Oregon
University
System

2004
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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http://www.ous.edu/cont-div/reports/annfinst_fy2004.html

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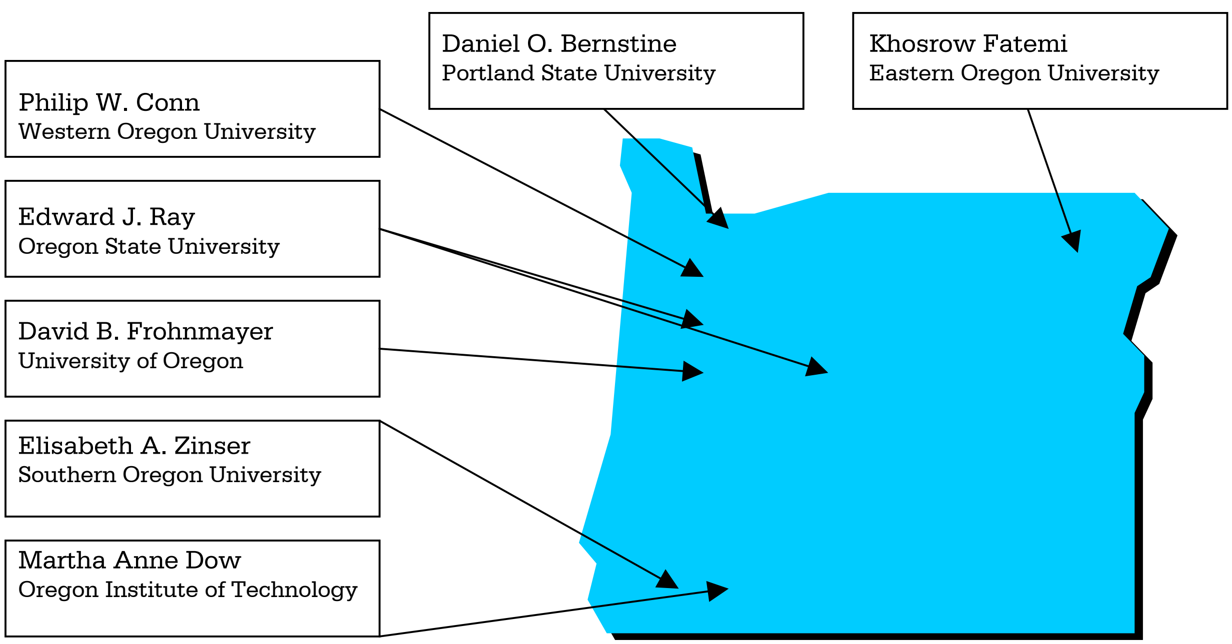


Oregon University System 2004 Annual Financial Report

Message from the Chancellor

Throughout 2004, significant leadership and structural changes took place within the Oregon University System (OUS) that positioned the organization to help more Oregonians access a postsecondary education in the next and future biennia.

OUS continued to meet the enrollment demands of the state, while focusing more intently on the barriers that hinder access to college for economically and historically disadvantaged populations in Oregon. With tuitions increasing as state appropriations fell – victim along with all agencies to lower state revenues in a downturn economy – students and families made difficult decisions and sacrifices in rural and urban areas. This sometimes meant having to leave the promise of postsecondary education behind.

Excellence is exemplified in the accomplishments of our students and faculty, in the quality of our academic instruction, through innovations in research and the scope of public service at our seven diverse, 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. Dedicated top faculty, students and staff joined to effect excellence in numerous programs and in diverse disciplines, becoming more widely recognized nationally and internationally as leaders in specialized fields in the arts, sciences, and professions.

Uniting a Vision of Access for Today's Oregon

Oregon is fortunate to have a Governor who has made higher education one of his top priorities. Governor Kulongoski envisions an Oregon with access for all its citizens to a postsecondary education if they so choose. This means a commitment by the state to ensure that low- and moderate-income Oregonians will not be shut out of college because of their family's financial status.

Oregon has changed over time. Yet the gradual, incremental nature of the change has made it difficult for everyone to believe that the "old days," when natural resources like timber and fisheries ruled, will never return as they had been. Today our natural resources are human ones, intellectual capital that fuels Oregon's largest industry – high technology – and brings new companies and jobs to the state. Even our traditional agriculture and forestry industries run on technology and systems that demand greater educational attainment of their workers and business partners.

Right now just over one-quarter of adult Oregonians, 26%, have a bachelor's degree; the same percentage have some college, and 7% have an associate's degree[1]. Yet, startlingly, by 2010 – 6 years from now – almost 9 out of 10 newly created jobs will require an associate's or bachelor's degree[2]. Four-year degrees will be required for about 6 out of 10 of these new jobs. In other words, Oregon has to do a better job of getting students in, through, around and out of our dual public postsecondary systems that encompass 17 community colleges, 7 universities, and the affiliated Oregon Health and Science University. New jobs in any part of the state require that Oregon achieve higher levels of educational attainment than currently exist. If students have access to educational opportunities in their local area, whether through direct classroom or distance learning, they tend to stay there, contributing to the skills, economy, and life in that community.

Getting to Work: Changing the Landscape for Oregon's Students and Families

With a **vision for change and reinvestment in the postsecondary education system**, the Governor appointed seven new State Board of Higher Education members in December 2003, who were confirmed by the State Senate the next month. Harnessing the momentum of a re-energized mission and the Governor's goals for expanding access and affordability, the Board created four new Working Groups as their first action: Access and Affordability; Excellence in Delivery and Productivity; Academic Excellence and Economic Development; and the Chancellor's Office Review. Together these Groups have worked hard, and already accomplished much, to establish and implement objectives related to:

1. **Making college more affordable** in Oregon through a redesigned and expanded state grant program, and a proposal for a long-term need-based endowment;
2. **Enrolling more students** in the public two- and four-year colleges and universities by eliminating barriers that inhibit access, transfer of credits, student retention, and completion of a degree within a reasonable period of time;
3. **Better alignment of the economic needs of Oregon with top academic research and ventures** that exemplify excellence and hold potential for economic development; and
4. **Realigning the focus of the Chancellor's Office** with the mission and work objectives of the Board.

Making College More Affordable in Oregon

Starting with the structure of the current **Oregon Opportunity Grant**, the Access and Affordability Working Group convened a diverse group of campus and community leaders to examine how the grant program could better serve our students. Top on the agenda was finding a way to expand grant outlays to cover all currently eligible students. Only one-third of income-eligible students are awarded grants because funds fall short each year. Average grants are also not large enough to cover more than about 10% of students' cost of attendance. That means high levels of borrowing for the students most in need of financial assistance. Thus far the group has proposed new eligibility guidelines and grant amounts,

[1] Source: 2002 US Census
[2] Source: Oregon Employment Department

and is working with many partners to gather support for expanded funding of the Oregon Opportunity Grant.
Experts tell us that affordability may be more related to the availability and type of financial aid than to tuition costs. The state's continuing grade of "F" in affordability[3] points to the need for a rebalancing of costs and aid by the state. The Access and Affordability Working Group is examining models for a more **permanent grant endowment** for Oregon students. Thus, in good times and in bad, fluctuations in state revenues will not determine whether a parent can send a child to college or a working adult can enroll in school. There would be equal opportunity for all Oregonians to aspire to and enroll in postsecondary education. Without a permanent solution to helping low- and moderate-income residents attend college, Oregon is at high risk of losing even more ground in increasing our educational levels to the point that can sustain current and new jobs in the state.

Compelled by double-digit tuition increases, the State Board of Higher Education took decisive action to reduce college costs for the 2004-05 academic year. Approving a **tuition mitigation plan** in June, the Board set a ceiling on tuition charges, lowering average increases from the original 14% to 10% for resident undergraduates (at 15 credit hours). Using $2.4 million of savings from the Chancellor's Office reorganization, the Board funded the mitigation without putting further strains on the campuses.

Eliminating Barriers to College Access

Oregon's pipeline to postsecondary education loses thousands of students along the pathways that lead to college degrees. Specifically wanting to determine how to **increase the flow of students through the pipeline** and reduce the numbers who drop out along the way, the Excellence in Delivery and Productivity Working Group developed a broad reaching plan in their first few months.

Also known as the *More Better Faster* initiative, the plan's core revolves around **seamless transfer from one educational sector to the next** – such as from high school to college, and from community college to a 4-year university. Already, a cross-sector group of university and college faculty and administrators is developing a lower division general education module that is fully transferable between Oregon's public postsecondary sectors. This is the initial step in the development of policies and practices that enable students to maximize the educational experience they receive from Oregon's public colleges and universities. They are also sharing tested strategies in student retention that have proven to increase graduation rates and lessen the need for students to delay or

OUS by the Numbers

Student Enrollment (Headcount) = 79,558 (Fall 2003)

Student Diversity = 10,543 or 13.3% students of color (2003-04)

Degrees Awarded = 16,422 (2003-04; an additional 1,861 certificates were also awarded in 2003-04)

Student Satisfaction = 81.9% (education experience at OUS was excellent or very good, 2002-03)

Student Persistence = 80.3% (to second year, from 2002-03 to 2003-04)

Student/Faculty Ratio = 27.9 to 1 (2003-2004, full time faculty)

New Degree Programs Approved = 19

Distance education enrollments = 35,150 (2003-04) in 2,725 courses

Dual enrollment programs between Oregon public community colleges and universities = 23 statewide (2003-04)

Sponsored research and related support = $253.3 million (2002-03)

University Foundations' net worth = $856.1 million, (2003-04)

[3] "Measuring Up" report, The National Center for Public Policy and Higher Education

"stop-out" of their postsecondary education for extended or frequent time periods. A project to identify hard-to-access courses that force students to extend their time in college is in the early stages. When students have to lengthen their stay in college, they pay more in tuition, take on more student loan debt, and have lost opportunity costs from delaying their full entry into the workforce.

Helping high school students **better prepare for the academic rigor of college** is another component of the *More Better Faster* strategy. The goal is to have a statewide approach that results in all Oregon high school students having the opportunity to take rigorous courses that prepare them for college entry, largely by increasing the number of high quality courses readily available to students, such as Advanced Placement (AP). Planning is also underway to complete a multi-sector student information system, combining and expanding resources and data from K-12, community colleges, and universities, that will support more efficient and effective student transfer among educational sectors, and maintain full credit for their earned coursework credits.

Aligning Economic Needs and Areas of Academic Excellence

Existing and emerging throughout Oregon's postsecondary institutions are areas of academic excellence that can **support the state's need for new businesses and jobs**. The Academic Excellence and Economic Development Working Group is completing a review of the state to identify those critical areas of research that have the potential to support and transfer their discoveries and technologies to aid industry, and contribute to the economic vitality of Oregon's communities. Ultimately looking for 2-5 areas on which to focus its energies, the Group is examining fields such as nanotechnology, natural resources and sustainability, healthcare workforce, K-12 education, leisure, arts and creative services, and brain research at the 7 OUS campuses, 17 community colleges, and the Oregon Health and Science University. This Working Group has longer term goals than the other Groups – goals that may not be fully realized for a decade or more.

Realigning the Chancellor's Office Focus

One of the Governor's and the Board's objectives is to ensure that the Office of the Chancellor (the System office) is fully **aligned with the goals and focus of the Board** and the state. After outlining its new focus, a working group of the Board, the Chancellor's Office Review, divested the Office of the responsibilities for providing certain service functions and technical support to the campuses. Moving forward, the Office will **focus on the development and implementation of policy and advocacy** for postsecondary education in Oregon, management reporting and control systems, planning and analysis, communications and government relations, and fulfillment of statutory functions. Campuses have been provided with greater autonomy and flexibility, along with the requisite control measures that ensure accountability.

Some former Chancellor's Office **functions have been transferred to particular campuses** to manage for the System, such as Information Technology Services now managed by OSU; the operation of the Southwestern Oregon University Center, now managed by EOU; and the Oregon Center for Advanced Technical Education (OCATE), now managed by PSU. The new Provosts' Council, made up of academic vice presidents of the OUS campuses, completes due diligence and formal review of new academic degree and certificate program requests, and makes recommendations to the Board. The Council replaces a function formerly carried out by the Academic Affairs division of the Chancellor's Office, which was eliminated during the restructuring.

More than **$3 million in savings** from the reorganization has been used to increase affordability for students, lessen the impact of Measure 30 budget reductions on the campuses, and fund the Board's Working Group initiatives.

