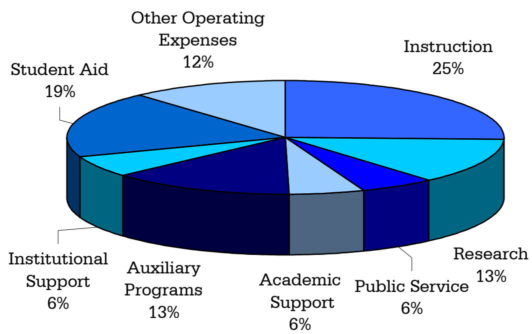
Educational and Other Revenues had no significant changes between the two fiscal periods.

OPERATING EXPENSES

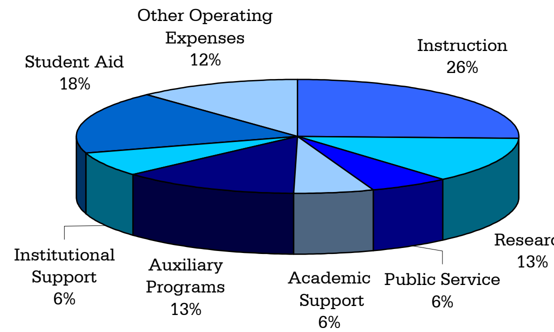
Operating expenses increased $93.6 million, or 6%, over fiscal year 2002, to $1.6 billion in fiscal year 2003. This variance is due to increases in Instruction, Research, Student Aid, Auxiliary Programs, and Other Operating Expenses.

For the Year Ended June 30,	2003	2002	% Change
	(In thousands)		
Operating Expenses			
Instruction	$ 401,694	$ 379,065	6%
Research	206,542	195,037	6%
Student Aid	299,317	267,581	12%
Auxiliary Programs	213,709	196,971	8%
Institutional Support	98,528	99,528	-1%
Public Service	87,865	85,399	3%
Academic Support	89,294	86,408	3%
Other Operating Expenses	182,285	175,668	4%
Total Operating Expenses	$ 1,579,234	$ 1,485,657	6%

2003 Operating Expenses - $1.6 Billion



2002 Operating Expenses - $1.5 Billion



Due to how expenses are incurred by OUS, variances are provided by analyzing changes in the natural classifications of expenses. Each natural classification analysis can be applied to many of the functional expense caption items. Please refer to the table below to see the relationship between the natural expense variance and the functional expense variance for the fiscal year 2003 compared to 2002 (in thousands):

Variances relating to:	Instruction	Research	Public Service	Academic Support	Auxiliary Programs	Instutional Support	Student Aid	Other Operating Exp.	Total Operating Exp.
	Expense (Decrease) Increase								
Compensation and Benefits									
Benefit Costs	$ 6,538	$ 2,510	$ 1,368	$ 1,536	$ 1,744	$ 1,819	$ 4	$ 1,848	$ 17,367
Wage Increases	4,759	1,974	891	985	1,217	1,107	48	929	11,910
Employee Growth	4,637	2,497	183	584	2,460	158	10	(82)	10,447
Student Worker Growth	1,595	1,989	(12)	181	330	136	392	(190)	4,421
Scholarships and Fellowships									
OUS Student Aid	1,208	365	138	32	247	15	5,266	(260)	7,011
Federal Loan Programs							26,860		26,860
Services and Supplies	2,414	3,379	1,508	(104)	5,673	(1,405)	140	38	11,643
Internal Sales Reimbursements	427	(1,184)	70	(137)	42	(2,766)	(33)	(1,271)	(4,852)
Depreciation					3,165			4,847	8,012
Public Service Funding			(1,961)						(1,961)
Other Variances	1,051	(25)	281	(191)	1,860	(64)	(951)	758	2,719
	$ 22,629	$ 11,505	$ 2,466	$ 2,886	$ 16,738	$ (1,000)	$ 31,736	$ 6,617	$ 93,577

Compensation and Benefits increased $44.3 million during the year ended 2003 compared to 2002. This increase can be broken into four main variances. For existing employees, **Benefit Costs** increased $17.4 million and represented a 9% overall rate increase compared to fiscal year 2002. Faculty and Staff received a two percent **Wage Increase** in 2003 that increased expenses by $11.9 million. **Employee Growth** relating to higher enrollment and increased grants and contracts caused expenses to increase $10.4 million. Most position increases were directly related to teaching and auxiliary programs (enrollment increases), and positions relating to grants. **Student Worker Growth** of $4.4 million, or 7.7%, matched the student enrollment increases of 7.8% for fiscal year 2003. Student positions increased in areas directly affected by student growth. Student workers also filled, temporarily, portions of positions left open by attrition that could not be refilled due to funding uncertainties. This trend is continuing in fiscal year 2004 and may continue as long as increased enrollment and funding uncertainties exist.

Scholarships and Fellowships increased $33.9 million when comparing fiscal year 2003 and 2002. **Federal Loan Programs** increased $26.9 million and **OUS Student Aid** increased $7.0 million relating to higher student enrollment and tuition and fee increases.

Services and Supplies increased $11.6 million during fiscal year 2003. Services and supplies relating to **Instruction** increased mainly due to higher continuing education costs and due to increased maintenance and repairs. **Research** and **Public Service** grew due to increased grants. **Auxiliary Programs** increased mainly due to the intercollegiate athletics program costs for travel and meals, utilities, security, insurance and athletic guarantees. Auxiliaries also increased relating to increased enrollment that affected costs for housing, student centers, health centers, bookstores and rentals. Services and supplies were also affected by the increased use of internal services (see "Internal Sales Reimbursements" below).

Internal Sales Reimbursements are generated when a service department, such as printing, mailing, catering or car pool, charges other departments for services. These reimbursements create a decrease in expenses to eliminate the double counting of the cost of these services between the providers and the recipients. The $4.9 million change between fiscal year 2003 and 2002 represents an increase in services provided and can be attributed to increased enrollment and grants.

Depreciation increased $8.0 million during fiscal year 2003. This increase can be directly attributed to the change in accounting principle made during 2003 that caused depreciation to be calculated under a new method. See "Note 1.C. Change in Accounting Principle" in the Notes to the Financial Statements for more information relating to the recalculation of accumulated depreciation and deprecation expense.

Public Service Funding declined $2.0 million directly relating to the decline in State appropriations for the statewide public services. See "Government and Capital Appropriations" in this MD&A for further discussion of the decline in State appropriations.

NONOPERATING REVENUES (EXPENSES)

The decline in Nonoperating Revenues of $87.2 million during 2003 can be directly tied to the reduction in Capital Grants and Gifts, Government and Capital Appropriations, and increased Interest Expense. This was partially offset by increased Investment Activity and Other Nonoperating Items.

For the Year Ended June 30,	2003	2002	% Change
	(In thousands)		
Nonoperating Revenues (Expenses)			
Government and Capital Appropriations	$ 371,495	$ 411,070	-10%
Investment Activity	13,634	8,601	59%
Interest Expense	(30,731)	(25,351)	21%
Capital Grants and Gifts	32,189	85,983	-63%
Other Nonoperating Items	59,577	53,068	12%
Total Nonoperating Revenues, Net	$ 446,164	$ 533,371	-16%

Government and Capital Appropriations declined $39.6 million in 2003. Government appropriations declined $23.7 million relating mainly to the decline in State appropriations that are used to fund operations at OUS. To counter these losses in appropriations, temporary tuition surcharges were levied during winter and spring terms generating $17.0 million. State Capital Appropriations were $15.9 million for the 2001-2003 biennium. All of the capital appropriations were drawn down in fiscal year 2002.

The State relies heavily on the collection of income and business taxes to fund its appropriations relating to higher education. The State of Oregon had the highest unemployment rate in the United States for most of the fiscal year ended 2003. With the decline in the economy and higher than usual unemployment, both income and business tax revenue streams declined. Oregon is one of several states that do not have a sales tax. This lack of sales tax causes revenue collection to fluctuate significantly as the economy changes. Property taxes are also collected in the State, but property tax revenues are used mainly for county and local services.

Investment Activity rose $5.0 million in 2003 mainly due to investments depreciating $6.1 million during 2002 and appreciating $.8 million during 2003. Partially offsetting this increase was decreased interest income of $1.3 million due to lower interest rates in fiscal year 2003.

Interest Expense increased by $5.4 million due to a partial year's interest accrual on debt issued in fiscal year 2003 and a full year's interest accrual on debt issued in fiscal year 2002. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts declined $53.8 million in 2003. This was mainly due to contributions received during 2002 of $50.2 million for the expansion of the UO football stadium and $2.4 million for construction of an indoor football practice facility at OSU. No similar contributions were received in 2003.

Other Nonoperating Items increased $6.5 million relating to increased net gains on asset sales of $5.6 million.

CHANGE IN NET ASSETS

The Increase in Net Assets declined $63.7 million in 2003 compared to 2002 relating to declines in Capital Grants and Gifts of $53.8 million and Governmental and Capital Appropriations of $39.6 million. This was partially offset by a decreased Operating Loss of $23.5 million.

STATEMENT OF CASH FLOWS

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

A summary statement of cash flows for the year ended June 30, 2003 and 2002, is as follows:

For the Year Ended June 30,	2003	2002	% Change
	(In thousands)		
Net Cash Used by Operating Activities	$ (317,507)	$ (340,008)	7%
Net Cash Provided by Noncapital Financing Activities	421,977	446,322	-5%
Net Cash (Used) Provided by Capital and Related Financing Activities	(155,542)	82,381	-289%
Net Cash Provided by Investing Activities	5,411	19,391	-72%
Net (Decrease) Increase in Cash and Cash Equivalents	(45,661)	208,086	-122%
Cash and Cash Equivalents, Beginning of Year	517,312	309,226	67%
Cash and Cash Equivalents, End of Year	$ 471,651	$ 517,312	-9%

Cash Used by Operating Activities decreased by $22.5 million in 2003 compared to 2002. This decrease in the use of cash was impacted by a $45.8 million increase in Tuition and Fees and a $65.2 million increase in Grants and Contracts. See "Statement of Revenues, Expenses and Changes in Net Assets – Operating Revenues," above, for further information relating to these revenue increases. Partially offsetting these increased revenues were increased expenses relating to Payments to Employees for Salaries and Benefits of $44.0 million and Payments to Suppliers of $34.8 million. See "Statement of Revenues, Expenses and Changes in Net Assets – Operating Expenses," above, for further information relating to these expense increases.

Cash Provided by Noncapital Financing Activities declined by $24.3 million in 2003, due mainly to the $24.9 million decrease in Governmental Appropriations. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to this revenue decrease.

Cash (Used) Provided by Capital and Related Financing Activities declined by $237.9 million in 2003. This can primarily be attributed to debt issuances declining $166.9 million during fiscal year 2003 when compared to 2002. Increased construction and purchase of capital assets caused the OUS cash position to decline by $28.1 million. Partially offsetting these cash declines was decreased debt principal payments relating to current bond refundings of $24.5 million made during fiscal year 2002. See "Capital Assets and Related Financing Activities," below for information relating to these variances. This decline can also be attributed to decreases in Capital Grants and Gifts of $51.7 million and Capital Appropriations of $15.9 million. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," and above for further information relating to these revenue decreases.

Cash Provided by Investing Activities declined by $14.0 million in 2003 when compared to 2002. This was mainly due to the change in Net (Purchases) Sales of Assets of $11.9 million. Fiscal year 2003 reflects investment purchases of $18.3 million offset by investment maturities of $6.0 million and sales of $5.0 million. Fiscal year 2002 reflects investment maturities of $4.0 million.

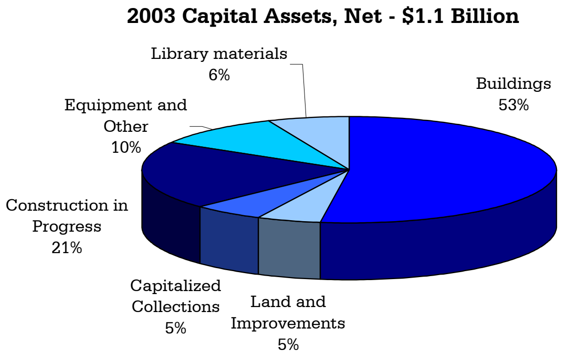
CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

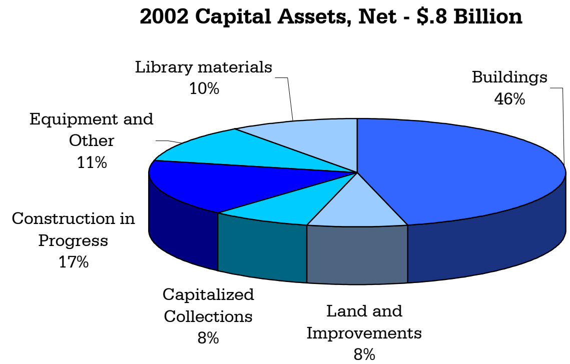
During fiscal year 2003 and 2002, OUS issued bonds totaling $46 million and $213 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. During 2003, capital expenditures increased as the debt proceeds from the current and prior year were used to pay for construction. See "Note 8. Long-Term Liabilities" in the Notes to the Financial Statements for information on debt issued during fiscal year 2003 and 2002.

OUS facilities include 1,211 buildings totaling 21 million gross square feet (gsf). OUS is committed to a comprehensive program of capital initiatives combined with a comprehensive approach to facility maintenance which includes addressing current maintenance needs and minimizing OUS's deferred maintenance backlog. State, private, borrowed, and internal OUS funding combine to accomplish OUS's capital objectives.

Capital additions totaled $197 million for the fiscal year 2003 and $170 million for 2002. For the seven universities, fiscal year 2003 saw new and renovated buildings completed, such as the EOU Integrated Services Building, OSU Hinsdale Wave Research Addition, PSU Classroom Building and Renovation, UO Campus Development (phase 2) and WOU Werner College Center (phase 2). Fiscal year 2002 included new and renovated buildings completed, such as the PSU Urban Center and the SOU Center for the Visual Arts. Facilities under construction at the end of the fiscal year ended 2003 include projects funded from private gifts, general obligation bonds, State capital appropriations, certificates of participation and internal funds.

Accumulated depreciation at June 30, 2003, decreased $185.5 million relating to a change in accounting principle. This caused annual depreciation expense to increase $8.0 million during the fiscal year ended June 30, 2003 compared to 2002. See "Note 1.C. Organization and Summary of Significant Accounting Policies – Change in Accounting Principle" in the Notes to the Financial Statements for more information relating to this change.

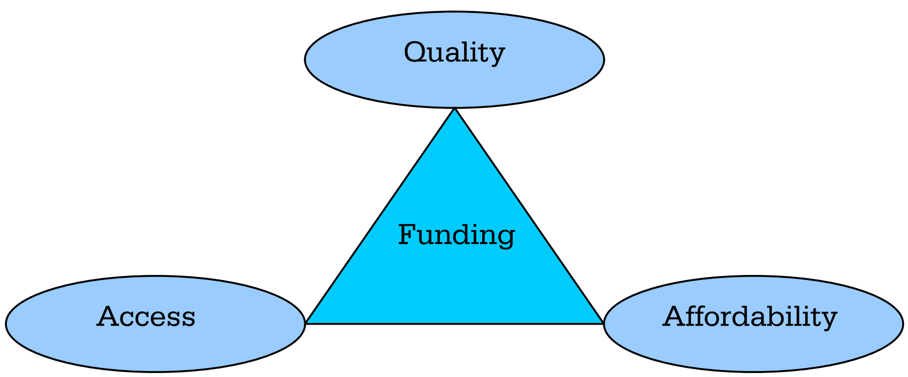




ECONOMIC OUTLOOK

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

A primary objective of the universities that comprise OUS is to maintain higher educational programs that provide for quality, access and affordability. The following diagram illustrates how the funding priorities need to be balanced at OUS.



The top priority for OUS is to maintain, and if at all possible, increase access to higher education. The affordability of higher education relates to changes made to tuition, fees and financial aid. The quality of education at OUS is tracked and evaluated based on a performance measurement system mandated by the State Legislature in 1997.

The downturn in the economy and structural issues affecting the State's revenues have and will continue to have a negative impact on the funding of OUS. Due to the decline in State apportionments, OUS has taken several actions to keep these priorities balanced.

Access. Several of the universities are raising their admission requirements, such as raising the minimum Grade Point Average for admission.

Affordability. The tuition surcharges affected student affordability in fiscal year 2003, and permanent increases will further affect affordability in fiscal year 2004.

Quality. Wage freezes have been enacted for the biennium ending fiscal year 2005. Some faculty and staff positions may be eliminated, but tuition increases will help to mitigate layoffs in other cases. Retention and recruitment of faculty and staff may be affected by the salary freezes.

There is the potential for a negative impact on OUS if these actions continue for a significant period of time. Enrollment increases will likely slow due to higher than average increases in tuition and fees. Class size may have to increase as personnel and class and course reductions take affect.

Preliminary information from fall 2003 indicates enrollment growth will exceed 2% above last year's historic highs. Though this generates a marginal increase in revenues it puts more pressure on balancing the funding between access, affordability and quality.

The budgetary outlook for fiscal year 2004 continues uncertainties, particularly the potential for loss of new state revenues from a possible referral and repeal of a three-year tax surcharge adopted by the 2003 Legislature. The State General Fund portion of the OUS budget is $550.7 million for 2003-05, down from $617.4 million in General Fund appropriations for the 2001-03 biennium, a reduction of 10.8%. For the first time, the Legislature set upper limits on undergraduate fee remissions, which will require campuses to adjust their fee remission awards in the second year of the biennium to conform to the limit.

Given the current condition of Oregon's economy, uncertainties exist in the level of state appropriations that can be expected in future biennia. It is with this in mind that the OUS has launched an effort to secure a more stable funding commitment and greater administrative flexibility from the State, some of which was achieved during the 2003 Legislative session.

Research volume on OUS campuses remains strong, which, coupled with efforts at increasing technology transfer activities, will help ensure stability and achieve growth in grant and contract revenues, along with increased cost recoveries. The level of cost recovery from the federal government hinges on obtaining/maintaining stability in the negotiated cost recovery rate. Recent trends indicate downward pressure in recovery rates that may serve to offset any volume-related increases.

OUS campuses have increasingly looked to outside donors for funding significant portions of capital projects, as well as supporting operations. Improvements in the levels of gift revenues have been made over the past several years. Given Oregon's current economic condition, it is uncertain whether we can anticipate continued growth and stability from this revenue source.

Enrollment is projected to increase at a slower rate due to the continuation of tuition increases, and higher admission requirements. Should state funding levels, coupled with tuition and fees, become more stable in relation to enrollment, we can expect to see increases in operating expenses. However, in the event of declines in state revenues without offsetting tuition and fee increases, the projected increases in enrollment may be further reduced, which may limit operating cost increases.

Compensation continues to be an issue relating to the ability of OUS to attract and retain a quality workforce. With the current wage freeze, there are concerns relating to the ability to offer competitive salaries and benefits in order to help ensure retention of top talent and, as a result, help ensure the continued quality of our educational programs. The experience of the last several years, as well as industry projections, points to continued increases in the costs necessary to maintain the current level of employee benefits.

Given the current economic condition, the OUS required contributions to the Oregon Public Employees Retirement System (PERS) have increased from 10.06% in the 2001-03 biennium to 11.31% in the 2003-05 biennium. (See "Note 13. Employee Retirement Plans" in the Notes to the Financial Statements for more information relating to PERS). PERS is currently under funded and revisions to the PERS plan have been legislated to help mitigate the funding shortfalls but do not cover the entire deficit. Some of the legislated changes are facing legal challenges in the court system and, depending on the outcome, may increase the contribution percentage again.

INDEPENDENT AUDITORS' REPORT

Oregon State Board of Higher Education
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the accompanying basic financial statements of Oregon University System (System) as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These basic financial statements are the responsibility of Oregon University System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Oregon University System as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2003 on our consideration of the Oregon University System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

MOSS-ADAMS LLP

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 46 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Eugene, Oregon
October 15, 2003

Statements of Net Assets

As of June 30,		2003		2002
		(In thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	$	234,332	$	208,517
Short-Term Investments (Note 2)		13,118		9,250
Collateral from Securities Lending (Note 2)		66,221		48,696
Accounts Receivable, Net (Note 3)		97,165		95,317
Notes Receivable, Net (Note 4)		22,434		24,702
Inventories		6,372		6,357
Prepaid Expenses		10,014		11,747
Total Current Assets		449,656		404,586
Noncurrent Assets				
Cash and Cash Equivalents (Note 2)		237,319		308,795
Long-Term Investments (Note 2)		66,608		62,210
Notes Receivable, Net (Note 4)		110,647		110,790
Capital Assets, Net of Accumulated Depreciation (Note 5)		1,070,602		753,061
Total Noncurrent Assets		1,485,176		1,234,856
Total Assets	**$**	**1,934,832**	**$**	**1,639,442**
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities (Note 6)	$	67,785	$	70,842
Deposits		8,949		8,572
Obligations Under Securities Lending (Note 2)		66,221		48,696
Current Portion of Long-Term Liabilities (Note 8)		66,214		60,548
Deferred Revenue		55,657		52,810
Total Current Liabilites		264,826		241,468
Noncurrent Liabilities				
Long-Term Liabilities (Note 8)		658,226		641,365
Total Noncurrent Liabilities		658,226		641,365
Total Liabilities	**$**	**923,052**	**$**	**882,833**
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$	427,084	$	134,637
Restricted For:				
Nonexpendable Endowments		14,686		14,444
Expendable:				
Gifts, Grants and Contracts		79,839		83,851
Student Loans		85,144		83,703
Capital Projects		194,577		274,318
Debt Service		56,015		42,244
Unrestricted Net Assets (Note 10)		154,435		123,412
Total Net Assets	**$**	**1,011,780**	**$**	**756,609**