Mission to be Accomplished: Access, Affordability, Excellence and Economic Development

As the Oregon University System prepares for the 2005-07 biennium, it will approach the budget process through **four mission-critical areas: Access, Affordability, Excellence, and Economic Development**. Through several budget policy packages and the core essential budget level, the OUS will endeavor to seek a reinvestment strategy for Oregon. It is not expected that the reinvestment will occur in one biennium or even two, but over several biennia to steadily build a postsecondary education system that equitably supports all Oregonians.

Moving the **ability to go to college from a remote possibility to a birthright** for all Oregonians is critical to sustaining a stronger state economy. Without more of our citizens gaining a postsecondary education, we lose businesses, jobs, and stable families. By maintaining the status quo we will continue to import employees for the jobs that Oregonians do not have the qualifications to get, relegating our citizens to second-class status in our own state. That is not what we want for ourselves, our children, or for future generations.

It is time for Oregon to spread the **transformative power of higher education** to every citizen who has the will and the dedication to go to college. By working in partnership with all of our stakeholders across the state, we can improve the opportunities for all Oregonians to go to college, and for our economy to support the needs and aspirations of this state.

George Pernsteiner
Acting Chancellor
October 2004

Top Accomplishments at Oregon University System Campuses 2003-04

Eastern Oregon University

- Welcomed its 10th President, Khosrow Fatemi, in May 2004
- Celebrated its 75th anniversary, and 25 years as a distance education leader in the state and nation
- Ranked #2 in the nation for quality and value in *Consumer Digest*
- EOU and Portland General Electric Corporate University were awarded the 2004 Business Education Compact Higher Education Achievement Award, recognizing their ongoing, productive partnership to increase student achievement, enhance applied learning and prepare Oregon's workforce
- Signed international agreements with Montpellier Graduate School of Management in France, and Universidad Automoma del Sur in Chile

Oregon Institute of Technology

- The Hustlin' Owls won the NAIA Division II National Basketball Title and the tournament Sportsmanship Award
- Hosted the 2004 American Civil Engineers Pacific Northwest Regional Student Conference taking first place in two engineering competitions and ending second overall
- Two OIT professors were awarded Intel Oregon – OUS Engineering and Computer Science Curriculum Fellowships
- Senior Brian Mason was one of 12 recipients of the 2004 Morris K. Udall Native American Congressional Summer Internship
- John W. Lund, professor emeritus of Civil Engineering and Director of the Geo-Heat Center, was named President of the International Geothermal Association, a 65-country member UN-affiliated organization that will host the 2005 World Geothermal Congress in Turkey

Oregon State University

- Welcomed its 14th President, Edward Ray, in August 2003
- Faculty exceeded by $20 million the university's record for attracting research funds, bringing in $177 million
- A record enrollment of 19,000 students was reached in fall 2003-04
- New construction enhanced campus facilities including: $20 million expansion of Dixon Recreation Center; $19 million renovation of Weatherford Hall; plus ground-breaking on the Kelley Engineering Center, and expansion of Magruder Hall and Reser Stadium
- After a two-year campus-wide effort entailing hundreds of volunteers, OSU adopted a new strategic plan to guide its curricular, research, and fundraising efforts

Portland State University

- Alumnus Fariborz Masseeh contributed $8 million to the College of Engineering and Computer Science, PSU's largest donation to-date
- Jun Jiao, assistant professor of physics and co-director of PSU's Center for Nanoscience and Nanotechnology, was awarded a $400,000 National Science Foundation Career Award to support research into carbon nanotubes
- Several facilities' milestones marked the year: the dedication of the Native American Student and Community Center; the opening of the "green" Epler Hall; and completion of the Student Health and Counseling Center, among others
- Gained approval for a BA/BS in Black Studies; and an MS in Materials Science and Engineering
- Had a record number of graduates for 2003-04 of 4,300

Southern Oregon University

- The State Board of Higher Education unanimously approved SOU's request to name the University Library "The Lenn and Dixie Hannon Library" in recognition of the unusually meritorious contributions to Oregon made by Senator Lenn and Dixie Hannon; the groundbreaking ceremony took place in early March
- *The Raider*, SOU's admissions newsletter, and the University's Viewbook, took second place in the 22nd Annual CASE District VIII Juried Awards Competition, out of more than 400 entries
- Music Department faculty Todd Barton and Kirby Shaw won an American Society of Composers, Authors and Publishers Award
- Business major Jason Meilicke received *The Wall Street Journal*'s 2004 Student Achievement Award, which recognizes outstanding college students around the U.S.
- SOU alumnus Jason Kuhlman won the Disneyland Teacher Award

University of Oregon

- Associate professor of psychology, Michael Anderson, located a mechanism in the brain that blocks unwanted memories, the first time a researcher has shown a neurobiological basis for memory repression
- Charles H. Lundquist College of Business opened a new "green" building that is a monument to maximizing available resources
- Alumnus Dave Petrone and his wife Nancy contributed a $2.5 million gift to provide students scholarships, new classrooms, and support other campus efforts
- Received a $510,500 grant from the MJ Murdock Charitable Trust for the Center for Optics to reach new levels in their quest to manipulate light and matter at the atomic level
- Student Anna Cavender was named North America's 2004 Outstanding Female Undergraduate in Computer Science and Engineering by the Computing Research Association

Western Oregon University

- The College of Education celebrated 50 consecutive years of accreditation by the National Council for Accreditation of Teacher Education
- Co-sponsored a national summer conference on emerging best practices in teaching work samples with the American Association of Colleges for Teacher Education (AACTE) and the Education Commission of the States, representing a key endorsement of WOU
- The College of Education co-published *Connecting Teaching and Learning*, a handbook on teacher work sample methodology, with the AACTE and the Carnegie Corporation
- Faculty and staff were engaged in sponsored research and service projects totaling nearly $8 million.
- Hosted the Central Western Oregon Science Exposition, one of the most rigorous student science and humanities meetings in the state, at which Oregon middle and high school students competed for prizes in science, technology, math, computer science and the humanities

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, 2004 and 2003. 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 2003, OUS enrolled a total of 79,558 students on its seven campuses, up 1.9% from fall 2002. Enrollment increased 18% over the five years from fall 1999 to fall 2003. The 2003 fall student enrollment comprised 81% undergraduates and 19% enrolled in graduate and professional programs. Fall term enrollment by university is as follows:

	Fall Term Student Enrollment				
University	1999	2000	2001	2002	2003
Eastern Oregon University	2,611	2,784	2,978	3,418	3,287
Oregon Institute of Technology	2,814	2,842	3,088	3,139	3,236
Oregon State University	16,061	16,777	18,277	19,161	19,347
Portland State University	18,317	19,029	20,185	21,841	23,117
Southern Oregon University	5,751	5,502	5,469	5,478	5,505
University of Oregon	17,278	17,843	19,008	20,044	20,034
Western Oregon University	4,515	4,731	4,878	5,030	5,032
Total System	67,347	69,508	73,883	78,111	79,558

Over the last few years, OUS has established programs and changed procedures to manage the enrollment increases. One institution, the UO, offers tuition discounts to students willing to attend classes at non-peak times. Class registration scheduling has been extended at several campuses, and admission requirements have been 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,	2004	% Change	2003	% Change	2002
			(In thousands)		
Assets					
Current Assets	$ 708,402	58%	$ 449,656	11%	$ 404,586
Noncurrent Assets	422,861	2%	414,574	-14%	481,795
Capital Assets, Net of Accumulated Depreciation	1,173,317	10%	1,070,602	42%	753,061
Total Assets	$ 2,304,580	19%	$ 1,934,832	18%	$ 1,639,442
Liabilities					
Current Liabilities	$ 508,893	92%	$ 264,826	10%	$ 241,468
Noncurrent Liabilities	737,879	12%	658,226	3%	641,365
Total Liabilities	$ 1,246,772	35%	$ 923,052	5%	$ 882,833
Net Assets					
Invested in Capital Assets, Net of Related Debt	$ 451,824	6%	$ 427,084	217%	$ 134,637
Restricted - Nonexpendable	14,682	0%	14,686	2%	14,444
Restricted - Expendable	416,321	0%	415,575	-14%	484,116
Unrestricted	174,981	13%	154,435	25%	123,412
Total Net Assets	$ 1,057,808	5%	$ 1,011,780	34%	$ 756,609

TOTAL ASSETS

Comparison of fiscal year 2004 to fiscal year 2003

Total Assets increased $369.7 million to $2.3 billion during the fiscal year ended 2004 compared to 2003. Current Assets increased $258.7 million mainly due to $195.0 million in increased Collateral from Securities Lending, $64.3 million in increased cash relating to the timing of payments for certain retirement plans (see "Total Liabilities" discussion below) and reductions of budgeted expenditures in reaction to State funding uncertainties, and $10.8 million in increased Accounts Receivable, Net due mainly to increased student tuition and fees receivables, and grant and contract receivables. Capital Assets increased $102.7 million and can be attributed mainly to new construction of buildings. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

Comparison of fiscal year 2003 to fiscal year 2002

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 Depreciation and increased Construction in Progress. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

TOTAL LIABILITIES

Comparison of fiscal year 2004 to fiscal year 2003

Total Liabilities increased $323.7 million to $1.2 billion during the fiscal year ended 2004 compared to 2003. Current Liabilities increased $244.1 million mainly due to Obligations under Securities Lending. Accounts Payable and Accrued Liabilities, and Deposits also increased relating to delayed payments to the State of Oregon as Oregon Public Employees Retirement Plan (PERS) and Oregon Public Service Retirement Plan (OPSRP) converted to a new system, and the accrual of a debt payment to the State relating to the restructuring of PERS to be paid in January 2005. Noncurrent Liabilities increased $79.7 million mainly due to increases in the debt issued to construct or purchase Capital Assets. See "Capital Assets and Related Financing Activities," below, for information relating to this increase.

Comparison of fiscal year 2003 to fiscal year 2002

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

Comparison of fiscal year 2004 to fiscal year 2003

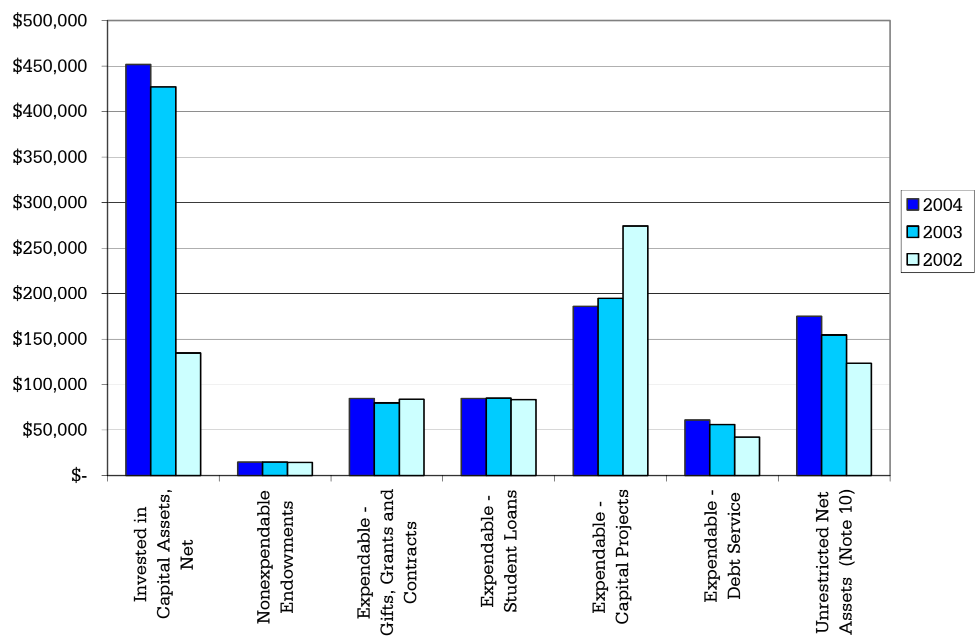
Overall, OUS's financial position improved in fiscal year 2004. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased $46.0 million to $1.1 billion during the fiscal year ended 2004 compared to 2003. In addition, for both fiscal years, current assets are sufficient to meet current obligations.

Comparison of fiscal year 2003 to fiscal year 2002

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 2004, 2003 and 2002:

Net Assets by Category
(In thousands)



The $46.0 million increase in Total Net Assets for the fiscal year ended June 30, 2004, primarily related to new assets net of newly issued debt and increased cash balances due to reductions of budgeted expenditures in reaction to State funding uncertainties. The $255.2 million increase in Total Net Assets for the fiscal year ended June 30, 2003, 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 the net increase in Invested in Capital Assets, Net of Related Debt.