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

For the Year Ended June 30,	2003	2002
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowance of $60,401 and $53,411, respectively)	$ 385,983	$ 335,413
Federal Grants and Contracts	512,884	462,187
State and Local Grants and Contracts	32,214	28,647
Nongovernmental Grants and Contracts	37,112	35,337
Educational Department Sales and Services	46,435	46,862
Auxiliary Enterprise Revenues (Net of Scholarship Allowance of $7,130 and $6,495, respectively)	158,744	146,315
Other Operating Revenues	10,312	11,840
Total Operating Revenues	**1,183,684**	**1,066,601**
OPERATING EXPENSES		
Instruction	401,694	379,065
Research	206,542	195,037
Public Service	87,865	85,399
Academic Support	89,294	86,408
Student Services	46,427	45,536
Auxiliary Programs	213,709	196,971
Operation and Maintenance of Plant	56,618	53,178
Institutional Support	98,528	99,528
Student Aid	299,317	267,581
Other Operating Expenses	79,240	76,954
Total Operating Expenses	**1,579,234**	**1,485,657**
Operating Loss	**(395,550)**	**(419,056)**
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	371,495	395,154
Investment Activity (Note 9)	13,634	8,601
Gain on Sale of Assets, Net	5,884	300
Interest Expense	(30,731)	(25,351)
Other Nonoperating Items	52,793	51,521
Net Nonoperating Revenues	**413,075**	**430,225**
Income Before Other Revenues, Expenses, Gains and Losses	**17,525**	**11,169**
Capital Appropriations (Note 12)	-	15,916
Capital Grants and Gifts	32,189	85,983
Capital Contributions	658	649
Additions to Permanent Endowments	242	598
Total Other Nonoperating Revenues	**33,089**	**103,146**
Increase In Net Assets Before Change in Accounting Principle	**50,614**	**114,315**
Cumulative Effect of Change in Accounting Principle (Note 5)	204,557	-
Increase In Net Assets After Change in Accounting Principle	**255,171**	**114,315**
NET ASSETS		
Beginning Balance	756,609	1,630,304
Cumulative Effect of Change in Accounting Principle (Note 5)	-	(988,010)
Beginning Balance (2002 as restated)	756,609	642,294
Ending Balance	**$ 1,011,780**	**$ 756,609**

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

Statements of Cash Flows

For the Years Ended June 30,	2003	2002
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 384,090	$ 338,321
Grants and Contracts	587,723	522,486
Sales and Services of Educational Departments	46,718	52,822
Auxiliary Enterprise Operations	159,380	151,765
Student Loan Collections	16,302	12,029
Payments to Employees for Salaries and Benefits	(860,322)	(816,308)
Payments to Suppliers	(572,643)	(537,810)
Student Financial Aid	(71,019)	(63,748)
Student Loan Issuance and Costs	(14,203)	(12,199)
Other Operating Receipts	6,467	12,634
Net Cash Used by Operating Activities	**(317,507)**	**(340,008)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	370,259	395,154
Private Gifts Received for Endowment Purposes	242	598
Other Gifts and Private Contracts	51,320	50,623
Net Agency Payments	156	(53)
Net Cash Provided by Noncapital Financing Activities	**421,977**	**446,322**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	-	15,916
Capital Grants and Gifts	32,189	83,920
Capital Contributions	658	649
Bond Proceeds on Capital Debt	45,669	212,605
Sales of Capital Assets	6,083	5,518
Purchase of Capital Assets	(187,741)	(159,668)
Interest Payments on Capital Debt	(26,381)	(25,351)
Principal Payments on Capital Debt	(26,019)	(51,208)
Net Cash (Used) Provided by Capital and Related Financing Activities	**(155,542)**	**82,381**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Purchases) Sales of Investments	(7,210)	4,669
Interest on Investments and Cash Balances	12,621	14,722
Interest Income from Securities Lending	416	340
Interest Expense from Securities Lending	(416)	(340)
Net Cash Provided by Investing Activities	**5,411**	**19,391**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(45,661)**	**208,086**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**517,312**	**309,226**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 471,651**	**$ 517,312**

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

For the Years Ended June 30,		2003		2002
		(In Thousands)		
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating Loss	$	(395,550)	$	(419,056)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities				
Depreciation Expense		63,484		55,472
Changes in Assets and Liabilities				
Accounts Receivable		(179)		3,286
Notes Receivable		2,206		(7,345)
Inventories		(15)		(569)
Prepaid Expenses		1,733		(477)
Accounts Payable and Accrued Liabilities		6,815		14,708
Long-Term Liabilities		2,284		27
Deposits		(253)		5,872
Deferred Revenue		1,968		8,074
NET CASH USED BY OPERATING ACTIVITIES	**$**	**(317,507)**	**$**	**(340,008)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Fixed Assets Acquired by Incurring Capital Lease Obligations	$	524	$	185
Increase (Decrease) in Fair Value of Investments Recognized as a Component of Investment Activity		844		(6,121)

The accompanying notes are an integral part of these Financial Statements

Index to the Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies

A. Reporting Entity

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

The OUS financial reporting entity includes the accounts of Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, University of Oregon, Western Oregon University and the Chancellor's Office. The operations of most student government or associated student organizations are also included in the reporting entity due to OUS universities' fiduciary responsibilities for these organizations. Organizations that are not financially accountable to OUS universities, such as campus foundations and booster and alumni organizations, are not included in the reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. See "Note 14. University Foundations" for additional information and future changes in accounting relating to campus foundations.

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

B. Financial Statement Presentation

OUS financial accounting records are maintained in accordance with generally accepted accounting principles as prescribed in applicable pronouncements of GASB. OUS implemented GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (No. 35)* effective for the year ended June 30, 2002. To implement GASB No. 35, OUS adopted certain changes in accounting principles. In addition to establishing a fundamentally new financial reporting model for public universities, GASB No. 35 requires depreciation of capital assets and capitalization of library special collections. Net assets at July 1, 2001 have been reduced by $988,010,000 for the cumulative effect of this change on years prior to fiscal year 2002. This implementation has resulted in significant changes to the presentation and captions of previously issued financial statements.

The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of OUS assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows; and replaces the fund-group perspective previously required.

In preparing the financial statements, significant interfund transactions and balances between universities and funds within each university have been eliminated.

The financial statements also include adoption of GASB Statements No. 37, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statements and Note Disclosures*. Adoption of these pronouncements affected disclosures but had no effect on amounts reported in the financial statements. The fiscal year 2002 financial statements reflect certain reclassifications and restatements to conform to the fiscal year 2003 presentation.

C. Change in Accounting Principle

During the implementation of GASB No. 34 and No. 35 for the fiscal year 2002 financial statements, depreciation was calculated using the individual asset method for buildings using one record for each building wherein depreciation was calculated based on the original service date and original life of the building without considering the service dates of subsequent additions or major improvements to that building. During fiscal year 2003, OUS changed its method of applying the individual asset method to more accurately reflect the composite service life of each asset and its additions and major improvements. Each building can now have additional records relating to additions or improvements with a useful life assigned to the additions or improvements. During the review of the capital asset records relating to the change in method of determining depreciation, certain immaterial adjustments were made to capital asset records relating to amounts previously capitalized. The cumulative effect of this change in accounting principle and the adjustments as of the beginning of the fiscal year 2003 was an increase in net assets of $204,557,000. See "Note 5. Capital Assets," for more information relating to the change in accounting principle and adjustments.

D. Basis of Accounting

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

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

E. Cash and Cash Equivalents

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

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

F. Investments

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

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

G. Inventories

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

H. Capital Assets

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for buildings, 10 to 20 years for infrastructure and land improvements, 10 years for library books and 5 to 11 years for equipment. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

I. Deferred Revenues

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

J. Compensated Absences

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

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

K. Net Assets

OUS net assets are classified as follows:

Invested in capital assets, net of related debt

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

Restricted net assets – nonexpendable

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

Restricted net assets – expendable

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

Unrestricted net assets

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

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

L. Endowments

Oregon Revised Statues (ORS) Section 351.130 gives OUS the authority to use the interest, income, dividends, or profits of endowments. Current Board policy is to annually distribute, for spending purposes, four percent of the five-year moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. Securities may be sold to provide for the income needs; however, the original corpus of endowments may not be invaded. For the years ended June 30, 2003 and 2002, the net amount of appreciation available for authorization for expenditure was $11,950,000 and $12,300,000, respectively.

Nonexpendable Endowments on the Statements of Net Assets of $14,686,000 and $14,444,000 at June 30, 2003 and 2002, respectively, represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

M. Income Taxes

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

N. Revenues and Expenses

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

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

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

O. Scholarship Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprise revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. Examples include tuition waivers and the revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and State Need Grants) used for paying student tuition and fees and campus housing.

P. Use of Estimates

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

2. Cash and Investments

A. Cash & Cash Equivalents

OUS maintains its cash balances on deposit with the Oregon State Treasury (State Treasury). The State Treasury maintains these and other state funds on a pooled basis. At the fiscal years ended June 30, 2003 and 2002, OUS carrying amounts of cash and cash equivalents were $468,682,000 and $514,938,000, respectively, while the State Treasury balances were $471,171,000 and $523,245,000, respectively. Differences between the OUS carrying amount and the State Treasury balance occur due to timing differences between transfers. All deposits are fully insured by federal depository insurance or secured by the statewide collateral pool that secures public deposits pursuant to Oregon Revised Statutes (ORS).

OUS cash and cash equivalents outside the State Treasury comprised $2,969,000 and $2,374,000 held in trust by a fiscal agent for bond principal and interest repayment of matured bonds at June 30, 2003 and 2002, respectively.

B. Investments

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

Investments are reported at the fair values reported by the applicable investment trustee. OUS investments are classified in three categories of credit risk to give an indication of the level of risk assumed by OUS. The three categories of credit risk are:

(1) Insured or registered or securities held by OUS or its agent in OUS's name.

(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in OUS's name.

(3) Uninsured and unregistered investments with securities held by the counterparty or by its trust department or agent but not in OUS's name.

Categorized investments include debt instruments with a maturity of less than 90 days; such investments may reflect a reported value based on cost rather than fair value. However, cost approximates fair value. The following schedules present the fair value of OUS investments (in thousands):

	June 30, 2003				June 30,
	CATEGORY OF CREDIT RISK			Fair	2002
	1	2	3	Value	Fair Value
Investments Categorized:					
Cash and Cash Equivalents			$ 527	$ 527	$ 268
U.S. Government and Agency Securities	$ 15,061			15,061	1,763
Domestic Equity Securities	5,885			5,885	5,467
International Equity Securities	318			318	290
Real Estate Securities	401			401	646
	$ 21,665	$ -	$ 527	22,192	8,434
Investments Not Categorized:					
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government and Agency Securities				62,863	43,890
Domestic Equity Securities				1,378	3,363
International Equity Securities				10	28
Real Estate Securities				120	-
Collateral Under Securities Lending				66,302	48,788
Real Estate				3,200	3,265
Pooled Investments				43,571	42,837
Guaranteed Investment Contracts				6,042	4,986
Other Investments				135	115
				205,813	155,706
Less Amounts Recorded As Cash				(126,087)	(84,246)
Total Investments				$ 79,726	$ 71,460

C. Derivative Financial Instruments

The State Treasury manages OUS and other state agency funds on a pooled basis. To manage the overall risk of the pool, the State Treasury may invest in derivative financial instruments. Information regarding State Treasury derivative holdings that pertain to the OUS portion of the pooled funds is not available.

D. Collateral From Securities Lending

In accordance with the State investment policies, the State Treasury participates in securities lending transactions. The securities lending balances relating to investment securities owned by OUS and OUS funds deposited into the Oregon State Treasury Short-Term Fund (State Treasury STF) was as follows (in thousands):

	June 30, 2003	June 30, 2002
Securities owned by OUS	$ 4,723	$ 12,246
OUS Deposits in State Treasury STF	61,498	36,450
Total Collateral from Securities Lending	$ 66,221	$ 48,696

Securities Owned by OUS

The State Treasury has, through a securities lending agreement, authorized State Street Bank and Trust Company (Custodian) to lend OUS securities to broker-dealers and banks (Borrowers) pursuant to a form of loan agreement. Both the State Treasury and the Borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of the securities lending agreements.

During the year, the Custodian lent OUS securities and received cash collateral equal to at least 102 percent of the fair value of the securities on loan. The State Treasury did not impose any restrictions during the year on the amount of loans of OUS securities. The State Treasury is fully indemnified by the Custodian against losses due to borrower default; there were no losses during the year from the failure of the Borrowers to return the securities on loan.