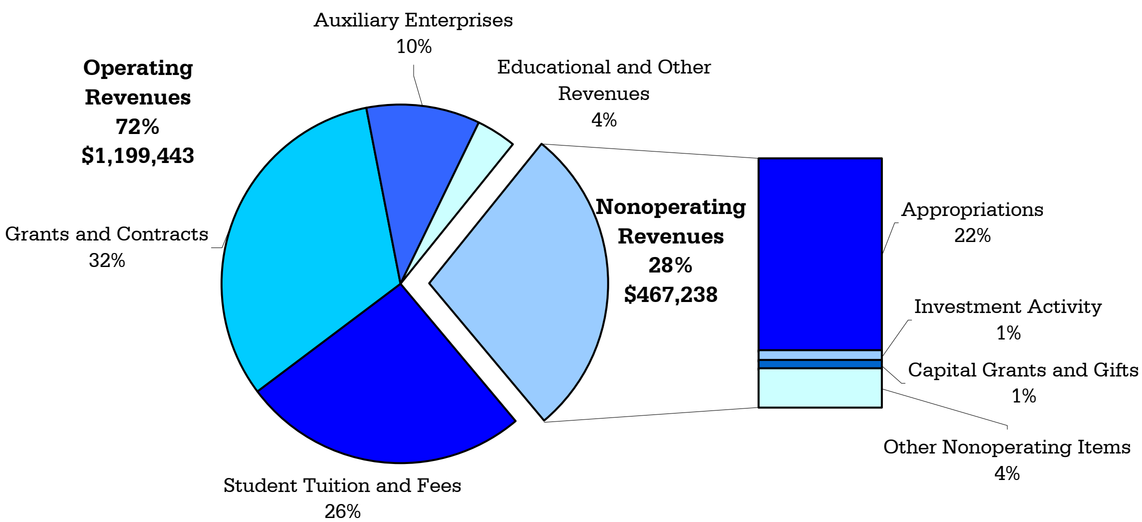
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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,	2004	% Change	2003	% Change	2002
			(In thousands)		
Operating Revenues	$ 1,199,443	2%	$ 1,177,993	11%	$ 1,060,762
Operating Expenses	1,587,347	1%	1,579,234	6%	1,485,657
Operating Loss	(387,904)	3%	(401,241)	6%	(424,895)
Nonoperating Revenues (Expenses)	433,932	-4%	451,855	-16%	539,210
Increase In Net Assets Before Change in Accounting Principle	46,028	-9%	50,614	-56%	114,315
Cumulative Effect of Change in Accounting Principle	-	*	204,557	*	-
Increase In Net Assets After Change in Accounting Principle	46,028	*	255,171	*	114,315
Net Assets at Beginning of Year (2002 as Restated)	1,011,780	*	756,609	*	642,294
Net Assets at End of Year	$ 1,057,808	5%	$ 1,011,780	34%	$ 756,609

* Not meaningful

2004 Total Revenues (in thousands):



OPERATING REVENUES

Operating revenues increased $21.5 million in fiscal year 2004, or 2% over fiscal year 2003, to $1.2 billion. This variance is due to increases in student tuition and fees, and auxiliary enterprises. Operating revenues increased $117.2 million in fiscal year 2003, or 11% over fiscal year 2002, to $1.2 billion. This variance is due to increases in student tuition and fees, grants and contracts, and auxiliary enterprises.

For the Year Ended June 30,	2004	% Change	2003	% Change	2002
			(In thousands)		
Operating Revenues					
Student Tuition and Fees	$ 432,363	12%	$ 385,983	15%	$ 335,413
Federal, State and Nongovernmental Grants and Contracts	536,784	-7%	576,519	11%	520,332
Auxiliary Enterprises	168,881	6%	158,744	8%	146,315
Educational and Other Revenues	61,415	8%	56,747	-3%	58,702
Total Operating Revenues	$ 1,199,443	2%	$ 1,177,993	11%	$ 1,060,762

Comparison of fiscal year 2004 to fiscal year 2003

Student tuition and fees increased $46.4 million in 2004 compared to 2003 due to increased tuition and fee rates that accounted for $48.7 million and increased student enrollment, which accounted for $6.6 million. Offsetting the increases were increased scholarship allowances of $6.2 million due to increased tuition and fees, and fee remissions of $2.7 million relating to the increased rates and increased enrollment. Student tuition and fees comprise 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 decreased $39.7 million in 2004 compared to 2003. Federal Student Aid included in operating revenues decreased $48.1 million. The $68.6 million decrease related to the change in the federal student loan program used at PSU was partially offset by student aid revenue of $20.5 million relating to increased tuition and fees and student enrollment. Beginning with the Fall term of 2003, PSU discontinued the Federal Direct Student Loan Program, which is recorded as pass through revenue in Federal Grants and Contracts and offset in Student Aid in Operating Expenses, and started using the Federal Family Education Loan Program, which is paid directly to the student and not reported in operations. Federal Student Aid grants received by OUS students but not reported in operations were $99.6 million during fiscal year 2004 and $22.5 million during fiscal year 2003. Research and Development grants increased $12.4 million mainly due to increased Federal grants received from the Department of Education, the National Institute of Health, the National Science Foundation, and the National Oceanic and Atmospheric Administration. Other federal grants increased $2.3 million and State and Local Grants and Contracts increased $2.8 million during fiscal year 2004 when compared to the prior year. Nongovernmental Grants and Contracts decreased $9.6 million mainly due to the deferral of grant revenues in the current fiscal year.

Auxiliary Enterprise revenue increased $10.1 million compared to the prior year. Beginning in fiscal year 2004, $6.6 million in additional PSU housing revenue is recorded in operations. Previously, a non-profit company managed PSU housing. Housing, health services, parking and bookstore sales increased $3.5 million in 2004 relating to higher rates and student enrollment.

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

Comparison of fiscal year 2003 to fiscal year 2002

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 $56.2 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.

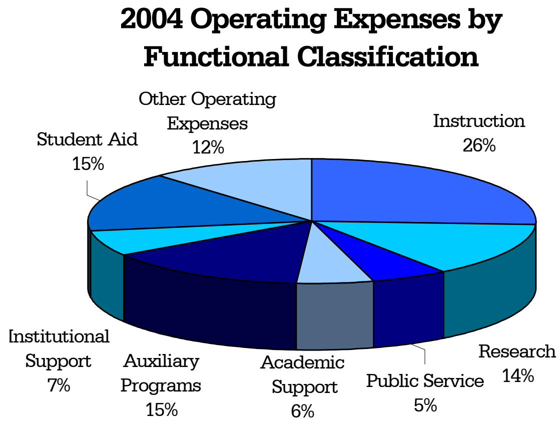
Auxiliary Enterprise revenue increased $12.4 million compared to the prior year. Intercollegiate Athletics revenues grew $7.2 million mainly due to the increased seating capacity at the UO's football stadium and more home football games at OSU. Housing, health services, parking, and bookstore sales increased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

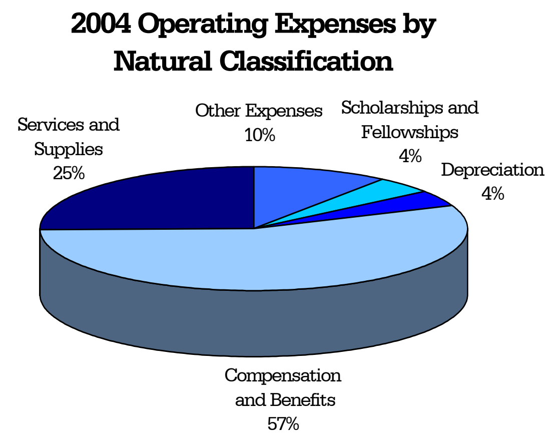
Educational and Other Revenues had no significant changes between the two fiscal periods.

OPERATING EXPENSES

Operating expenses increased $8.1 million in fiscal year 2004, or 1%, over fiscal year 2003, to $1.6 billion. This variance is due to increases in Instruction, Research, Auxiliary Programs, Institutional Support and Other Operating Expenses. Operating expenses increased $93.6 million in fiscal year 2003, or 6%, over fiscal year 2002, to $1.6 billion. This variance is due to increases in Instruction, Research, Student Aid, Auxiliary Programs, and Other Operating Expenses.

For the Year Ended June 30,	2004	% Change	2003	% Change	2002
			(In thousands)		
Operating Expenses					
Instruction	$ 412,321	3%	$ 401,694	6%	$ 379,065
Research	222,986	8%	206,542	6%	195,037
Student Aid	246,324	-18%	299,317	12%	267,581
Auxiliary Programs	232,932	9%	213,709	8%	196,971
Institutional Support	109,138	11%	98,528	-1%	99,528
Public Service	86,432	-2%	87,865	3%	85,399
Academic Support	89,570	0%	89,294	3%	86,408
Other Operating Expenses	187,644	3%	182,285	4%	175,668
Total Operating Expenses	$ 1,587,347	1%	$ 1,579,234	6%	$ 1,485,657





Due to the way in which 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 tables below to see the relationship between the natural expense variance and the functional expense variance for the fiscal year 2004 compared to 2003 and fiscal year 2003 compared to 2002 (in thousands):

Comparison of fiscal year 2004 to fiscal year 2003

Variances relating to:	Instruction	Research	Public Service	Academic Support	Auxiliary Programs	Institutional Support	Student Aid	Other Operating Exp.	Total Operating Exp.
	Expense (Decrease) Increase								
Compensation and Benefits									
Benefit Costs	$ 3,502	$ 3,202	$ (1,095)	$ (494)	$ 1,370	$ (716)	$ (6)	1,544	$ 7,307
Employee Growth	2,922	4,551	(2,551)	(814)	1,971	947	39	3,116	10,181
ORP Adjustment	1,135	494	188	228	292	259	8	267	2,871
Student Worker Growth	51	599	(28)	117	829	(33)	(152)	668	2,051
Scholarships and Fellowships									
OUS Student Aid	622	(404)	(86)	89	22	(29)	(1,372)	(804)	(1,962)
Federal Loan Programs	-	-	-	-	-	18	(51,682)	-	(51,664)
Services and Supplies	2,724	7,148	2,078	1,426	7,486	12,101	101	2,083	35,147
Depreciation	-	-	-	3	5,757	-	-	(1,749)	4,011
Other Variances	(329)	854	61	(279)	1,496	(1,937)	71	234	171
	$ 10,627	$ 16,444	$ (1,433)	$ 276	$ 19,223	$ 10,610	$ (52,993)	$ 5,359	$ 8,113

Compensation and Benefits increased $23.0 million during the year ended 2004 compared to 2003. This increase can be broken into four main variances. For existing employees, **Benefit Costs** increased $7.3 million and represented a 3% overall rate increase compared to fiscal year 2003. Increased insurance costs of 10% were partially offset by lower retirement costs (see "Note 13. Employee Retirement Plans" for additional information relating to lower retirement costs). **Employee Growth** relating to higher enrollment and increased grants and contracts caused expenses to increase $10.2 million. Most position increases were directly related to teaching and auxiliary programs (enrollment increases), and positions relating to grants. The **Optional Retirement Plan (ORP) adjustment** relates to a correction of the employer contribution percentages contributed beginning with the inception of the plan through October 31, 2003. **Student Worker Growth** of $2.1 million, or 5%, was due to increased work-study opportunities relating to financial aid during fiscal year 2004.

Scholarships and Fellowships decreased $53.6 million when comparing fiscal year 2004 and 2003. **Federal Loan Programs** decreased $51.7 million mainly relating to a change in loan programs at PSU of $68.6 million (See Federal, State and Nongovernmental Grants and Contracts above for more information relating to PSU federal student loans). This was partially offset by increased federal loans for the other universities in response to increased tuition rates and enrollment growth. **OUS Student Aid** decreased $2.0 million relating to OUS's compliance to State legislated limits.

Services and Supplies increased $35.1 million during fiscal year 2004. Maintenance and Repairs increased $14.8 million during 2004 partly related to capital appropriations of $11.5 million. A debt payment to the State for $14.0 million was accrued relating to the restructuring of PERS which caused services and supplies to increase. The international program acquired by UO during fiscal year 2004 increased contracted educational services by $6.3 million.

Depreciation increased $4.0 million during fiscal year 2004 due to increased depreciable capital assets.