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for securities loans in the Oregon Short-Term Investment Fund (STIF) held by the Custodian. At June 30, 2003 and 2002, the STIF had an average expected maturity of 369 days and 307 days, respectively. Since the securities on loan are callable on demand by either the State Treasury or the Borrower, the life of the loans at June 30, 2003 and 2002 is effectively one day and consequently does not match the life of the investments in the STIF. As the table illustrates below (in thousands), OUS had no credit risk exposure to borrowers.

	June 30, 2003	June 30, 2002
Collateral held by OUS:		
Fair Value	$ 4,729	$ 12,319
Reported Value	4,723	12,246
US Securities on loan by OUS:		
Fair Value	4,587	11,823

OUS Deposits in State Treasury STF

In accordance with State investment and accounting policies, OUS is allocated a portion of the State Treasury STF's transactions in securities lending activities.

The State Treasury has, through a securities lending agreement, authorized its Custodian to lend the State Treasury STF securities to Borrowers pursuant to a form of loan agreement. Both the State Treasury and the Borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of the securities lending agreement.

During the year, the custodian lent the State Treasury STF securities and received as collateral U.S. dollar-denominated cash or securities issued or guaranteed by the United States government, or foreign sovereign debt securities of Organization for Economic Co-operation and Development (OECD) countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international securities. The Custodians did not have the ability to pledge or sell collateral securities absent a borrower default and the State Treasury STF did not impose any restrictions during the fiscal year on the amount of the loans the Custodian made on its behalf. The State Treasury STF is fully indemnified by the Custodian against losses due to borrower default; there were no losses during the year from the failure of borrowers to return securities on loan.

The cash collateral was invested by the State Treasury STF into U.S. Government and Agency Securities, repurchase agreements, and commercial paper. The maturities of these investments made during the year generally did not match the maturities of their securities loans, because the loans were terminable at will. OUS cash deposits invested in the State Treasury STF are commingled with the cash deposits of other state agencies. As the table illustrates below (in thousands), OUS had no credit risk exposure to borrowers.

	June 30, 2003	June 30, 2002
Cash Collateral held by State Treasury STF:		
Fair Value	$ 61,573	$ 36,469
Reported Value	61,498	36,450
Securities on loan by State Treasury STF:		
Fair Value	59,785	35,457

3. Accounts Receivable

Accounts Receivable comprised the following (in thousands):

	June 30, 2003	June 30, 2002
Student Tuition and Fees	$ 49,540	$ 43,889
Auxiliary Enterprises and Other Operating Activities	9,780	11,401
Federal, State, and Private Gifts and Contracts	38,064	42,238
Other	6,102	4,119
	103,486	101,647
Less: Allowance for Doubtful Accounts	(6,321)	(6,330)
Accounts Receivable, Net	$ 97,165	$ 95,317

4. Notes Receivable

Notes Receivable comprised the following (in thousands):

	June 30, 2003			June 30, 2002		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional Student Loans	$ 7,238		$ 7,238	$ 7,275		$ 7,275
Federal Student Loans	13,687	$ 61,847	75,534	14,129	$ 63,517	77,646
Amounts Due from OHSU for Bond Indebtedness (See Note 8. F.)	5,159	48,800	53,959	6,922	47,273	54,195
	26,084	110,647	136,731	28,326	110,790	139,116
Less: Allowance for Doubtful Accounts	(3,650)		(3,650)	(3,624)		(3,624)
Notes Receivable, Net	$ 22,434	$ 110,647	$ 133,081	$ 24,702	$ 110,790	$ 135,492

Student loans made through the federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2003 and 2002. The program is funded through annual capital contributions from the federal government, an OUS match, and interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

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

5. Capital Assets

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

	Balance June 30, 2002	Additions	Retirements	Adjustments (1)	Balance June 30, 2003
Capital assets, non-depreciable:					
Land	$ 48,563	$ 174	$ (2,418)	$ (628)	$ 45,691
Capitalized Collections	57,864	1,335	(317)	-	58,882
Construction in Progress	127,516	118,925	(323)	(16,332)	229,786
Total capital assets, non-depreciable	233,943	120,434	(3,058)	(16,960)	334,359
Capital assets, depreciable					
Equipment	241,376	29,620	(27,779)	-	243,217
Library Materials	255,903	15,391	(12,955)	-	258,339
Buildings	980,878	30,465	(4,367)	36,361	1,043,337
Land Improvements	19,097	142	-	(417)	18,822
Improvements Other Than Buildings	23,760	77	-	(1,633)	22,204
Infrastructure	29,317	866	-	1,691	31,874
Total capital assets, depreciable	1,550,331	76,561	(45,101)	36,002	1,617,793
Less accumulated depreciation for:					
Equipment	(173,332)	(20,311)	20,105	-	(173,538)
Library Materials	(180,626)	(14,282)	6,445	-	(188,463)
Buildings	(633,168)	(24,962)	1,082	182,742	(474,306)
Land Improvements	(9,212)	(958)	-	234	(9,936)
Improvements Other than Buildings	(9,133)	(1,724)	-	(548)	(11,405)
Infrastructure	(25,742)	(1,247)	-	3,087	(23,902)
Total accumulated depreciation	(1,031,213)	(63,484)	27,632	185,515	(881,550)
Total capital assets, net	$ 753,061	$ 133,511	$ (20,527)	$ 204,557	$ 1,070,602
Capital Assets Summary					
Capital assets, nondepreciable	$ 233,943	$ 120,434	$ (3,058)	$ (16,960)	$ 334,359
Capital assets, depreciable	1,550,331	76,561	(45,101)	36,002	1,617,793
Total cost of capital assets	1,784,274	196,995	(48,159)	19,042	1,952,152
Less accumulated depreciation	(1,031,213)	(63,484)	27,632	185,515	(881,550)
Capital Assets, net	$ 753,061	$ 133,511	$ (20,527)	$ 204,557	$ 1,070,602

(1) See Note 1.C. “Change in Accounting Principle” for more information relating to the recalculation of accumulated depreciation and other adjustments made to Capital Assets.

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002
Capital assets, non-depreciable:				
Land	$ 44,778	$ 3,785	$ -	$ 48,563
Capitalized Collections	57,533	331	-	57,864
Construction in Progress	32,622	103,829	(8,935)	127,516
Total capital assets, non-depreciable	134,933	107,945	(8,935)	233,943
Capital assets, depreciable				
Equipment	232,483	32,186	(23,293)	241,376
Library Materials	242,120	15,267	(1,484)	255,903
Buildings	966,865	14,289	(276)	980,878
Land Improvements	19,097	-	-	19,097
Improvements Other Than Buildings	23,492	268	-	23,760
Infrastructure	29,072	245	-	29,317
Total capital assets, depreciable	1,513,129	62,255	(25,053)	1,550,331
Less accumulated depreciation for:				
Equipment	(174,973)	(19,320)	20,961	(173,332)
Library Materials	(166,154)	(15,956)	1,484	(180,626)
Buildings	(616,423)	(17,021)	276	(633,168)
Land Improvements	(8,405)	(807)	-	(9,212)
Improvements Other than Buildings	(8,223)	(910)	-	(9,133)
Infrastructure	(24,284)	(1,458)	-	(25,742)
Total accumulated depreciation	(998,462)	(55,472)	22,721	(1,031,213)
Total capital assets, net	$ 649,600	$ 114,728	$ (11,267)	$ 753,061
Capital Assets Summary				
Capital assets, nondepreciable	$ 134,933	$ 107,945	$ (8,935)	$ 233,943
Capital assets, depreciable	1,513,129	62,255	(25,053)	1,550,331
Total cost of capital assets	1,648,062	170,200	(33,988)	1,784,274
Less accumulated depreciation	(998,462)	(55,472)	22,721	(1,031,213)
Capital Assets, net	$ 649,600	$ 114,728	$ (11,267)	$ 753,061

6. Accounts Payable and Accrued Liabilities

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

	June 30, 2003	June 30, 2002
Services and Supplies	$ 43,834	$ 49,532
Accrued Interest	7,099	8,216
Salaries and Wages	7,362	6,997
Payroll Related Expenses	2,923	2,614
Contract Retainage Payable	3,571	1,090
Matured Bonds, COPs and Interest Payable	2,969	2,374
Financial Aid	27	19
	$ 67,785	$ 70,842

7. Operating Lease Receivables and Payables

A. Receivables

OUS receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was $2,674,000 and $2,530,000 for the years ended June 30, 2003 and 2002, respectively. The value of assets leased, net of depreciation, was $24,341,000 and $25,076,000 for the years ended June 30, 2003 and 2002, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2003 were (in thousands):

For the year ending June 30,	
2004	$ 2,255
2005	1,618
2006	1,480
2007	548
2008	377
2009-2013	1,195
2014-2018	765
2019-2023	326
2024-2028	308
2029-2033	308
2034-2038	308
2039-2043	308
2044-2048	308
2049-2053	302
2054-2058	302
2059-2063	302
2064-2068	303
2069-2073	302
2074-2078	302
2079-2083	302
2084-2088	303
2089-2093	123
Total Minimum Operating Lease Payments	$ 12,645

B. Payables

OUS leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were $1,391,000 and $1,399,000 for the years ended June 30, 2003 and 2002, respectively. Minimum future lease payments on operating leases at June 30, 2003 were (in thousands):

For the year ending June 30,	
2004	$ 2,109
2005	1,632
2006	1,230
2007	722
2008	124
2009-2013	54
2014-2018	31
2019-2023	27
2024-2028	27
2029-2033	27
2034-2038	27
2039-2043	27
2044-2048	27
Total Minimum Operating Lease Payments	$ 6,064

8. Long-Term Liabilities

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

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Amounts due within one year
Long-Term Debt					
General Obligation Bonds	$ 630,206	$ 78,618	$ (63,343)	$ 645,481	$ 29,893
Oregon Department of Energy Loans	14,533	446	(1,128)	13,851	1,144
Certificates of Participation	11,131	1,205	(3,205)	9,131	3,115
Lottery Bonds	9,969	11,047	(26)	20,990	480
Arbitrage	847	94	(533)	408	222
Other Notes Payable	71		(20)	51	21
Total Long-Term Debt	666,757	91,410	(68,255)	689,912	34,875
Other Noncurrent Liabilities					
Capital Leases	868	524	(575)	817	297
Compensated Absences	29,782	22,404	(21,036)	31,150	29,124
Early Retirement Liability	4,506		(1,945)	2,561	1,918
Total Other Noncurrent Liabilities	35,156	22,928	(23,556)	34,528	31,339
	$ 701,913	$ 114,338	$ (91,811)	$ 724,440	$ 66,214

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Long-Term Debt					
General Obligation Bonds	$ 474,421	$ 207,535	$ (51,750)	$ 630,206	$ 25,649
Oregon Department of Energy Loans	15,089	737	(1,293)	14,533	1,060
Certificates of Participation	12,930	3,612	(5,411)	11,131	3,206
Lottery Bonds	-	9,972	(3)	9,969	-
Arbitrage	1,511	144	(808)	847	367
Other Notes Payable	60	27	(16)	71	19
Total Long-Term Debt	504,011	222,027	(59,281)	666,757	30,301
Other Noncurrent Liabilities					
Capital Leases	1,312	184	(628)	868	294
Compensated Absences	29,541	5,885	(5,644)	29,782	27,596
Early Retirement Liability	6,360	-	(1,854)	4,506	2,357
Total Other Noncurrent Liabilities	37,213	6,069	(8,126)	35,156	30,247
	$ 541,224	$ 228,096	$ (67,407)	$ 701,913	$ 60,548

A. General Obligation Bonds

The Oregon Constitution authorizes OUS to issue two types of State of Oregon General Obligation Bonds. Article XI-F(1) bond issuances are used to finance the construction of self-liquidating and self-supporting projects with debt service generated within these projects. Article XI-G bond issuances are used to finance designated educational buildings and facilities with debt service funded by State legislative appropriation. Both XI-F(1) and XI-G bonds require sinking funds and those funds are included in Noncurrent Cash and Cash Equivalents.