Comparison of fiscal year 2003 to fiscal year 2002

Variances relating to:	Instruction	Research	Public Service	Academic Support	Auxiliary Programs	Institutional 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.

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 depreciation 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 $17.9 million during 2004 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. The decline in Nonoperating Revenues of $87.4 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,	2004	% Change	2003	% Change	2002
			(In thousands)		
Nonoperating Revenues (Expenses)					
Government and Capital Appropriations	$ 363,586	-3%	$ 374,023	-10%	$ 413,342
Investment Activity	18,370	35%	13,634	59%	8,601
Interest Expense	(33,302)	8%	(30,731)	21%	(25,351)
Capital Grants and Gifts	15,377	-52%	32,189	-63%	85,983
Other Nonoperating Items	69,901	11%	62,740	11%	56,635
Total Nonoperating Revenues, Net	$ 433,932	-4%	$ 451,855	-16%	$ 539,210

Comparison of fiscal year 2004 to fiscal year 2003

Government and Capital Appropriations declined $10.4 million in 2004 relating mainly to the $19.5 million decline in State appropriations that are used to fund operations at OUS. State Capital Appropriations were $11.5 million and $15.9 million for the 2003-2005 biennium and 2001-2003 biennium, respectively. All of the capital appropriations were drawn down in fiscal year 2004 and 2002. Federal Appropriations decreased $3.7 million during fiscal year 2004 when compared to 2003.

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 one of the highest unemployment rates in the United States for most of the fiscal years ended 2004 and 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 $4.7 million in 2004 mainly due to investments appreciating $6.6 million during 2004 and appreciating $.8 million during 2003. Partially offsetting this increase was decreased interest income of $1.5 million due to lower interest rates and invested cash in fiscal year 2004.

Interest Expense increased by $2.6 million due to a partial year's interest accrual on debt issued in fiscal year 2004 and a full year's interest accrual on debt issued in fiscal year 2003. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts declined $16.8 million in 2004 relating to the timing of construction projects.

Other Nonoperating Items increased $7.2 million relating mainly to increased gifts of $13.5 million. This was partially offset by decreased net gains on asset sales of $4.2 million.

Comparison of fiscal year 2003 to fiscal year 2002

Government and Capital Appropriations declined $39.3 million in 2003. Government appropriations declined $25.2 million relating to the reduction 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 of fiscal year 2003 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.

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 $6.1 million relating to increased net gains on asset sales of $5.6 million.

CHANGE IN NET ASSETS

The Increase in Net Assets declined $4.6 million in 2004 compared to 2003 relating to declines in Capital Grants and Gifts of $16.8 million, Governmental and Capital Appropriations of $10.4 million, and net gains on asset sales of $4.2 million. This was partially offset by decreased Operating Losses of $13.3 million and increased Gifts of $13.5 million. 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 $39.3 million. This was partially offset by a decreased Operating Loss of $23.7 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 years ended June 30, 2004, 2003 and 2002, is as follows:

For the Year Ended June 30,	2004	% Change	2003	% Change	2002
			(In thousands)		
Net Cash Used by Operating Activities	$ (290,697)	10%	$ (323,199)	7%	$ (345,847)
Net Cash Provided by Noncapital Financing Activities	428,056	0%	427,669	-5%	452,161
Net Cash (Used) Provided by Capital and Related Financing Activities	(91,380)	-41%	(155,542)	-289%	82,381
Net Cash Provided by Investing Activities	32,131	494%	5,411	-72%	19,391
Net Increase (Decrease) in Cash and Cash Equivalents	78,110	-271%	(45,661)	-122%	208,086
Cash and Cash Equivalents, Beginning of Year	471,651	-9%	517,312	67%	309,226
Cash and Cash Equivalents, End of Year	$ 549,761	17%	$ 471,651	-9%	$ 517,312

Comparison of fiscal year 2004 to fiscal year 2003

Cash Used by Operating Activities decreased by $32.5 million in 2004 compared to 2003. This decrease in the use of cash was impacted by a $48.1 million increase in Tuition and Fees, a $30.7 million decrease in Payments to Suppliers and a $8.3 million increase in Auxiliary Enterprise

Operations. Partially offsetting these favorable changes were decreased Grants and Contracts of $39.1 million relating mainly to the change in student loan programs at PSU and increased expenses relating to Payments to Employees for Salaries and Benefits of $17.4 million. See "Statement of Revenues, Expenses and Changes in Net Assets – Operating Revenues," and "Statement of Revenues, Expenses and Changes in Net Assets – Operating Expenses" above, for further information relating to these revenue and expense increases and decreases.

Cash Provided by Noncapital Financing Activities increased by $.4 million in 2004. Increased Other Gifts and Private Contracts mostly offset the decrease in Governmental Appropriations. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to the revenue increase and decrease.

Cash Used by Capital and Related Financing Activities declined by $64.2 million in 2004. This can primarily be attributed to debt issuances increasing $59.9 million during fiscal year 2004 when compared to 2003. Decreased construction and purchase of capital assets caused the OUS cash position to increase by $19.0 million. Capital Appropriations of $11.5 million also increased cash during fiscal year 2004. Partially offsetting these cash increases was a net decrease in Capital Grants and Gifts of $17.0 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 increased by $26.7 million in 2004 when compared to 2003. This was mainly due to the change in Net (Purchases) Sales of Assets of $27.6 million. Fiscal year 2004 reflects investment maturities of $20.4 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.

Comparison of fiscal year 2003 to fiscal year 2002

Cash Used by Operating Activities decreased by $22.6 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 $65.4 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 $24.5 million in 2003, due mainly to the $24.6 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.

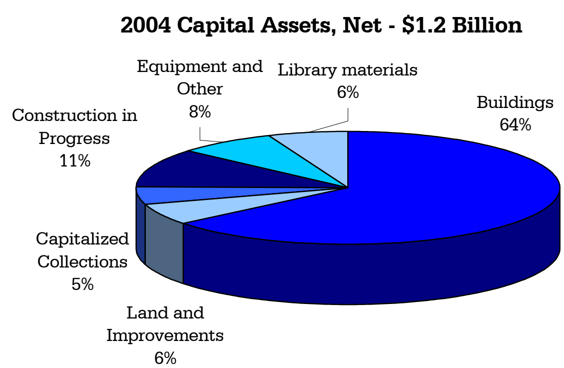
CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

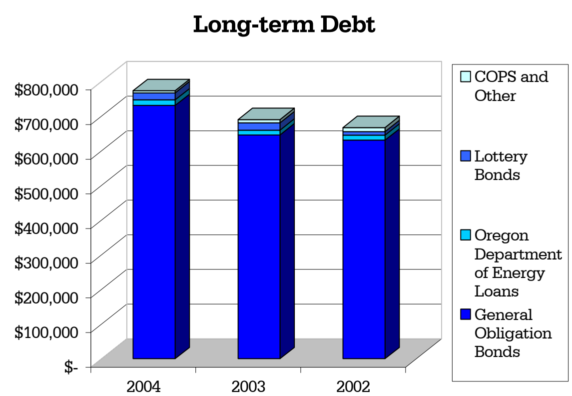
During fiscal year 2004, 2003 and 2002, OUS issued bonds totaling $106 million, $46 million and $213 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. During 2004 and 2003, capital expenditures exceeded debt proceeds as debt proceeds were used from the past three fiscal years 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 2004 and 2003.

OUS facilities include 1,169 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 $180 million for the fiscal year 2004, $197 million for 2003 and $161 million for 2002. For the seven universities, fiscal year 2004 saw new and renovated buildings completed, such as OSU Weatherford Hall remodel, UO Lillis Business Center, EOU Regional Ag Health & Life Science Building, OIT College Union addition, SOU Library addition/remodel, WOU Housing Project and PSU Native American Center. Fiscal year 2003 included 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 2004 include projects funded from private gifts, general obligation bonds, State capital appropriations, certificates of participation and internal funds.

Accumulated depreciation at June 30, 2004, increased $57.7 million, which represented $67.5 million in depreciation expense offset by $9.8 million in asset retirements. Depreciation expense increased $4.0 million during 2004 compared to 2003 due to increased depreciable assets and the introduction of building componentization for certain research buildings. 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 education programs that provide for access, affordability, excellence and economic development. 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 in the forefront of the State Legislature. See the "Message from the Chancellor" for information relating to this mission and the related actions being undertaken to accomplish it. The quality of education at OUS is tracked and evaluated based on a performance measurement system mandated by the State Legislature in 1997.

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

Fall 2004 enrollment increased 0.6% to a total of 80,066, up from 79,558 in the same period in 2003. Though this generates a marginal increase in revenues it increases the difficulty of achieving the primary objective of OUS if the State appropriations do not cover all of the students in the system.

The budgetary outlook for fiscal year 2005 continues to have uncertainties. The State General Fund portion of the OUS budget is $543.2 million for 2003-05, down from $617.4 million in General Fund appropriations for the 2001-03 biennium, a reduction of 12%. For the first time, the Legislature set upper limits on undergraduate fee remissions, which required campuses to adjust their fee remission awards in the this biennium to conform to the limit.

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 increasing 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 OUS 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.

The structure of OUS required contributions to the Oregon Public Employees Retirement System (PERS) has changed by legislative action. PERS is currently under funded and these 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.

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MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

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, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of Oregon University System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the System's component units as described in Note 1. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in those component units described in Note 1, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2004 and 2003, 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.

As described in Note 1 to the basic financial statements, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units,* as of June 30, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004 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.

MOSS-ADAMS LLP

The Management's Discussion and Analysis on pages 8 through 20 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.

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 56 through 71 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
September 30, 2004

Statements of Net Assets

As of June 30,	University System 2004	University System 2003
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$ 298,609	$ 234,332
Short-Term Investments (Note 2)	-	13,118
Collateral from Securities Lending (Note 2)	261,175	66,221
Accounts Receivable, Net (Note 3)	108,009	97,165
Notes Receivable, Net (Note 4)	22,640	22,434
Inventories	5,981	6,372
Prepaid Expenses	11,988	10,014
Total Current Assets	708,402	449,656
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	251,152	237,319
Long-Term Investments (Note 2)	65,940	66,608
Notes Receivable, Net (Note 4)	105,769	110,647
Capital Assets, Net of Accumulated Depreciation (Note 5)	1,173,317	1,070,602
Total Noncurrent Assets	1,596,178	1,485,176
Total Assets	**$ 2,304,580**	**$ 1,934,832**
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	$ 90,304	$ 67,785
Deposits	21,224	8,949
Obligations Under Securities Lending (Note 2)	261,175	66,221
Current Portion of Long-Term Liabilities (Note 8)	67,833	66,214
Deferred Revenue	68,357	55,657
Total Current Liabilites	508,893	264,826
Noncurrent Liabilities		
Long-Term Liabilities (Note 8)	737,879	658,226
Total Noncurrent Liabilities	737,879	658,226
Total Liabilities	**$ 1,246,772**	**$ 923,052**
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 451,824	$ 427,084
Restricted For:		
Nonexpendable Endowments	14,682	14,686
Expendable:		
Gifts, Grants and Contracts	84,643	79,839
Student Loans	84,678	85,144
Capital Projects	186,058	194,577
Debt Service	60,942	56,015
Unrestricted Net Assets (Note 10)	174,981	154,435
Total Net Assets	**$ 1,057,808**	**$ 1,011,780**

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

As of June 30, 2004		Component Units
		(In thousands)
ASSETS		
Cash and Cash Equivalents	$	47,909
Contributions, Pledges and Grants Receivable, Net		86,119
Investments		787,505
Prepaid or Deferred Expenses, and Other Assets		5,492
Property and Equipment, Net		53,024
Real Property (held for sale)		801
TOTAL ASSETS	**$**	**980,850**
LIABILITIES		
Accounts Payable and Accrued Liabilities	$	3,793
Obligations to Beneficiaries of Split-Interest Agreements		63,476
Deposits Held in Custody		9,736
Deferred Revenue		121
Long-Term Liabilities		47,575
TOTAL LIABILITIES	**$**	**124,701**
NET ASSETS		
Unrestricted	$	56,542
Temporarily Restricted		412,596
Permanently Restricted		387,011
TOTAL NET ASSETS	**$**	**856,149**

Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30,	University System 2004	University System 2003
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowance of $69,822 and $60,401, respectively)	$ 432,363	$ 385,983
Federal Grants and Contracts	479,951	512,884
State and Local Grants and Contracts	32,500	29,686
Nongovernmental Grants and Contracts	24,333	33,949
Educational Department Sales and Services	48,472	46,435
Auxiliary Enterprise Revenues (Net of Scholarship Allowance of $8,246 and $7,130, respectively)	168,881	158,744
Other Operating Revenues	12,943	10,312
Total Operating Revenues	**1,199,443**	**1,177,993**
OPERATING EXPENSES		
Instruction	412,321	401,694
Research	222,986	206,542
Public Service	86,432	87,865
Academic Support	89,570	89,294
Student Services	55,919	46,427
Auxiliary Programs	232,932	213,709
Operation and Maintenance of Plant	58,017	56,618
Institutional Support	109,138	98,528
Student Aid	246,324	299,317
Other Operating Expenses	73,708	79,240
Total Operating Expenses	**1,587,347**	**1,579,234**
Operating Loss	**(387,904)**	**(401,241)**
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	352,066	374,023
Investment Activity (Note 9)	18,370	13,634
Gain on Sale of Assets, Net	1,662	5,884
Interest Expense	(33,302)	(30,731)
Other Nonoperating Items	67,593	55,956
Net Nonoperating Revenues	**406,389**	**418,766**
Income Before Other Revenues, Expenses, Gains and Losses	**18,485**	**17,525**
Capital Appropriations (Note 12)	11,520	-
Capital Grants and Gifts	15,377	32,189
Capital Contributions	650	658
Additions to Permanent Endowments	(4)	242
Total Other Nonoperating Revenues	**27,543**	**33,089**
Increase In Net Assets Before Change in Accounting Principle	**46,028**	**50,614**
Cumulative Effect of Change in Accounting Principle (Note 5)	-	204,557
Increase In Net Assets After Change in Accounting Principle	**46,028**	**255,171**
NET ASSETS		
Beginning Balance	1,011,780	756,609
Ending Balance	**$ 1,057,808**	**$ 1,011,780**

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

For The Year Ended June 30, 2004		Component Units
		(In thousands)
REVENUES		
Grants, Bequests and Gifts	$	123,154
Interest and Dividends		6,951
Investment Income, Net		73,581
Change in Value of Life Income Agreements		9,541
Other Revenues		5,866
Total Revenues		**219,093**
EXPENSES		
General and Administrative, and Development Expenses		23,160
University Support		79,346
Other Expenses		2,325
Total Expenses		**104,831**
Increase In Net Assets		**114,262**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR		**741,887**
NET ASSETS, END OF YEAR	**$**	**856,149**

Statements of Cash Flows

For the Years Ended June 30,	University System 2004	University System 2003
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 432,172	$ 384,090
Grants and Contracts	542,884	582,031
Sales and Services of Educational Departments	48,539	46,718
Auxiliary Enterprise Operations	167,721	159,380
Student Loan Collections	16,958	16,302
Payments to Employees for Salaries and Benefits	(877,712)	(860,322)
Payments to Suppliers	(541,986)	(572,643)
Student Financial Aid	(69,057)	(71,019)
Student Loan Issuance and Costs	(18,465)	(14,203)
Other Operating Receipts	8,249	6,467
Net Cash Used by Operating Activities	**(290,697)**	**(323,199)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	351,532	372,787
Private Gifts Received for Endowment Purposes	(4)	242
Other Gifts and Private Contracts	68,241	54,484
Net Agency Fund Receipts (Payments)	8,287	156
Net Cash Provided by Noncapital Financing Activities	**428,056**	**427,669**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	11,520	-
Capital Grants and Gifts	15,221	32,189
Capital Contributions	650	658
Bond Proceeds on Capital Debt	105,590	45,669
Sales of Capital Assets	2,041	6,083
Purchase of Capital Assets	(168,734)	(187,741)
Interest Payments on Capital Debt	(31,426)	(26,381)
Principal Payments on Capital Debt	(26,242)	(26,019)
Net Cash Used by Capital and Related Financing Activities	**(91,380)**	**(155,542)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	20,433	(7,210)
Interest on Investments and Cash Balances	11,698	12,621
Interest Income from Securities Lending	1,112	416
Interest Expense from Securities Lending	(1,112)	(416)
Net Cash Provided by Investing Activities	**32,131**	**5,411**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**78,110**	**(45,661)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**471,651**	**517,312**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 549,761**	**$ 471,651**

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

For the Years Ended June 30,		University System 2004		2003
		(In thousands)		
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating Loss	$	(387,904)	$	(401,241)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities				
Depreciation Expense		67,495		63,484
Changes in Assets and Liabilities				
Accounts Receivable		(10,004)		(179)
Notes Receivable		850		2,206
Inventories		392		(15)
Prepaid Expenses		(1,974)		1,733
Accounts Payable and Accrued Liabilities		(7,653)		6,815
Long-Term Liabilities		35,849		2,284
Deposits		225		(253)
Deferred Revenue		12,027		1,967
NET CASH USED BY OPERATING ACTIVITIES	**$**	**(290,697)**	**$**	**(323,199)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Fixed Assets Acquired by Incurring Capital Lease Obligations	$	104	$	524
Increase in Fair Value of Investments Recognized as a Component of Investment Activity		6,634		844

The accompanying notes are an integral part of these Financial Statements

Combining Financial Statements – Component Units

STATEMENTS OF FINANCIAL POSITION As of June 30, 2004 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	$ 163	$ 139	$ 32,263
Contributions, Pledges and Grants Receivable, Net	-	120	29,410
Investments	2,195	14,374	366,455
Prepaid or Deferred Expenses, and Other Assets	-	100	1,141
Property and Equipment, Net	-	-	12,046
Real Property (held for sale)	-	-	-
TOTAL ASSETS	**$ 2,358**	**$ 14,733**	**$ 441,315**
LIABILITIES			
Accounts Payable and Accrued Liabilities	$ -	$ 29	$ 272
Obligations to Beneficiaries of Split-Interest Agreements	-	193	24,841
Deposits Held in Custody	-	-	-
Deferred Revenue	-	-	-
Long-Term Liabilities	-	-	-
TOTAL LIABILITIES	**$ -**	**$ 222**	**$ 25,113**
NET ASSETS			
Unrestricted	$ 185	$ 9,133	$ 33,662
Temporarily Restricted	700	1,659	208,460
Permanently Restricted	1,473	3,719	174,080
TOTAL NET ASSETS	**$ 2,358**	**$ 14,511**	**$ 416,202**

STATEMENTS OF ACTIVITIES For the Year Ended June 30, 2004 (in thousands)	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
REVENUES			
Grants, Bequests and Gifts	$ 319	$ 831	$ 52,368
Interest and Dividends	58	-	6,695
Investment Income, Net	298	1,497	34,897
Change in Value of Life Income Agreements	-	60	4,402
Other Revenues	6	27	4,270
Total Revenues	**681**	**2,415**	**102,632**
EXPENSES			
General and Administrative, and Development Expenses	71	416	8,354
University Support	956	562	36,337
Other Expenses	-	-	2,127
Total Expenses	**1,027**	**978**	**46,818**
Increase (Decrease) In Net Assets	**(346)**	**1,437**	**55,814**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**2,704**	**13,074**	**360,388**
NET ASSETS, END OF YEAR	**$ 2,358**	**$ 14,511**	**$ 416,202**

* As of December 31, 2003

	Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
	$ 806	$ 2,976	$ 10,483	$ 167	$ 912	$ 47,909
	8,069	712	47,782	26	-	86,119
	41,443	11,873	334,481	6,779	9,905	787,505
	2,314	116	1,773	48	-	5,492
	34,946	1,434	4,123	465	10	53,024
	-	801	-	-	-	801
	$ 87,578	**$ 17,912**	**$ 398,642**	**$ 7,485**	**$ 10,827**	**$ 980,850**
	$ 2,645	$ 229	$ 618	$ -	$ -	$ 3,793
	599	535	35,920	1,388	-	63,476
	-	-	9,736	-	-	9,736
	-	121	-	-	-	121
	47,575	-	-	-	-	47,575
	$ 50,819	**$ 885**	**$ 46,274**	**$ 1,388**	**$ -**	**$ 124,701**
	$ 95	$ 2,519	$ 9,507	$ 484	$ 957	$ 56,542
	18,176	3,703	168,025	2,671	9,202	412,596
	18,488	10,805	174,836	2,942	668	387,011
	$ 36,759	**$ 17,027**	**$ 352,368**	**$ 6,097**	**$ 10,827**	**$ 856,149**
	$ 8,618	$ 2,740	$ 52,128	$ 558	$ 5,592	$ 123,154
	-	198	-	-	-	6,951
	3,433	1,846	30,642	871	97	73,581
	-	(40)	5,119	-	-	9,541
	663	518	246	136	-	5,866
	12,714	**5,262**	**88,135**	**1,565**	**5,689**	**219,093**
	1,562	692	6,360	151	5,554	23,160
	7,249	1,159	32,395	688	-	79,346
	198	-	-	-	-	2,325
	9,009	**1,851**	**38,755**	**839**	**5,554**	**104,831**
	3,705	**3,411**	**49,380**	**726**	**135**	**114,262**
	33,054	**13,616**	**302,988**	**5,371**	**10,692**	**741,887**
	$ 36,759	**$ 17,027**	**$ 352,368**	**$ 6,097**	**$ 10,827**	**$ 856,149**

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 Oregon Legislature and went into effect July 1, 1931.

The OUS financial reporting entity is reported under the heading of University System on the Basic Financial Statements and includes the accounts of Eastern Oregon University, Oregon Institute of Technology, Oregon State University, 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 booster and alumni organizations, are not included in the reporting entity.

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

B. Financial Statement Presentation

OUS financial accounting records are maintained in accordance with generally accepted accounting principles as prescribed in applicable pronouncements of Governmental Accounting Standards Board (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. This implementation has resulted in significant changes to the presentation and captions of financial statements issued after July 1, 2001.

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.

OUS implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units (No. 39),* effective for the year ended June 30, 2004. GASB No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity,* and provides criteria for determining whether organizations should be reported as component units based on the nature and significance of their relationship with OUS and to clarify reporting requirements of those organizations. OUS includes component units that were selected for inclusion based on criteria established in GASB No. 39. OUS component units include Eastern Oregon University Foundation, Oregon Tech Foundation, Oregon State University Foundation, Portland State University Foundation, Southern Oregon University Foundation, University of Oregon Foundation, Western Oregon University Development Foundation, and Agricultural Research Foundation. These component units are discretely presented on a separate page to emphasize that they are tax-exempt non-profit organizations legally separate from OUS. The component units report under Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*, which differs from GASB pronouncements. No modifications have been made to the foundations' financial information and care must be taken when assessing the consistency and comparability of the financial presentation between FASB and GASB. See "Note 14. University Foundations" for additional information about OUS institution related foundations.

In preparing the financial statements, significant interfund transactions and balances between universities 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 2003 financial statements reflect certain reclassifications and restatements to conform to the fiscal year 2004 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 preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. Securities may be sold to provide for the income needs; however, the original corpus of endowments may not be invaded. For the years ended June 30, 2004 and 2003, the net amount of appreciation available for authorization for expenditure was $14,559,000 and $11,950,000, respectively.

Nonexpendable Endowments on the Statements of Net Assets of $14,682,000 and $14,686,000 at June 30, 2004 and 2003, 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 such 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, 2004 and 2003, OUS carrying amounts of cash and cash equivalents were $546,699,000 and $468,682,000, respectively, while the State Treasury balances were $553,257,000 and $471,171,000, 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 $3,062,000 and $2,969,000 at June 30, 2004 and 2003, respectively. This cash is held in trust by a fiscal agent for bond principal and interest repayment of matured bonds.