XI-F(1) bonds, with effective yields ranging from 1.6 percent to 7.5 percent, are due serially through 2032. XI-G bonds, with effective yields ranging from 1.1 percent to 7.0 percent, are due serially through 2034.

During the fiscal year ended June 30, 2003, OUS issued bonded indebtedness as follows:

XI-F(1) Bonds Series 2002 A, $33,505,000, effective rate of 3.9 percent, for refunding of bonds.

XI-G Bonds Series 2002 B, $2,630,000, effective rate of 2.7 percent, for refunding of bonds.

XI-G Bonds Series 2003 A, $31,725,000, effective rate of 4.2 percent, for capital construction due serially through 2022.

During the fiscal year ended June 30, 2002, OUS issued bonded indebtedness as follows:

XI-F(1) Bonds Series 2001 A, $156,196,000, effective rate of 4.95 percent, for capital construction and current refunding of bonds.

XI-G Bonds Series 2001 B & C, $39,891,000, effective rate of 5.0 percent, for capital construction.

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

For the Year Ending June 30,	Principal	Interest	Total
2004	$ 23,142	$ 28,094	$ 51,236
2005	22,270	28,586	50,856
2006	23,610	28,528	52,138
2007	23,488	28,941	52,429
2008	22,882	28,934	51,816
2009-2013	97,727	144,231	241,958
2014-2018	95,449	122,558	218,007
2019-2023	105,927	69,809	175,736
2024-2028	110,400	28,321	138,721
2029-2033	55,700	5,716	61,416
2034	1,845	46	1,891
	582,440	513,764	1,096,204
Add: Accreted Interest Payable	63,857	(63,857)	-
Add: Unamortized Bond Discounts	52		52
Less: Deferred Gain on Refunding	(868)		(868)
	$ 645,481	$ 449,907	$ 1,095,388

B. Oregon Department of Energy Loans

OUS has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at OUS institutions. OUS makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 5.7 percent to 8 percent, are due through 2019.

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

For the Year Ending June 30,	Principal	Interest	Total
2004	$ 1,144	$ 837	$ 1,981
2005	1,215	766	1,981
2006	1,290	690	1,980
2007	1,324	610	1,934
2008	1,242	528	1,770
2009-2013	4,358	1,678	6,036
2014-2018	2,613	581	3,194
2019	665	52	717
	$ 13,851	$ 5,742	$ 19,593

C. Certificates of Participation

Certificates of Participation (COPs) are issued to finance lease-purchase agreements for certain equipment and computer software. OUS makes monthly lease payments (principal and interest) to a trustee in accordance with the lease-purchase agreements. The trustee, in turn, makes the debt service payments to COPs holders. COPs, with effective yields ranging from 1.1 percent to 5.1 percent, are due through fiscal year 2008.

During the fiscal year ended June 30, 2003, OUS issued COPs as follows:

> COPs, Series 2003 A, with proceeds of $1,205,000 and an effective rate of 2.22 percent, were issued during fiscal year 2003 and used for instructional technology projects.

During the fiscal year ended June 30, 2002, OUS issued COPs as follows:

> COPs, Series 2002 D, with proceeds of $3,518,000 and an effective rate of 4.13 percent, were issued during fiscal year 2002 and used for technology upgrades.

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

For the Year Ending June 30,	Principal	Interest	Total
2004	$ 3,115	$ 359	$ 3,474
2005	1,932	200	2,132
2006	1,681	129	1,810
2007	1,134	67	1,201
2008	1,182	25	1,207
	9,044	780	9,824
Add: Unamortized Bond Premium	87		87
	$ 9,131	$ 780	$ 9,911

D. Lottery Bonds

Lottery Bonds are special obligations of the State, secured and payable from net revenues of the Oregon State Lottery. Lottery Bonds are issued pursuant to ORS Chapters 286.560 to 286.580 and 348.716, and under the authority of ORS Chapter 942. Lottery Bonds, with effective yields ranging from 1.2 percent to 5.1 percent, are due through fiscal year 2018.

In fiscal year 2003, Lottery Bond Series 2003 A were issued with net proceeds of $10,200,000 and an effective interest rate of 3.5 percent and were used to help finance the remodel of the Southern Oregon University Library.

In fiscal year 2002, Lottery Bond Series 2002 A were issued with net proceeds of $9,732,000 and an effective interest rate of 4.9 percent and were used to help finance the Eastern Oregon University Regional Agricultural, Health and Life Sciences Building.

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

For the Year Ending June 30,	Principal	Interest	Total
2004	$ 480	$ 800	$ 1,280
2005	1,075	866	1,941
2006	1,110	838	1,948
2007	1,136	807	1,943
2008	1,173	774	1,947
2009-2013	6,581	3,146	9,727
2014-2018	8,376	1,345	9,721
	19,931	8,576	28,507
Add: Unamortized Premium	1,059		1,059
	$ 20,990	$ 8,576	$ 29,566

E. Arbitrage Rebate Liability

The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. The total arbitrage rebate liability as of June 30, 2003 and 2002 was $408,000 and $847,000, respectively.

F. Debt Related to Oregon Health Sciences University

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

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

A receivable from OHSU has been recorded for OUS debt that was incurred for the benefit of OHSU (See Note 4). At June 30, 2003 and 2002, long-term debt of OUS that relates to OHSU was $53,959,000 and $54,195,000, respectively.

G. Defeased Debt

During the year ended June 30, 2003, OUS issued $36,135,000 of XI-F(1) and XI-G bonds with an average interest rate of 4.25 percent to refund $37,785,000 in XI-F(1) and XI-G bonds with an average interest rate of 6.0 percent. The proceeds of the XI-F(1) and XI-G bonds were $36,778,000 (after bond premium of $994,000 and payment of $352,000 in underwriting fees and other issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $868,000. The refunding was undertaken to reduce total debt service payments over the next 16.5 years by $6,791,000 and resulted in an economic gain of $4,580,000.

During the year ended June 30, 2002, OUS issued $28,897,000 of XI-F(1) bonds with an average interest rate of 4.73 percent to refund $24,527,000 in XI-F(1) bonds with an average interest rate of 6.86 percent. The net proceeds of the XI-F(1) bonds were $29,328,000 (after bond premium of $716,000 and payment of $285,000 in underwriting fees, insurance, and other issuance costs).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $83,000. The refunding was undertaken to reduce total debt service payments over the next 17 years by $7,734,000 and resulted in an economic gain of $5,045,000.

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

The total amount of the defeased debt outstanding but removed from the financial statements amounted to $74,294,000 at June 30, 2003 and $78,694,000 at June 30, 2002 of which $11,238,000 and $12,689,000, respectively, related to OHSU.

H. Capital Leases

OUS has acquired assets under capital lease agreements. The cost of OUS assets held under capital leases totaled $1,152,000 and $2,696,000 as of June 30, 2003 and 2002, respectively. Accumulated depreciation of leased equipment totaled $453,000 and $1,988,000 for June 30, 2003 and 2002, respectively.

The lease purchase (capital lease) contracts expire through fiscal year 2009. The capital leases are recorded at the present value of the minimum future lease payments at the inception date. Interest rates on capitalized leases vary from 1.2 percent to 13.1 percent.

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

For the Year Ending June 30,	
2004	$ 337
2005	237
2006	220
2007	102
2008	3
2009	4
Total Minimum Lease Payments	903
Less: Amount Representing Interest	(86)
Present Value of Minimum Lease Payments	$ 817

I. Early Retirement Liability

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

Early retirement liabilities included $1,918,000 and $2,357,000 in Current Portion of Long-Term Liabilities and $643,000 and $2,149,000 in Long-Term Liabilities as of June 30, 2003 and 2002, respectively.

9. Investment Activity

Investment Activity detail is as follows (in thousands):

	June 30, 2003	June 30, 2002
Interest Income	$ 7,972	$ 9,232
Net Appreciation (Depreciation) of Investments	844	(6,121)
Royalties Income	4,338	3,636
Endowment Income	2,410	2,326
Trust Income Distribution	(2,403)	(2,026)
Dividend Income	422	979
Rent Income	162	256
Other	(111)	319
	$ 13,634	$ 8,601

For the years ended June 30, 2003 and 2002, the fair value of endowment investments appreciated by $958,000 and depreciated by $5,917,000 respectively. The losses during fiscal year 2002 reduced the accumulated gains but did not invade the corpus of the endowments.

10. Unrestricted Net Assets

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2003	June 30, 2002
Budgeted and Designated Operating Funds	$ 101,658	$ 81,150
Service Department Funds	4,185	4,701
Housing Funds	11,594	8,150
Intercollegiate Athletics Funds	(6,813)	(6,167)
Other Auxiliary Funds	39,538	29,657
Unrestricted Endowment Funds	4,273	5,921
	$ 154,435	$ 123,412

11. Operating Expenses by Natural Classification

GASB No. 35 gives financial reporting entities the choice of reporting operating expenses by functional or natural classifications. OUS chose to report operating expenses by their functional categories on the Statements of Revenues, Expenses and Changes in Net Assets. The following displays operating expenses by natural category (in thousands):

	June 30, 2003	June 30, 2002
Compensation and Benefits	$ 861,159	$ 816,839
Services and Supplies	336,911	325,268
Scholarships and Fellowships	71,019	64,008
Depreciation	63,484	55,472
Other Expenses	246,661	224,070
	$ 1,579,234	$ 1,485,657

12. Government Appropriations

Government appropriations comprised the following (in thousands):

	June 30, 2003			
	General Operations	Debt Service	Capital Construction	Total
State General Fund Appropriations	$ 341,169	$ 11,513	$ -	$ 352,682
Lottery Appropriations	2,991	1,672		4,663
Total State Appropriations	344,160	13,185	-	357,345
Federal Appropriations	9,113			9,113
County Appropriations	5,037			5,037
	$ 358,310	$ 13,185	$ -	$ 371,495

	June 30, 2002			
	General Operations	Debt Service	Capital Construction	Total
State General Fund Appropriations	$ 367,460	$ 9,705	$ 15,916	$ 393,081
Lottery Appropriations	2,168			2,168
Total State Appropriations	369,628	9,705	15,916	395,249
Federal Appropriations	10,777			10,777
County Appropriations	5,044			5,044
	$ 385,449	$ 9,705	$ 15,916	$ 411,070

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

13. Employee Retirement Plans

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

Oregon Public Employees Retirement Plan

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

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

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

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

PERS contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee's contribution has been assumed and paid by the employer at the 6 percent rate set by law. The employer contribution rate through the two fiscal years ended June 30, 2003, and 2002 was 9.49 percent. OUS employer contributions to PERS for the years ending June 30, 2003, 2002, and 2001 were $36,370,000, $35,746,000, and $35,124,000, respectively, equal to the required contributions for each year.

An actuarial valuation of PERS is performed every two years to determine the level of employer contributions. The most recently completed valuation was performed as of December 31, 2001. Of the actuarial assumptions used in the valuation, projected salary increases were 4.25% percent in 2001.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. It is adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The pension benefit obligation at December 31, 2001, for PERS as a whole, determined through an actuarial valuation performed as of that date, was $45.4 billion. PERS' net assets available for benefits on that date (valued at market) were $39.8 billion. Information for OUS as a stand-alone entity is not available.

The ten-year historical trend information showing progress made in accumulating sufficient assets to pay benefits when due is presented in the separately issued PERS Component Unit Financial Report for the year ended June 30, 2003. The PERS defined benefit plan retirement plan is reported in a pension trust fund of the State. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to Fiscal Services Division, PERS, 11410 SW 68th Parkway, Tigard, OR, 97223 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. Beginning April 1, 1996, the ORP was made available to OUS unclassified faculty and staff who are eligible for PERS membership. Employees choosing the ORP may invest the employee and employer contributions in one of four different investment companies.

As with PERS, the ORP consists of two tiers. Membership under ORP Tier One and Tier Two is determined using the same criteria as PERS. Under the ORP Tier One and Tier Two, the employee's contribution rate is 6 percent and is paid by the employer. The employer contribution rate, through the two fiscal years ended June 30, 2003 and 2002, for the ORP Tier One and Tier Two was 9.49 percent and 8.5 percent, respectively.

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

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

Federal Civil Service Retirement

Some Extension Service employees at Oregon State University hold federal appointments. Prior to December 31, 1986, federal appointees were required to participate in the Federal Civil

Service Retirement System (CSRS), a defined benefit plan. CSRS employees are subject to the Hospital Insurance portion of the Federal Insurance Contributions Act (FICA), CSRS employee deduction of 7.0 percent, and employer contribution of 8.51 percent, and are also eligible for optional membership in PERS.

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

OUS total payroll for the year ended June 30, 2003 was $624,012,000, of which $552,686,000 was subject to retirement contributions. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2003			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
PERS	$ 36,370	6.58%	$ 21,647	3.92%
ORP	11,824	2.14%	7,514	1.36%
TIAA-CREF	272	0.05%	260	0.05%
Federal	663	0.12%	282	0.05%
FERS - TSP	157	0.03%	347	0.06%
	$ 49,286	8.92%	$ 30,050	5.44%

Of the employee share, the employer paid $21,550,000 of PERS, $7,235,000 of ORP, and $260,000 of TIAA-CREF during the fiscal year ended June 30, 2003. The federal contributions of $282,000 represent FERS and CSRS employees, and the $347,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched one to five percent by the employer in fiscal year 2003.

OUS total payroll for the year ended June 30, 2002 was $598,283,000, of which $531,466,000 was subject to retirement benefits. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2002			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
PERS	$ 35,746	6.73%	$ 21,326	4.01%
ORP	10,808	2.03%	6,837	1.29%
TIAA-CREF	273	0.05%	261	0.05%
Federal	793	0.15%	335	0.06%
FERS - TSP	168	0.03%	362	0.07%
	$ 47,788	8.99%	$ 29,121	5.48%

Of the employee share, the employer paid $21,248,000 of PERS, $6,830,000 of ORP, and $261,000 of TIAA-CREF during the fiscal year ended June 30, 2002. The federal contributions of $335,000 represent FERS and CSRS employees, and the $362,000 represents employee contributions to the Thrift Savings Plan for FERS employees which was matched one to five percent by the employer in fiscal year 2002.

14. University Foundations

Under university policies approved by the Board, individual university foundations may be established to provide valuable assistance in fundraising, public outreach and other support for the missions of OUS universities. Although independent boards govern these foundations, their assets are dedicated for the benefit of OUS universities.

During the years ended June 30, 2003 and 2002, gifts of $78,884,000 and $123,180,000, respectively, were transferred from university foundations to OUS universities.

OUS is evaluating the impact that will result from adopting GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* GASB No. 39, effective for periods beginning after June 15, 2003, will broaden the definition of the OUS financial reporting entity to include discrete presentation of affiliated organizations such as University Foundations. The impact will increase the net assets of the OUS financial reporting entity. Net assets of the foundations aggregate to approximately $743,000,000 as of December 31, 2002 and June 30, 2003. At this time, OUS is unable to determine the full impact that adopting GASB No. 39 will have on its financial position and results of operations.

15. Funds Held in Trust by Others

Funds held in trust by others, for which OUS is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2003 and 2002, was $4,350,000 and $5,934,000, respectively.

16. Risk Financing

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

Direct physical loss or damage to OUS property

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

Workers' compensation

Employee dishonesty

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

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

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

17. Commitments and Contingent Liabilities

Outstanding commitments on partially completed construction contracts totaled approximately $267,820,000 and $342,600,000 at June 30, 2003 and 2002, respectively. These commitments will be primarily funded from gifts and grants, bond proceeds, and other OUS funds.

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

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

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to ORS. OUS reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are budgeted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to OUS cannot be reasonably determined at June 30, 2003.

CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2003 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 5,277	$ 8,248	$ 82,737
Short-Term Investments	-	-	-
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	2,302	1,465	34,569
Notes Receivable, Net	130	490	4,082
Inventories	370	324	1,764
Prepaid Expenses	114	23	1,139
Total Current Assets	8,193	10,550	124,291
Noncurrent Assets			
Cash and Cash Equivalents	6,170	5,596	39,250
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,386	2,841	22,502
Due From Other OUS Funds and Entities	252	-	678
Capital Assets, Net of Accumulated Depreciation	42,759	17,371	357,427
Total Noncurrent Assets	50,567	25,808	423,057
TOTAL ASSETS	**$ 58,760**	**$ 36,358**	**$ 547,348**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 2,201	$ 1,990	$ 15,687
Deposits	311	225	1,689
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,739	1,659	21,727
Deferred Revenue	367	847	13,354
Total Current Liabilities	4,618	4,721	52,457
Noncurrent Liabilities			
Long-Term Liabilities	31,446	14,530	114,182
Due to Other OUS Funds and Entities	252	-	678
Total Noncurrent Liabilities	31,698	14,530	114,860
TOTAL LIABILITIES	**$ 36,316**	**$ 19,251**	**$ 167,317**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 9,529	$ 2,320	$ 223,357
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	335	846	27,662
Student Loans	1,692	4,071	33,236
Capital Projects	5,456	5,667	48,238
Debt Service	44	18	261
Unrestricted Net Assets	4,834	4,185	43,095
TOTAL NET ASSETS	**$ 22,444**	**$ 17,107**	**$ 380,031**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 38,515	$ 14,247	$ 63,243	$ 20,639	$ 1,426		$ 234,332
-	-	-	-	13,118		13,118
-	-	-	-	66,221		66,221
22,876	2,923	27,072	3,951	2,007		97,165
1,173	458	10,497	444	5,160		22,434
380	774	1,687	1,073	-		6,372
876	211	1,069	207	6,375		10,014
63,820	18,613	103,568	26,314	94,307		449,656
15,380	19,549	19,575	3,390	128,409		237,319
-	-	78	-	63,330		66,608
8,301	3,637	19,437	3,743	48,800		110,647
-	27	2,346	156	-	$ (3,459)	-
161,791	49,169	385,981	47,361	8,743		1,070,602
185,472	72,382	427,417	54,650	249,282	(3,459)	1,485,176
$ 249,292	**$ 90,995**	**$ 530,985**	**$ 80,964**	**$ 343,589**	**$ (3,459)**	**$ 1,934,832**
$ 9,869	$ 2,380	$ 14,936	$ 1,835	$ 18,887		$ 67,785
1,169	476	2,309	354	2,416		8,949
-	-	-	-	66,221		66,221
9,048	3,021	13,893	3,096	12,031		66,214
16,321	1,847	19,848	2,420	653		55,657
36,407	7,724	50,986	7,705	100,208		264,826
121,282	38,093	140,470	38,372	159,851	-	658,226
-	27	2,346	156	-	(3,459)	-
121,282	38,120	142,816	38,528	159,851	(3,459)	658,226
$ 157,689	**$ 45,844**	**$ 193,802**	**$ 46,233**	**$ 260,059**	**$ (3,459)**	**$ 923,052**
$ 33,892	$ 3,207	$ 228,134	$ 6,667	$ (80,022)		$ 427,084
1,283	255	7,294	2	1,116		14,686
3,106	1,167	16,369	555	29,170	629	79,839
10,459	4,851	25,278	5,421	136		85,144
16,352	21,240	28,046	6,757	64,019	(1,198)	194,577
96	1,074	(83)	67	54,538		56,015
26,415	13,357	32,145	15,262	14,573	569	154,435
$ 91,603	**$ 45,151**	**$ 337,183**	**$ 34,731**	**$ 83,530**	**$ -**	**$ 1,011,780**