B. Investments

OUS funds are invested by the State Treasury. OUS investment policies are governed by statute, the Oregon Investment Council (Council), and the Board. In accordance with ORS, investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers 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, 2004				June 30, 2003
	CATEGORY OF CREDIT RISK			Fair	
	1	2	3	Value	Fair Value
Investments Categorized:					
Cash and Cash Equivalents	$ -	$ -	$ 1,280	$ 1,280	$ 527
U.S. Government and Agency Securities	-	-	-	-	15,061
Domestic Equity Securities	8,850	-	-	8,850	5,885
International Equity Securities	386	-	-	386	318
Real Estate Securities	351	-	-	351	401
	$ 9,587	$ -	$ 1,280	10,867	22,192
Investments Not Categorized:					
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government and Agency Securities				254,870	62,863
Domestic Equity Securities				629	1,378
International Equity Securities				-	10
Real Estate Securities				-	120
Collateral Under Securities Lending				261,193	66,302
Real Estate				3,200	3,200
Pooled Investments				48,371	43,571
Guaranteed Investment Contracts				2,758	6,042
Other Investments				115	135
				582,003	205,813
Less Amounts Recorded As Cash				(516,063)	(126,087)
Total Investments				$ 65,940	$ 79,726

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, 2004	June 30, 2003
Securities owned by OUS	$ 647	$ 4,723
OUS Deposits in State Treasury STF	260,528	61,498
Total Collateral from Securities Lending	$ 261,175	$ 66,221

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, 2004 and 2003, the STIF had an average expected maturity of 309 days and 369 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, 2004 and 2003 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, 2004	June 30, 2003
Collateral held by OUS:		
Fair Value	$ 642	$ 4,729
Reported Value	647	4,723
US Securities on loan by OUS:		
Fair Value	629	4,587

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, 2004	June 30, 2003
Cash Collateral held by State Treasury STF:		
Fair Value	$ 260,550	$ 61,573
Reported Value	260,528	61,498
Securities on loan by State Treasury STF:		
Fair Value	254,870	59,785

3. Accounts Receivable

Accounts Receivable comprised the following (in thousands):

	June 30, 2004	June 30, 2003
Student Tuition and Fees	$ 56,738	$ 49,540
Auxiliary Enterprises and Other Operating Activities	11,264	9,780
Federal, State, and Private Gifts and Contracts	40,809	38,064
Other	7,135	6,102
	115,946	103,486
Less: Allowance for Doubtful Accounts	(7,937)	(6,321)
Accounts Receivable, Net	$ 108,009	$ 97,165

4. Notes Receivable

Notes Receivable comprised the following (in thousands):

	June 30, 2004			June 30, 2003		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional Student Loans	$ 7,319	$ -	$ 7,319	$ 7,238	$ -	$ 7,238
Federal Student Loans	13,369	61,046	74,415	13,687	61,847	75,534
Amounts Due from OHSU for Bond Indebtedness (See Note 8. F.)	5,553	44,723	50,276	5,159	48,800	53,959
	26,241	105,769	132,010	26,084	110,647	136,731
Less: Allowance for Doubtful Accounts	(3,601)	-	(3,601)	(3,650)	-	(3,650)
Notes Receivable, Net	$ 22,640	$ 105,769	$ 128,409	$ 22,434	$ 110,647	$ 133,081

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2004 and 2003. 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, 2003	Additions	Retirements	Balance June 30, 2004
Capital assets, non-depreciable:				
Land	$ 46,045	$ 5,948	$ (133)	$ 51,860
Capitalized Collections	58,882	1,598	(2,250)	58,230
Construction in Progress	229,589	130,696	(231,291)	128,994
Total capital assets, non-depreciable	334,516	138,242	(233,674)	239,084
Capital assets, depreciable				
Equipment	243,217	26,925	(13,642)	256,500
Library Materials	259,482	14,271	(1,346)	272,407
Buildings	1,043,138	218,067	(2,253)	1,258,952
Land Improvements	17,019	8,021	(27)	25,013
Improvements Other Than Buildings	9,454	4,080	(1)	13,533
Infrastructure	45,326	1,727	-	47,053
Total capital assets, depreciable	1,617,636	273,091	(17,269)	1,873,458
Less accumulated depreciation for:				
Equipment	(173,538)	(19,270)	9,831	(182,977)
Library Materials	(188,463)	(12,913)	203	(201,173)
Buildings	(474,306)	(31,184)	676	(504,814)
Land Improvements	(9,893)	(977)	17	(10,853)
Improvements Other than Buildings	(7,110)	(921)	-	(8,031)
Infrastructure	(28,240)	(2,230)	(907)	(31,377)
Total accumulated depreciation	(881,550)	(67,495)	9,820	(939,225)
Total capital assets, net	$ 1,070,602	$ 343,838	$ (241,123)	$ 1,173,317
Capital Assets Summary				
Capital assets, nondepreciable	$ 334,516	$ 138,242	$ (233,674)	$ 239,084
Capital assets, depreciable	1,617,636	273,091	(17,269)	1,873,458
Total cost of capital assets	1,952,152	411,333	(250,943)	2,112,542
Less accumulated depreciation	(881,550)	(67,495)	9,820	(939,225)
Capital Assets, net	$ 1,070,602	$ 343,838	$ (241,123)	$ 1,173,317

	Balance July 1, 2002	Additions	Retirements	Adjustments (1)	Balance June 30, 2003
Capital assets, non-depreciable:					
Land	$ 48,563	$ 174	$ (2,418)	$ (274)	$ 46,045
Capitalized Collections	57,864	1,335	(317)	-	58,882
Construction in Progress	127,516	118,925	(323)	(16,529)	229,589
Total capital assets, non-depreciable	233,943	120,434	(3,058)	(16,803)	334,516
Capital assets, depreciable					
Equipment	241,376	29,620	(27,779)	-	243,217
Library Materials	255,903	15,391	(12,955)	1,143	259,482
Buildings	980,878	30,465	(4,367)	36,162	1,043,138
Land Improvements	19,097	142	-	(2,220)	17,019
Improvements Other Than Buildings	23,760	77	-	(14,383)	9,454
Infrastructure	29,317	866	-	15,143	45,326
Total capital assets, depreciable	1,550,331	76,561	(45,101)	35,845	1,617,636
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)	-	277	(9,893)
Improvements Other than Buildings	(9,133)	(1,724)	-	3,747	(7,110)
Infrastructure	(25,742)	(1,247)	-	(1,251)	(28,240)
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)	$ (16,803)	$ 334,516
Capital assets, depreciable	1,550,331	76,561	(45,101)	35,845	1,617,636
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.

6. Accounts Payable and Accrued Liabilities

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

	June 30, 2004	June 30, 2003
Services and Supplies	$ 58,497	$ 43,834
Accrued Interest	7,707	7,099
Salaries and Wages	7,736	7,362
Payroll Related Expenses	9,278	2,923
Contract Retainage Payable	4,008	3,571
Matured Bonds, COPs and Interest Payable	3,062	2,969
Financial Aid	16	27
	$ 90,304	$ 67,785

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 $4,656,000 and $2,674,000 for the years ended June 30, 2004 and 2003, respectively. The value of assets leased, net of depreciation, was $26,569,000 and $24,341,000 for the years ended June 30, 2004 and 2003, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2004 were (in thousands):

For the year ending June 30,	
2005	$ 3,570
2006	3,377
2007	2,338
2008	1,114
2009	1,019
2010-2014	1,472
2015-2019	679
2020-2024	419
2025-2029	405
2030-2034	321
2035-2039	321
2040-2044	196
2045-2049	5
Total Minimum Operating Lease Payments	$ 15,236

B. Payables

OUS leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were $2,833,000 and $1,391,000 for the years ended June 30, 2004 and 2003, respectively. Minimum future lease payments on operating leases at June 30, 2004 were (in thousands):

For the year ending June 30,	
2005	$ 2,631
2006	1,888
2007	920
2008	275
2009	141
2010-2014	268
2015-2019	69
2020-2024	66
2025-2029	66
2030-2034	66
2035-2039	66
2040-2044	66
2045-2049	61
Total Minimum Operating Lease Payments	$ 6,583

8. Long-Term Liabilities

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

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Long-Term Debt					
General Obligation Bonds	$ 645,481	$ 213,201	$ (128,282)	$ 730,400	$ 32,085
Oregon Department of Energy Loans	13,851	3,544	(1,313)	16,082	1,442
Certificates of Participation	9,131	-	(3,131)	6,000	1,950
Lottery Bonds	20,990	3,985	(4,633)	20,342	1,137
Arbitrage	408	-	(250)	158	7
Other Notes Payable	51	-	(21)	30	20
Total Long-Term Debt	689,912	220,730	(137,630)	773,012	36,641
Other Noncurrent Liabilities					
Capital Leases	817	104	(421)	500	223
Compensated Absences	31,150	31,492	(31,150)	31,492	30,645
Early Retirement Liability	2,561	-	(1,853)	708	324
Total Other Noncurrent Liabilities	34,528	31,596	(33,424)	32,700	31,192
	$ 724,440	$ 252,326	$ (171,054)	$ 805,712	$ 67,833

	Balance July 1, 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

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 1.1 percent to 7.5 percent, are due serially through 2033. XI-G bonds, with effective yields ranging from 1.1 percent to 7.0 percent, are due serially through 2033.

During the fiscal year ended June 30, 2004, OUS issued bonded indebtedness as follows:

XI-F(1) Bonds Series 2004 A, $63,465,000, effective rate of 4.39 percent for capital construction due serially through 2033.

XI-F(1) Bonds Series 2004 B, $25,000,000, effective rate of 4.51 percent for capital construction due serially through 2033.

XI-F(1) Bonds Series 2004 D, $80,355,000, effective rate of 4.0 percent for refunding of bonds.

XI-G Bonds Series 2004 C, $12,515,000, effective rate of 4.49 percent for academic modernization and repair due serially through 2033.

XI-G Bonds Series 2004 E, $20,765,000, effective rate of 4.38 percent for refunding of bonds.

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 2033.

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

For the Year Ending June 30,	Principal	Interest	Total
2005	$ 24,750	$ 31,834	$ 56,584
2006	25,985	32,507	58,492
2007	25,908	32,872	58,780
2008	25,362	32,815	58,177
2009	22,780	33,244	56,024
2010-2014	110,911	159,585	270,496
2015-2019	116,778	128,483	245,261
2020-2024	123,169	70,325	193,494
2025-2029	123,035	30,565	153,600
2030-2034	64,015	6,275	70,290
	662,693	558,505	1,221,198
Add: Accreted Interest Payable	67,025	(67,025)	-
Add: Unamortized Bond Premiums	13,922	-	13,922
Less: Deferred Gain on Refunding	(13,240)	-	(13,240)
	$ 730,400	$ 491,480	$ 1,221,880

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 2.0 percent to 7.5 percent, are due through 2020.

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

For the Year Ending June 30,	Principal	Interest	Total
2005	$ 1,442	$ 913	$ 2,355
2006	1,527	828	2,355
2007	1,568	738	2,306
2008	1,494	645	2,139
2009	1,360	558	1,918
2010-2014	5,247	1,766	7,013
2015-2019	3,177	548	3,725
2020-2024	267	15	282
	$ 16,082	$ 6,011	$ 22,093

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 1.2 percent to 5.0 percent, are due through fiscal year 2008.

During the fiscal year ended June 30, 2004, OUS issued COPs as follows:

No issuances during fiscal year 2004.

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.

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

For the Year Ending June 30,	Principal	Interest	Total
2005	$ 1,932	$ 200	$ 2,132
2006	1,681	129	1,810
2007	1,134	67	1,201
2008	1,182	25	1,207
	5,929	421	6,350
Add: Unamortized Premium	71	-	71
	$ 6,000	$ 421	$ 6,421

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 4.8 percent, are due through fiscal year 2018.

In fiscal year 2004, Lottery Bond Series 2004 A were issued with net proceeds of $4,023,000 and an effective interest rate of 3.43 percent. The proceeds were used for refunding of existing bonds.

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. The proceeds were used to help finance the remodel of the Southern Oregon University Library.

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

For the Year Ending June 30,	Principal	Interest	Total
2005	$ 1,075	$ 858	$ 1,933
2006	1,130	814	1,944
2007	1,156	783	1,939
2008	1,194	749	1,943
2009	1,226	713	1,939
2010-2014	7,002	2,707	9,709
2015-2019	6,700	834	7,534
	19,483	7,458	26,941
Less: Deferred Loss on Refunding	(516)	-	(516)
Add: Unamortized Premium	1,375	-	1,375
	$ 20,342	$ 7,458	$ 27,800

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, 2004 and 2003 was $158,000 and $408,000, respectively.

F. Debt Related to Oregon Health & Science University

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

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

A receivable from OHSU has been recorded for OUS debt that was incurred for the benefit of OHSU (See Note 4). At June 30, 2004 and 2003, long-term debt of OUS that relates to OHSU was $50,276,000 and $53,959,000, respectively.

G. Defeased Debt

During the year ended June 30, 2004, OUS issued $101,120,000 of XI-F(1) bonds with an average interest rate of 4.91 percent to refund $98,705,000 in XI-F(1) bonds with an average interest rate of 5.46 percent. The net proceeds of the XI-F(1) bonds were $110,231,000 (after bond premium of $9,860,000 and payment of $748,000 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 $12,692,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 24 years by $5,152,000 and resulted in an economic gain of $4,165,000.