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

For The Year Ended June 30, 2003 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 10,606	$ 8,000	$ 100,964
Federal Grants and Contracts	5,603	5,585	180,624
State and Local Grants and Contracts	741	760	10,167
Nongovernmental Grants and Contracts	1,509	401	14,918
Educational Department Sales and Services	220	207	21,985
Auxiliary Enterprise Revenues, Net	4,244	4,671	45,020
Other Operating Revenues	1,273	210	3,710
Total Operating Revenues	**24,196**	**19,834**	**377,388**
OPERATING EXPENSES			
Instruction	12,173	14,039	114,185
Research	223	122	138,850
Public Service	1,971	1,462	46,976
Academic Support	3,361	2,283	27,833
Student Services	1,986	2,410	12,918
Auxiliary Programs	6,252	5,973	69,425
Operation and Maintenance of Plant	2,711	2,086	17,709
Institutional Support	3,216	3,991	24,733
Student Aid	1,906	2,931	69,482
Other Operating Expenses	1,574	2,013	27,439
Total Operating Expenses	**35,373**	**37,310**	**549,550**
Operating Loss	**(11,177)**	**(17,476)**	**(172,162)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	13,000	15,845	144,405
Investment Activity	126	73	5,380
Interest Expense	(294)	(96)	(538)
Other Nonoperating Items	66	1,263	26,539
Net Nonoperating Revenues	**12,898**	**17,085**	**175,786**
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	**1,721**	**(391)**	**3,624**
Capital Appropriations	20	20	(1,720)
Capital Grants and Gifts	185	-	4,236
Capital Contributions	49	52	256
Additions to Permanent Endowments	-	-	-
Transfers within OUS	12,220	15	(733)
Total Other Nonoperating Revenues	**12,474**	**87**	**2,039**
Increase (Decrease) In Net Assets Before Change in Accounting Principle and Reclassification	**14,195**	**(304)**	**5,663**
Cumulative Effect of Change in Accounting Principle	4,292	770	114,011
Reclassification of Long-Term Debt	(31,668)	(14,366)	(130,217)
Increase (Decrease) In Net Assets After Change in Accounting Principle and Reclassification	**(13,181)**	**(13,900)**	**(10,543)**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**35,625**	**31,007**	**390,574**
NET ASSETS, END OF YEAR	**$ 22,444**	**$ 17,107**	**$ 380,031**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 89,712	$ 20,075	$ 137,658	$ 17,833	$ 1,135		$ 385,983
112,031	29,358	148,571	29,937	4,589	$ (3,414)	512,884
3,957	1,399	6,145	2,686	6,359		32,214
6,717	803	12,278	441	45		37,112
6,802	2,367	13,228	2,691	(1,065)		46,435
17,065	13,021	63,083	10,452	1,188		158,744
913	397	1,528	256	2,025	-	10,312
237,197	**67,420**	**382,491**	**64,296**	**14,276**	**(3,414)**	**1,183,684**
93,021	20,300	121,044	18,737	8,195		401,694
16,030	260	46,102	6,252	7	(1,304)	206,542
11,294	3,668	21,807	598	89		87,865
20,069	5,756	25,215	4,499	278		89,294
7,872	3,045	14,749	3,394	53		46,427
22,277	15,797	79,862	13,421	702		213,709
11,924	3,666	15,886	2,636	-		56,618
14,211	4,958	26,251	3,909	17,259		98,528
84,989	25,722	91,261	23,026	-		299,317
15,014	3,398	29,202	3,012	(302)	(2,110)	79,240
296,701	**86,570**	**471,379**	**79,484**	**26,281**	**(3,414)**	**1,579,234**
(59,504)	**(19,150)**	**(88,888)**	**(15,188)**	**(12,005)**	**-**	**(395,550)**
64,670	17,096	71,025	16,580	28,874		371,495
430	162	4,272	148	3,043		13,634
107	(79)	(710)	(269)	(28,852)		(30,731)
597	2,272	28,677	28	(765)		58,677
65,804	**19,451**	**103,264**	**16,487**	**2,300**	**-**	**413,075**
6,300	**301**	**14,376**	**1,299**	**(9,705)**	**-**	**17,525**
20	20	20	20	1,600		-
767	225	26,776	-	-		32,189
82	23	191	5	-		658
1	-	57	-	184		242
16,783	18,851	27,446	(1,559)	(73,023)		-
17,653	**19,119**	**54,490**	**(1,534)**	**(71,239)**	**-**	**33,089**
23,953	**19,420**	**68,866**	**(235)**	**(80,944)**	**-**	**50,614**
11,940	7,650	53,603	12,291	-		204,557
(121,872)	(37,584)	(153,272)	(40,409)	529,388		-
(85,979)	**(10,514)**	**(30,803)**	**(28,353)**	**448,444**	**-**	**255,171**
177,582	**55,665**	**367,986**	**63,084**	**(364,914)**		**756,609**
$ 91,603	**$ 45,151**	**$ 337,183**	**$ 34,731**	**$ 83,530**	**$ -**	**$ 1,011,780**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2003 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 10,439	$ 8,052	$ 101,744
Grants and Contracts	7,833	7,164	208,427
Sales and Services of Educational Departments	228	465	21,964
Auxiliary Enterprise Operations	4,163	5,272	45,491
Student Loan Collections	343	707	6,518
Payments to Employees for Salaries and Benefits	(22,622)	(24,595)	(321,077)
Payments to Suppliers	(8,440)	(7,082)	(179,578)
Student Financial Aid	(1,920)	(2,889)	(21,226)
Student Loan Issuance and Costs	(471)	(782)	(4,008)
Other Operating Receipts	1,224	61	2,718
Net Cash Used by Operating Activities	**(9,223)**	**(13,627)**	**(139,027)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	13,020	15,865	142,684
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	157	1,182	23,928
Net Agency Receipts (Payments)	65	(11)	488
Net Transfers to (from) Other Funds and OUS Universities	12,219	15	(1,181)
Net Cash Provided (Used) by Noncapital Financing Activities	**25,461**	**17,051**	**165,919**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	-
Capital Grants and Gifts	185	-	4,236
Capital Contributions	49	52	256
Bond Proceeds on Capital Debt	-	-	915
Sales of Capital Assets	56	5	238
Purchase of Capital Assets	(21,024)	(2,384)	(42,773)
Interest Payments on Capital Debt	(294)	(96)	(710)
Principal Payments on Capital Debt	-	-	(47)
Net Cash Used by Capital and Related Financing Activities	**(21,028)**	**(2,423)**	**(37,885)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	126	73	5,380
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	**126**	**73**	**5,380**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,664)**	**1,074**	**(5,613)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**16,111**	**12,770**	**127,600**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 11,447**	**$ 13,844**	**$ 121,987**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 89,192	$ 19,967	$ 136,965	$ 17,478	$ 253		$ 384,090
123,585	31,880	167,837	33,662	10,749	$ (3,414)	587,723
6,816	2,368	13,225	2,700	(1,048)		46,718
16,913	13,135	62,453	10,556	1,397		159,380
2,128	986	4,832	784	4		16,302
(146,272)	(40,033)	(255,034)	(37,663)	(13,026)		(860,322)
(120,079)	(39,265)	(167,778)	(34,961)	(18,874)	3,414	(572,643)
(14,252)	(4,182)	(20,783)	(4,512)	(1,255)		(71,019)
(2,503)	(1,119)	(4,485)	(835)	-		(14,203)
527	209	(281)	61	1,948		6,467
(43,945)	**(16,054)**	**(63,049)**	**(12,730)**	**(19,852)**	**-**	**(317,507)**
64,690	17,116	71,045	16,600	29,239		370,259
1	-	57	-	184		242
2,181	1,909	21,911	58	(6)		51,320
70	60	246	1	(763)		156
16,783	18,857	27,446	(1,559)	(72,580)	-	-
83,725	**37,942**	**120,705**	**15,100**	**(43,926)**	**-**	**421,977**
-	-	-	-	-		-
767	225	26,776	-	-		32,189
82	23	191	5	-		658
-	-	-	-	44,754		45,669
5,667	34	69	14	-		6,083
(31,976)	(5,958)	(79,014)	(4,361)	(251)		(187,741)
43	(94)	(710)	(269)	(24,251)		(26,381)
-	-	(175)	(312)	(25,485)		(26,019)
(25,417)	**(5,770)**	**(52,863)**	**(4,923)**	**(5,233)**	**-**	**(155,542)**
-	-	(4)	-	(7,206)		(7,210)
430	162	4,276	148	2,026		12,621
-	-	-	-	416		416
-	-	-	-	(416)		(416)
430	**162**	**4,272**	**148**	**(5,180)**	**-**	**5,411**
14,793	**16,280**	**9,065**	**(2,405)**	**(74,191)**	**-**	**(45,661)**
39,102	**17,516**	**73,753**	**26,434**	**204,026**		**517,312**
$ 53,895	**$ 33,796**	**$ 82,818**	**$ 24,029**	**$ 129,835**	**$ -**	**$ 471,651**

CONSOLIDATING STATEMENT OF CASH FLOWS - Continued

For the Year Ended June 30, 2003 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating Loss	$ (11,178)	$ (17,476)	$ (172,163)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	1,475	1,940	24,596
Changes in Assets and Liabilities			
Accounts Receivable	(148)	519	1,034
Notes Receivable	(74)	(94)	2,214
Inventories	(24)	56	(9)
Prepaid Expenses	30	9	32
Accounts Payable and Accrued Liabilities	708	1,341	3,420
Long-Term Liabilities	46	85	680
Deposits	-	3	11
Deferred Revenue	(58)	(10)	1,158
NET CASH USED BY OPERATING ACTIVITIES	**$ (9,223)**	**$ (13,627)**	**$ (139,027)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ 35	$ -	$ 384
Change in Fair Value of Investments Recognized as a Component of Investment Activity	-	-	-

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ (59,500)	$ (19,150)	$ (88,888)	$ (15,185)	$ (12,010)		$ (395,550)
11,240	2,743	18,613	2,411	466		63,484
(1,125)	(9)	(862)	505	(93)		(179)
337	16	(71)	(122)	-		2,206
(36)	(7)	2	3	-		(15)
1,889	13	45	(11)	(274)		1,733
1,821	(302)	7,875	(272)	(7,776)		6,815
228	330	525	78	312		2,284
11	(1)	(144)	(133)	-		(253)
1,190	313	(144)	(4)	(477)		1,968
$ (43,945)	**$ (16,054)**	**$ (63,049)**	**$ (12,730)**	**$ (19,852)**	**$ -**	**$ (317,507)**
$ 83	$ 22	$ -	$ -	$ -	$ -	$ 524
-	-	-	-	844	-	844

CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2002 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 5,352	$ 6,891	$ 67,893
Short-Term Investments	-	-	-
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	1,967	2,009	35,537
Notes Receivable, Net	129	490	4,446
Inventories	346	381	1,755
Prepaid Expenses	144	33	1,172
Total Current Assets	7,938	9,804	110,803
Noncurrent Assets			
Cash and Cash Equivalents	10,759	5,879	59,706
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,313	2,751	24,319
Due From Other OUS Funds and Entities	306	-	800
Capital Assets, Net of Accumulated Depreciation	19,258	16,153	225,163
Total Noncurrent Assets	31,636	24,783	313,188
TOTAL ASSETS	**$ 39,574**	**$ 34,587**	**$ 423,991**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 1,418	$ 1,052	$ 12,029
Deposits	233	232	1,718
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	812	778	14,792
Deferred Revenue	307	889	12,300
Total Current Liabilities	2,770	2,951	40,839
Noncurrent Liabilities			
Long-Term Liabilities	873	629	(8,221)
Due to Other OUS Funds and Entities	306	-	800
Total Noncurrent Liabilities	1,179	629	(7,421)
TOTAL LIABILITIES	**$ 3,949**	**$ 3,580**	**$ 33,418**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 17,769	$ 15,598	$ 221,341
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	503	871	30,221
Student Loans	1,693	3,985	32,658
Capital Projects	10,318	6,544	70,193
Debt Service	39	13	554
Unrestricted Net Assets	4,749	3,996	31,424
TOTAL NET ASSETS	**$ 35,625**	**$ 31,007**	**$ 390,573**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 26,552	$ 14,687	$ 56,173	$ 18,385	$ 12,584		$ 208,517
-	-	-	-	9,250		9,250
-	-	-	-	48,696		48,696
21,226	3,167	26,482	4,069	860		95,317
1,215	488	10,554	459	6,921		24,702
343	768	1,690	1,074	-		6,357
2,765	224	1,114	196	6,099		11,747
52,101	19,334	96,013	24,183	84,410		404,586
12,552	2,829	17,578	8,048	191,444		308,795
-	-	74	-	58,936		62,210
8,593	3,622	19,310	3,610	47,272		110,790
65	-	2,556	164	-	$ (3,891)	-
136,176	37,390	276,704	33,167	9,050		753,061
157,386	43,841	316,222	44,989	306,702	(3,891)	1,234,856
$ 209,487	**$ 63,175**	**$ 412,235**	**$ 69,172**	**$ 391,112**	**$ (3,891)**	**$ 1,639,442**
$ 7,970	$ 1,586	$ 18,263	$ 2,140	$ 26,384		$ 70,842
1,025	411	2,162	489	2,302		8,572
-	-	-	-	48,696		48,696
4,169	1,731	7,212	1,057	29,997		60,548
14,730	1,763	19,659	2,047	1,115		52,810
27,894	5,491	47,296	5,733	108,494		241,468
3,945	2,020	(5,601)	192	647,528	-	641,365
65	-	2,556	164	-	(3,891)	-
4,010	2,020	(3,045)	356	647,528	(3,891)	641,365
$ 31,904	**$ 7,511**	**$ 44,251**	**$ 6,089**	**$ 756,022**	**$ (3,891)**	**$ 882,833**
$ 131,228	$ 35,642	$ 262,392	$ 33,166	$ (582,499)		$ 134,637
1,283	255	7,237	2	931		14,444
2,950	1,424	19,476	664	27,742	-	83,851
10,276	4,872	24,842	5,250	127		83,703
13,152	4,954	29,140	11,164	128,853	-	274,318
402	297	126	215	40,598		42,244
18,292	8,220	24,771	12,622	19,338	-	123,412
$ 177,583	**$ 55,664**	**$ 367,984**	**$ 63,083**	**$ (364,910)**	**$ -**	**$ 756,609**

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

For The Year Ended June 30, 2002 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 9,185	$ 6,597	$ 87,760
Federal Grants and Contracts	5,456	4,113	162,874
State and Local Grants and Contracts	921	1,817	9,966
Nongovernmental Grants and Contracts	785	635	16,953
Educational Department Sales and Services	447	229	23,238
Auxiliary Enterprise Revenues, Net	3,675	4,644	41,511
Other Operating Revenues	270	284	3,391
Total Operating Revenues	**20,739**	**18,319**	**345,693**
OPERATING EXPENSES			
Instruction	11,718	13,246	108,263
Research	209	142	131,896
Public Service	2,044	1,037	47,861
Academic Support	3,254	2,439	26,408
Student Services	1,964	2,485	12,895
Auxiliary Programs	5,356	5,751	61,993
Operation and Maintenance of Plant	2,492	2,104	18,037
Institutional Support	2,951	4,456	25,070
Student Aid	2,293	2,666	62,212
Other Operating Expenses	2,047	3,161	23,609
Total Operating Expenses	**34,328**	**37,487**	**518,244**
Operating Loss	**(13,589)**	**(19,168)**	**(172,551)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	13,986	17,060	154,105
Investment Activity	(469)	(5)	(11,339)
Interest Expense	(95)	41	801
Other Nonoperating Items	432	1,123	22,088
Net Nonoperating Revenues	**13,854**	**18,219**	**165,655**
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	**265**	**(949)**	**(6,896)**
Capital Appropriations	450	625	8,220
Capital Grants and Gifts	61	-	25,256
Capital Contributions	34	42	256
Additions to Permanent Endowments	-	-	448
Transfers within OUS	13,374	5,143	26,976
Total Other Nonoperating Revenues	**13,919**	**5,810**	**61,156**
Increase (Decrease) In Net Assets	**14,184**	**4,861**	**54,260**
Net Assets, Beginning Balance from Prior Year	**48,660**	**59,537**	**740,668**
Cumulative Effect of Change in Accounting Principle	**(27,219)**	**(33,391)**	**(404,355)**
Net Assets, Beginning Balance (2002 as restated)	**21,441**	**26,146**	**336,313**
NET ASSETS, END OF YEAR	**$ 35,625**	**$ 31,007**	**$ 390,573**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 76,984	$ 18,668	$ 119,011	$ 16,378	$ 830		$ 335,413
95,201	27,460	139,269	27,453	3,166	$ (2,805)	462,187
4,165	1,655	5,182	2,677	2,264		28,647
5,594	709	9,670	788	203		35,337
6,007	2,253	11,791	2,762	135		46,862
15,918	12,568	56,906	10,155	938		146,315
1,121	427	4,148	333	1,866	-	11,840
204,990	**63,740**	**345,977**	**60,546**	**9,402**	**(2,805)**	**1,066,601**
86,804	20,786	112,820	18,913	6,515		379,065
14,053	388	43,534	5,748	153	(1,086)	195,037
9,886	3,497	20,343	631	100		85,399
20,117	6,069	24,118	3,687	316		86,408
6,976	3,101	14,708	3,344	63		45,536
21,738	14,413	74,761	12,322	637		196,971
10,577	3,369	14,575	2,024	-		53,178
13,819	5,786	24,480	4,664	18,302		99,528
72,601	24,243	83,016	20,550	-		267,581
16,289	4,081	24,996	2,660	1,830	(1,719)	76,954
272,860	**85,733**	**437,351**	**74,543**	**27,916**	**(2,805)**	**1,485,657**
(67,870)	**(21,993)**	**(91,374)**	**(13,997)**	**(18,514)**	**-**	**(419,056)**
64,906	18,364	69,670	17,475	39,588		395,154
(10)	153	(10,152)	164	30,259		8,601
1,407	138	1,511	124	(29,278)		(25,351)
8,587	3,460	16,068	264	(201)		51,821
74,890	**22,115**	**77,097**	**18,027**	**40,368**	**-**	**430,225**
7,020	**122**	**(14,277)**	**4,030**	**21,854**	**-**	**11,169**
1,750	700	3,000	800	371		15,916
2,974	100	57,315	277	-		85,983
81	17	216	3	-		649
2	110	38	-	-		598
11,311	1,608	1,454	11,310	(71,176)		-
16,118	**2,535**	**62,023**	**12,390**	**(70,805)**	**-**	**103,146**
23,138	**2,657**	**47,746**	**16,420**	**(48,951)**	**-**	**114,315**
303,184	**108,051**	**590,578**	**92,589**	**(312,963)**		**1,630,304**
(148,739)	**(55,044)**	**(270,340)**	**(45,926)**	**(2,996)**		**(988,010)**
154,445	**53,007**	**320,238**	**46,663**	**(315,959)**	**-**	**642,294**
$ 177,583	**$ 55,664**	**$ 367,984**	**$ 63,083**	**$ (364,910)**	**$ -**	**$ 756,609**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2002 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 9,094	$ 6,679	$ 91,332
Grants and Contracts	7,263	6,634	187,967
Sales and Services of Educational Departments	547	328	24,444
Auxiliary Enterprise Operations	3,646	4,688	42,069
Student Loan Collections	261	525	4,792
Payments to Employees for Salaries and Benefits	(21,569)	(23,920)	(309,114)
Payments to Suppliers	(9,071)	(9,540)	(175,997)
Student Financial Aid	(2,280)	(2,539)	(18,858)
Student Loan Issuance and Costs	(136)	(736)	(3,656)
Other Operating Receipts	269	299	3,327
Net Cash Used by Operating Activities	**(11,976)**	**(17,582)**	**(153,694)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	13,986	17,060	154,105
Private Gifts Received for Endowment Purposes	-	-	448
Other Gifts and Private Contracts	433	1,106	21,972
Net Agency Receipts (Payments)	2	1	(28)
Net Transfers to (from) Other Funds and OUS Universities	12,750	5,121	15,447
Net Cash Provided (Used) by Noncapital Financing Activities	**27,171**	**23,288**	**191,944**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	450	625	8,220
Capital Grants and Gifts	68	6	25,655
Capital Contributions	34	42	256
Bond Proceeds on Capital Debt	-	711	-
Sales of Capital Assets	179	2,187	2,224
Purchase of Capital Assets	(6,081)	(3,687)	(37,399)
Interest Payments on Capital Debt	(95)	41	801
Principal Payments on Capital Debt	(151)	(279)	(201)
Net Cash Used by Capital and Related Financing Activities	**(5,596)**	**(354)**	**(444)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchases) Sales of Investments	1,198	227	28,022
Interest on Investments and Cash Balances	(468)	(4)	(11,339)
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	**730**	**223**	**16,683**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**10,329**	**5,575**	**54,489**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**5,782**	**7,195**	**73,110**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 16,111**	**$ 12,770**	**$ 127,599**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 76,441	$ 18,748	$ 118,456	$ 16,482	$ 1,089		$ 338,321
104,454	29,968	152,594	31,039	5,372	$ (2,805)	522,486
6,744	2,483	12,719	3,249	2,308		52,822
15,761	12,378	62,320	10,046	857		151,765
1,513	714	3,732	497	(5)		12,029
(136,246)	(39,326)	(237,067)	(36,021)	(13,045)		(816,308)
(112,573)	(40,699)	(161,637)	(31,590)	492	2,805	(537,810)
(13,595)	(4,084)	(17,824)	(4,516)	(52)		(63,748)
(1,939)	(644)	(4,404)	(684)	-		(12,199)
1,913	442	4,174	348	1,862		12,634
(57,527)	**(20,020)**	**(66,937)**	**(11,150)**	**(1,122)**	**-**	**(340,008)**
64,906	18,364	69,670	17,475	39,588		395,154
2	110	39	-	(1)		598
7,610	3,459	16,071	250	(278)		50,623
(11)	(3)	(3)	1	(12)		(53)
10,195	1,472	(8,476)	11,362	(47,871)	-	-
82,702	**23,402**	**77,301**	**29,088**	**(8,574)**	**-**	**446,322**
1,750	700	3,000	800	371		15,916
2,887	148	54,880	276	-		83,920
81	17	216	3	-		649
-	26	-	-	211,868		212,605
(4,007)	906	1,909	1,442	678		5,518
(23,510)	(3,878)	(76,128)	(11,553)	2,568		(159,668)
1,407	138	1,511	124	(29,278)		(25,351)
(183)	(78)	(402)	-	(49,914)		(51,208)
(21,575)	**(2,021)**	**(15,014)**	**(8,908)**	**136,293**	**-**	**82,381**
2,043	402	24,677	59	(51,959)		4,669
(7)	155	(10,153)	165	36,373		14,722
-	-	-	-	340		340
-	-	-	-	(340)		(340)
2,036	**557**	**14,524**	**224**	**(15,586)**	**-**	**19,391**
5,636	**1,918**	**9,874**	**9,254**	**111,011**	**-**	**208,086**
33,468	**15,598**	**63,877**	**17,179**	**93,017**		**309,226**
$ 39,104	**$ 17,516**	**$ 73,751**	**$ 26,433**	**$ 204,028**	**$ -**	**$ 517,312**

CONSOLIDATING STATEMENT OF CASH FLOWS - Continued

For the Year Ended June 30, 2002 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating Loss	$ (13,587)	$ (19,166)	$ (172,550)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	1,109	1,969	21,243
Changes in Assets and Liabilities			
Accounts Receivable	(35)	(58)	(886)
Notes Receivable	124	(212)	1,163
Inventories	(13)	(73)	(632)
Prepaid Expenses	(11)	4	270
Accounts Payable and Accrued Liabilities	357	(428)	(5,671)
Long-Term Liabilities	-	-	-
Deposits	101	102	998
Deferred Revenue	(21)	280	2,371
NET CASH USED BY OPERATING ACTIVITIES	**$ (11,976)**	**$ (17,582)**	**$ (153,694)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ -	$ -	$ -
Change in Fair Value of Investments Recognized as a Component of Investment Income	-	-	-

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ (67,868)	$ (21,993)	$ (91,373)	$ (13,998)	$ (18,521)		$ (419,056)
11,246	2,286	14,925	2,029	665		55,472
(1,854)	(282)	5,976	(10)	435		3,286
(432)	69	(7,876)	(181)	-		(7,345)
(7)	(141)	94	203	-		(569)
250	7	102	(12)	(1,087)		(477)
(1,110)	(138)	5,616	238	15,844		14,708
-	-	27	-	-		27
717	221	1,067	478	2,188		5,872
1,531	(49)	4,505	103	(646)		8,074
$ (57,527)	**$ (20,020)**	**$ (66,937)**	**$ (11,150)**	**$ (1,122)**	**$ -**	**$ (340,008)**
$ 89	$ -	$ 96	$ -	$ -	$ -	$ 185
-	-	-	-	(6,121)	-	(6,121)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Oregon State Board of Higher Education
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the basic financial statements of Oregon University System as of and for the year ended June 30, 2003, and have issued our report thereon dated October 15, 2003. 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.

Compliance
As part of obtaining reasonable assurance about whether Oregon University System's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* However, we noted certain immaterial instances of noncompliance that we have reported to management of Oregon University System in a separate letter dated October 15, 2003.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Oregon University System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Oregon University System in a separate letter dated October 15, 2003.

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

Moss Adams LLP

October 15, 2003