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.

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 $167,847,000 at June 30, 2004 and $74,294,000 at June 30, 2003 of which $11,030,000 and $11,238,000, 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 $708,000 and $1,152,000 as of June 30, 2004 and 2003, respectively. Accumulated depreciation of leased equipment totaled $143,000 and $453,000 for June 30, 2004 and 2003, respectively.

The lease purchase (capital lease) contracts expire through fiscal year 2010. 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 10.9 percent.

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

For the Year Ending June 30,	
2005	$ 250
2006	135
2007	127
2008	29
2009	21
2010-2014	1
Total Minimum Lease Payments	563
Less: Amount Representing Interest	(63)
Present Value of Minimum Lease Payments	$ 500

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 comprised $324,000 and $1,918,000 in Current Portion of Long-Term Liabilities and $384,000 and $643,000 in Long-Term Liabilities as of June 30, 2004 and 2003, respectively.

9. Investment Activity

Investment Activity detail is as follows (in thousands):

	June 30, 2004	June 30, 2003
Interest Income	$ 6,518	$ 7,972
Net Appreciation of Investments	6,634	844
Royalties Income	5,072	4,338
Endowment Income	2,358	2,410
Trust Income Distribution	(2,353)	(2,403)
Dividend Income	3	422
Rent Income	134	162
Other	4	(111)
	$ 18,370	$ 13,634

For the years ended June 30, 2004 and 2003, the fair value of endowment investments appreciated by $6,766,000 and $958,000, respectively.

10. Unrestricted Net Assets

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2004	June 30, 2003
Budgeted Operating Funds	$ 107,509	$ 93,364
Designated Operating Funds	9,710	8,294
Service Department Funds	5,672	4,185
Housing Funds	14,496	11,594
Intercollegiate Athletics Funds	(214)	(6,813)
Other Auxiliary Funds	34,320	39,538
Unrestricted Endowment Funds	3,488	4,273
	$ 174,981	$ 154,435

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 classification (in thousands):

	June 30, 2004	June 30, 2003
Compensation and Benefits	$ 884,113	$ 861,159
Services and Supplies	402,871	367,724
Scholarships and Fellowships	69,057	71,019
Depreciation	67,495	63,484
Other Expenses	163,811	215,848
	$ 1,587,347	$ 1,579,234

12. Government Appropriations

Government appropriations comprised the following (in thousands):

	June 30, 2004			
	General Operations	Debt Service	Capital Construction	Total
State General Fund Appropriations	$ 321,211	$ 12,512	$ 11,520	$ 345,243
Lottery Appropriations	1,770	1,860	-	3,630
Dispute Resolution	1,347	-	-	1,347
Harvest Tax	2,837	-	-	2,837
Total State Appropriations	327,165	14,372	11,520	353,057
Federal Appropriations	5,420	-	-	5,420
County Appropriations	5,109	-	-	5,109
	$ 337,694	$ 14,372	$ 11,520	$ 363,586

	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
Harvest Tax	2,528	-	-	2,528
Total State Appropriations	346,688	13,185	-	359,873
Federal Appropriations	9,113	-	-	9,113
County Appropriations	5,037	-	-	5,037
	$ 360,838	$ 13,185	$ -	$ 374,023

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/Oregon Public Service 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 from July 1, 2003 through October 31, 2003 was 11.79%. The employer contribution rate from November 1, 2003 through the year ended June 30, 2004 was 4.71 percent. The employer contribution rate through the year ended June 30, 2003 was 9.49 percent. OUS employer contributions to PERS for the years ending June 30, 2003, and 2002 were $36,370,000, and $35,746,000, respectively, equal to the required contributions for each year. See below for the employer contribution for PERS for the year ended June 30, 2004.

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. The valuation included projected salary increases at 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, 2004. 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).

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

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

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

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

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. The employee's contribution rate is 6 percent and is paid by the employer. The employer contribution rate through the year ended June 30, 2004 was 8.04 percent. This plan did not exist during the fiscal year ended June 30, 2003. See below for OUS employer contributions to OPSRP for the year ending June 30, 2004.

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

The payroll assessment for the pension obligation bond began May 2004 at a rate of 7.39%. OUS was charged a total of $4,380,000 for the May and June 2004 payrolls. OUS employer contributions to PERS and OPSRP for the year ending June 30, 2004 were $23,310,000, equal to the required contributions for that year.

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.

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

	July 1- December 31, 2003	January 1- June 30, 2004	2003
ORP Tier One	11.31%	11.31%	9.49%
ORP Tier Two	11.71%	11.31%	8.50%
OPSRP Equivalent		8.04%	

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

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

Federal Civil Service Retirement

Some Extension Service employees at Oregon State University hold federal appointments. Prior to December 31, 1986, federal appointees were required to participate in the Federal Civil Service Retirement System (CSRS), a defined benefit plan. CSRS employees are subject to the Hospital Insurance portion of the Federal Insurance Contributions Act (FICA), CSRS employee deduction of 7.0 percent, and employer contribution of 8.51 percent, and are also eligible for optional membership in PERS.

The Federal Employees Retirement System (FERS) was created beginning January 1, 1987. Employees 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, 2004 was $695,010,000, of which $490,603,000 was subject to retirement contributions. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2004			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
PERS/OPSRP	$ 23,310	4.75%	$ 22,670	4.62%
ORP	12,665	2.58%	8,351	1.70%
TIAA-CREF	234	0.05%	236	0.05%
Federal	535	0.11%	258	0.05%
FERS - TSP	142	0.03%	341	0.07%
	$ 36,886	7.52%	$ 31,856	6.49%

Of the employee share, the employer paid $20,559,000 of PERS/OPSRP, $8,308,000 of ORP, and $236,000 of TIAA-CREF during the fiscal year ended June 30, 2004. The federal contributions of $258,000 represent FERS and CSRS employees, and the $341,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched one to five percent by the employer in fiscal year 2004.

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

	June 30, 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.

14. University Foundations

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

During the years ended June 30, 2004 and 2003, gifts of $73,063,000 and $78,884,000, respectively, were transferred from university foundations to OUS universities. Complete financial statements for the foundations may be obtained by writing to the following:

Eastern Oregon University Foundation, One University Blvd., La Grande, OR 97850

Oregon Tech Foundation, 3201 Campus Drive, Klamath Falls, OR 97601-8801

Oregon State University Foundation, 850 SW 35th Street, PO Box 1438, Corvallis, OR 97339-1438

Portland State University Foundation, 1600 SW Fourth Avenue, Suite 850, Portland, OR 97201

Southern Oregon University Foundation, 1250 Siskiyou Boulevard, Ashland, OR 97520-5043

University of Oregon Foundation, 202 Agate Hall, University of Oregon, Eugene, OR 97403

Western Oregon University Development Foundation, 345 North Monmouth Avenue, The Cottage, Monmouth, OR 97361

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

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, 2004 and 2003, was $4,352,000 and $4,350,000, 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 $395,914,000 and $267,820,000 at June 30, 2004 and 2003, 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, 2004.

CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 5,805	$ 9,278	$ 113,133
Short-Term Investments	-	-	-
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	2,183	2,192	35,246
Notes Receivable, Net	138	497	4,069
Inventories	322	360	1,476
Prepaid Expenses	178	29	2,005
Total Current Assets	8,626	12,356	155,929
Noncurrent Assets			
Cash and Cash Equivalents	1,418	1,499	51,751
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,470	2,882	22,438
Due From Other OUS Funds and Entities	852	110	12,938
Capital Assets, Net of Accumulated Depreciation	49,807	20,128	390,107
Total Noncurrent Assets	53,547	24,619	480,434
TOTAL ASSETS	**$ 62,173**	**$ 36,975**	**$ 636,363**
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 1,784	$ 2,208	$ 29,236
Deposits	643	487	5,371
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,858	1,692	22,366
Deferred Revenue	345	1,049	19,629
Total Current Liabilities	4,630	5,436	76,602
Noncurrent Liabilities			
Long-Term Liabilities	31,213	14,414	162,743
Due to Other OUS Funds and Entities	218	140	455
Total Noncurrent Liabilities	31,431	14,554	163,198
TOTAL LIABILITIES	**$ 36,061**	**$ 19,990**	**$ 239,800**
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 17,233	$ 4,692	$ 219,571
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	489	852	26,552
Student Loans	1,745	4,113	33,438
Capital Projects	1,472	1,523	50,502
Debt Service	14	18	372
Unrestricted Net Assets	4,605	5,787	61,946
TOTAL NET ASSETS	**$ 26,112**	**$ 16,985**	**$ 396,563**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 44,070	$ 15,198	$ 73,446	$ 22,044	$ 15,635		$ 298,609
-	-	-	-	-		-
-	-	-	-	261,175		261,175
27,946	3,759	29,132	5,001	2,550		108,009
1,160	466	10,347	407	5,556		22,640
390	721	1,686	1,026	-		5,981
1,765	235	1,062	194	6,520		11,988
75,331	20,379	115,673	28,672	291,436		708,402
20,265	5,944	24,172	4,923	141,180		251,152
-	-	74	-	62,666		65,940
8,196	3,702	18,940	3,419	44,722		105,769
2,027	535	12,648	38	835	(29,983)	-
202,775	60,973	394,394	46,957	8,176		1,173,317
233,263	71,154	450,228	55,337	257,579	(29,983)	1,596,178
$ 308,594	**$ 91,533**	**$ 565,901**	**$ 84,009**	**$ 549,015**	**$ (29,983)**	**$ 2,304,580**
$ 17,080	$ 4,386	$ 15,775	$ 3,933	$ 15,902		$ 90,304
4,729	1,109	5,575	869	2,441		21,224
-	-	-	-	261,175		261,175
10,007	2,971	14,737	2,698	11,504		67,833
16,315	2,066	25,662	2,759	532		68,357
48,131	10,532	61,749	10,259	291,554		508,893
154,167	39,389	162,546	39,102	134,305	-	737,879
687	430	2,398	55	25,600	(29,983)	-
154,854	39,819	164,944	39,157	159,905	(29,983)	737,879
$ 202,985	**$ 50,351**	**$ 226,693**	**$ 49,416**	**$ 451,459**	**$ (29,983)**	**$ 1,246,772**
$ 42,513	$ 20,063	$ 223,980	$ 5,968	$ (82,196)		$ 451,824
1,284	255	7,290	2	1,115		14,682
2,911	968	17,520	511	34,421	419	84,643
9,941	4,825	25,306	5,165	145		84,678
17,574	7,782	32,099	7,830	68,127	(851)	186,058
82	66	(89)	27	60,452		60,942
31,304	7,223	33,102	15,090	15,492	432	174,981
$ 105,609	**$ 41,182**	**$ 339,208**	**$ 34,593**	**$ 97,556**	**$ -**	**$ 1,057,808**

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

For The Year Ended June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 12,080	$ 9,418	$ 114,305
Federal Grants and Contracts	7,412	5,949	190,389
State and Local Grants and Contracts	774	1,304	8,191
Nongovernmental Grants and Contracts	27	4	9,868
Educational Department Sales and Services	221	189	24,311
Auxiliary Enterprise Revenues, Net	4,099	4,744	48,188
Other Operating Revenues	414	218	3,335
Total Operating Revenues	**25,027**	**21,826**	**398,587**
OPERATING EXPENSES			
Instruction	12,296	13,994	119,891
Research	253	137	145,238
Public Service	1,860	1,951	43,303
Academic Support	2,946	2,369	28,870
Student Services	2,054	2,332	13,894
Auxiliary Programs	6,378	6,567	71,092
Operation and Maintenance of Plant	2,856	2,322	18,043
Institutional Support	3,896	4,336	26,110
Student Aid	2,196	2,905	76,320
Other Operating Expenses	1,826	3,122	25,748
Total Operating Expenses	**36,561**	**40,035**	**568,509**
Operating Loss	**(11,534)**	**(18,209)**	**(169,922)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	12,549	15,013	143,468
Investment Activity	89	59	3,924
Interest Expense	(284)	48	207
Other Nonoperating Items	1,083	2,285	(3,784)
Net Nonoperating Revenues	**13,437**	**17,405**	**143,815**
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	**1,903**	**(804)**	**(26,107)**
Capital Appropriations	400	443	3,880
Capital Grants and Gifts	500	-	7,267
Capital Contributions	82	42	259
Additions to Permanent Endowments	-	-	-
Transfers within OUS	783	197	31,233
Total Other Nonoperating Revenues	**1,765**	**682**	**42,639**
Increase (Decrease) In Net Assets	**3,668**	**(122)**	**16,532**
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	**22,444**	**17,107**	**380,031**
NET ASSETS, END OF YEAR	**$ 26,112**	**$ 16,985**	**$ 396,563**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 102,308	$ 21,846	$ 152,015	$ 19,683	$ 708		$ 432,363
46,387	29,577	166,519	31,579	4,283	$ (2,144)	479,951
4,287	1,543	6,622	2,954	6,825		32,500
8,067	794	5,212	310	51		24,333
5,080	2,120	14,860	2,549	(858)		48,472
22,947	14,087	62,832	10,802	1,182		168,881
1,020	502	4,924	352	2,178	-	12,943
190,096	**70,469**	**412,984**	**68,229**	**14,369**	**(2,144)**	**1,199,443**
93,906	20,710	127,216	19,324	4,984		412,321
18,440	575	52,993	6,921	(466)	(1,105)	222,986
11,521	3,369	22,918	589	921		86,432
19,660	5,753	25,187	4,696	89		89,570
8,810	3,233	22,527	3,150	(81)		55,919
31,305	16,872	86,774	13,532	412		232,932
11,660	3,567	16,999	2,656	(86)		58,017
15,757	5,232	31,445	4,883	17,479		109,138
17,989	25,756	97,209	23,955	(6)		246,324
10,780	5,458	24,640	2,822	351	(1,039)	73,708
239,828	**90,525**	**507,908**	**82,528**	**23,597**	**(2,144)**	**1,587,347**
(49,732)	**(20,056)**	**(94,924)**	**(14,299)**	**(9,228)**	**-**	**(387,904)**
57,588	14,603	62,265	14,797	31,783		352,066
481	131	5,552	118	8,016		18,370
838	(335)	(544)	27	(33,259)		(33,302)
(23,347)	204	15,324	(901)	78,391		69,255
35,560	**14,603**	**82,597**	**14,041**	**84,931**	**-**	**406,389**
(14,172)	**(5,453)**	**(12,327)**	**(258)**	**75,703**	**-**	**18,485**
2,000	650	3,370	580	197		11,520
911	153	6,546	-	-		15,377
-	27	218	22	-		650
1	-	(5)	-	-		(4)
25,266	654	4,223	(482)	(61,874)		-
28,178	**1,484**	**14,352**	**120**	**(61,677)**	**-**	**27,543**
14,006	**(3,969)**	**2,025**	**(138)**	**14,026**	**-**	**46,028**
91,603	**45,151**	**337,183**	**34,731**	**83,530**		**1,011,780**
$ 105,609	**$ 41,182**	**$ 339,208**	**$ 34,593**	**$ 97,556**	**$ -**	**$ 1,057,808**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2004 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	$ 11,884	$ 9,619	$ 114,341
Grants and Contracts	8,525	6,620	214,454
Sales and Services of Educational Departments	213	195	24,358
Auxiliary Enterprise Operations	4,123	4,663	48,245
Student Loan Collections	207	568	5,907
Payments to Employees for Salaries and Benefits	(22,623)	(24,813)	(323,883)
Payments to Suppliers	(10,339)	(10,236)	(185,246)
Student Financial Aid	(2,345)	(2,794)	(20,546)
Student Loan Issuance and Costs	(295)	(631)	(5,986)
Other Operating Receipts	378	75	2,144
Net Cash Used by Operating Activities	**(10,272)**	**(16,734)**	**(126,212)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	12,949	15,456	147,348
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	236	1,555	31,935
Net Agency Fund Receipts (Payments)	295	256	3,208
Net Transfers to (from) Other Funds and OUS Universities	783	(319)	31,233
Net Cash Provided (Used) by Noncapital Financing Activities	**14,263**	**16,948**	**213,724**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	-
Capital Grants and Gifts	500	-	7,267
Capital Contributions	82	42	260
Bond Proceeds on Capital Debt	-	-	-
Sales of Capital Assets	-	1,685	110
Purchase of Capital Assets	(8,880)	(5,129)	(57,239)
Interest Payments on Capital Debt	(70)	28	518
Principal Payments on Capital Debt	64	33	545
Net Cash (Used) Provided by Capital and Related Financing Activities	**(8,304)**	**(3,341)**	**(48,539)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchases) Sales of Investments	-	-	-
Interest on Investments and Cash Balances	89	60	3,924
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided by Investing Activities	**89**	**60**	**3,924**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,224)**	**(3,067)**	**42,897**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**11,447**	**13,844**	**121,987**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 7,223**	**$ 10,777**	**$ 164,884**

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
$ 100,487	$ 21,827	$ 153,819	$ 19,464	$ 731		$ 432,172
57,468	32,082	180,124	34,431	11,324	$ (2,144)	542,884
5,093	2,123	14,875	2,539	(857)		48,539
21,717	14,028	63,291	10,726	928		167,721
2,203	816	6,436	821	-		16,958
(152,000)	(39,487)	(268,313)	(36,894)	(9,699)		(877,712)
(54,384)	(41,536)	(196,704)	(36,888)	(8,797)	2,144	(541,986)
(15,293)	(4,278)	(18,333)	(4,009)	(1,459)		(69,057)
(3,413)	(847)	(6,488)	(805)	-		(18,465)
173	(395)	3,550	145	2,179		8,249
(37,949)	**(15,667)**	**(67,743)**	**(10,470)**	**(5,650)**	**-**	**(290,697)**
59,588	15,253	65,635	15,377	19,926		351,532
1	-	(5)	-	-		(4)
5,433	1,984	26,648	17	433		68,241
3,626	606	3,215	510	(3,429)		8,287
25,365	754	4,110	(482)	(61,444)		-
94,013	**18,597**	**99,603**	**15,422**	**(44,514)**	**-**	**428,056**
-	-	-	-	11,520		11,520
912	153	6,389	-	-		15,221
-	27	218	21	-		650
-	-	85	-	105,505		105,590
226	(8)	26	2	-		2,041
(48,913)	(15,899)	(30,241)	(2,381)	(52)		(168,734)
(743)	(26)	517	63	(31,713)		(31,426)
2,413	38	390	163	(29,888)		(26,242)
(46,105)	**(15,715)**	**(22,616)**	**(2,132)**	**55,372**	**-**	**(91,380)**
-	-	4	-	20,429		20,433
481	131	5,552	118	1,343		11,698
-	-	-	-	1,112		1,112
-	-	-	-	(1,112)		(1,112)
481	**131**	**5,556**	**118**	**21,772**	**-**	**32,131**
10,440	**(12,654)**	**14,800**	**2,938**	**26,980**	**-**	**78,110**
53,895	**33,796**	**82,818**	**24,029**	**129,835**		**471,651**
$ 64,335	**$ 21,142**	**$ 97,618**	**$ 26,967**	**$ 156,815**	**$ -**	**$ 549,761**

CONSOLIDATING STATEMENT OF CASH FLOWS - Continued

For the Year Ended June 30, 2004 (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	$ (11,534)	$ (18,209)	$ (169,922)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	1,798	1,875	25,156
Changes in Assets and Liabilities			
Accounts Receivable	215	(720)	(942)
Notes Receivable	(91)	(48)	83
Inventories	48	(36)	288
Prepaid Expenses	(64)	(6)	(866)
Accounts Payable and Accrued Liabilities	(1,328)	(561)	(1,672)
Long-Term Liabilities	767	776	15,285
Deposits	8	(1)	(7)
Deferred Revenue	(91)	196	6,385
NET CASH USED BY OPERATING ACTIVITIES	**$ (10,272)**	**$ (16,734)**	**$ (126,212)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ 94	$ -	$ -
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
$ (49,732)	$ (20,056)	$ (94,924)	$ (14,299)	$ (9,228)		$ (387,904)
10,759	2,775	22,054	2,484	594		67,495
(4,803)	(706)	(1,792)	(1,289)	33		(10,004)
120	(74)	497	363	-		850
(10)	53	2	47	-		392
(890)	(24)	7	13	(144)		(1,974)
2,327	568	(6,915)	1,114	(1,186)		(7,653)
4,365	1,717	7,598	963	4,378		35,849
200	(9)	35	(1)	-		225
(285)	89	5,695	135	(97)		12,027
$ (37,949)	**$ (15,667)**	**$ (67,743)**	**$ (10,470)**	**$ (5,650)**	**$ -**	**$ (290,697)**
$ 10	$ -	$ -	$ -	$ -	$ -	$ 104
-	-	-	-	6,634	-	6,634

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	886	110	13,161
Capital Assets, Net of Accumulated Depreciation	42,759	17,371	357,427
Total Noncurrent Assets	51,201	25,918	435,540
TOTAL ASSETS	**$ 59,394**	**$ 36,468**	**$ 559,831**
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	32,082	13,984	126,666
Due to Other OUS Funds and Entities	250	656	677
Total Noncurrent Liabilities	32,332	14,640	127,343
TOTAL LIABILITIES	**$ 36,950**	**$ 19,361**	**$ 179,800**
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
	1,515	481	12,731	171	1,280	$ (30,335)	-
	161,791	49,169	385,981	47,361	8,743		1,070,602
	186,987	72,836	437,802	54,665	250,562	(30,335)	1,485,176
	$ 250,807	**$ 91,449**	**$ 541,370**	**$ 80,979**	**$ 344,869**	**$ (30,335)**	**$ 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
	122,720	38,297	150,608	38,356	135,513	-	658,226
	77	277	2,593	187	25,618	(30,335)	-
	122,797	38,574	153,201	38,543	161,131	(30,335)	658,226
	$ 159,204	**$ 46,298**	**$ 204,187**	**$ 46,248**	**$ 261,339**	**$ (30,335)**	**$ 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	7,639
Nongovernmental Grants and Contracts	1,509	401	13,544
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**	**373,486**
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)**	**(176,064)**
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	13,000	15,845	146,933
Investment Activity	126	73	5,380
Interest Expense	(294)	(96)	(538)
Other Nonoperating Items	66	1,263	27,913
Net Nonoperating Revenues	**12,898**	**17,085**	**179,688**
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		29,686
6,645	665	10,699	441	45		33,949
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
237,125	**67,282**	**380,912**	**64,296**	**14,276**	**(3,414)**	**1,177,993**
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**
(59,576)	**(19,288)**	**(90,467)**	**(15,188)**	**(12,005)**	**-**	**(401,241)**
64,670	17,096	71,025	16,580	28,874		374,023
430	162	4,272	148	3,043		13,634
107	(79)	(710)	(269)	(28,852)		(30,731)
669	2,410	30,256	28	(765)		61,840
65,876	**19,589**	**104,843**	**16,487**	**2,300**	**-**	**418,766**
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	204,525
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)**	**(142,929)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	13,020	15,865	145,212
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	157	1,182	25,302
Net Agency Fund 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**	**169,821**
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
123,512	31,742	166,258	33,662	10,749	$ (3,414)	582,031
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
(44,018)	**(16,192)**	**(64,628)**	**(12,730)**	**(19,852)**	**-**	**(323,199)**
64,690	17,116	71,045	16,600	29,239		372,787
1	-	57	-	184		242
2,254	2,047	23,490	58	(6)		54,484
70	60	246	1	(763)		156
16,783	18,857	27,446	(1,559)	(72,580)		-
83,798	**38,080**	**122,284**	**15,100**	**(43,926)**	**-**	**427,669**
-	-	-	-	-		-
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	$ (11,177)	$ (17,476)	$ (176,064)
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	(59)	(10)	1,157
NET CASH USED BY OPERATING ACTIVITIES	**$ (9,223)**	**$ (13,627)**	**$ (142,929)**
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
$	(59,576)	$	(19,288)	$	(90,467)	$	(15,188)	$	(12,005)			$	(401,241)
	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)
	1,193		313		(144)		(1)		(482)				1,967
$	**(44,018)**	**$**	**(16,192)**	**$**	**(64,628)**	**$**	**(12,730)**	**$**	**(19,852)**	**$**	**-**	**$**	**(323,199)**
$	83	$	22	$	-	$	-	$	-	$	-	$	524
	-		-		-		-		844		-		844

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2004, and have issued our report thereon dated September 30, 2004. 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 September 30, 2004.

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 September 30, 2004.

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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

September 30, 2004