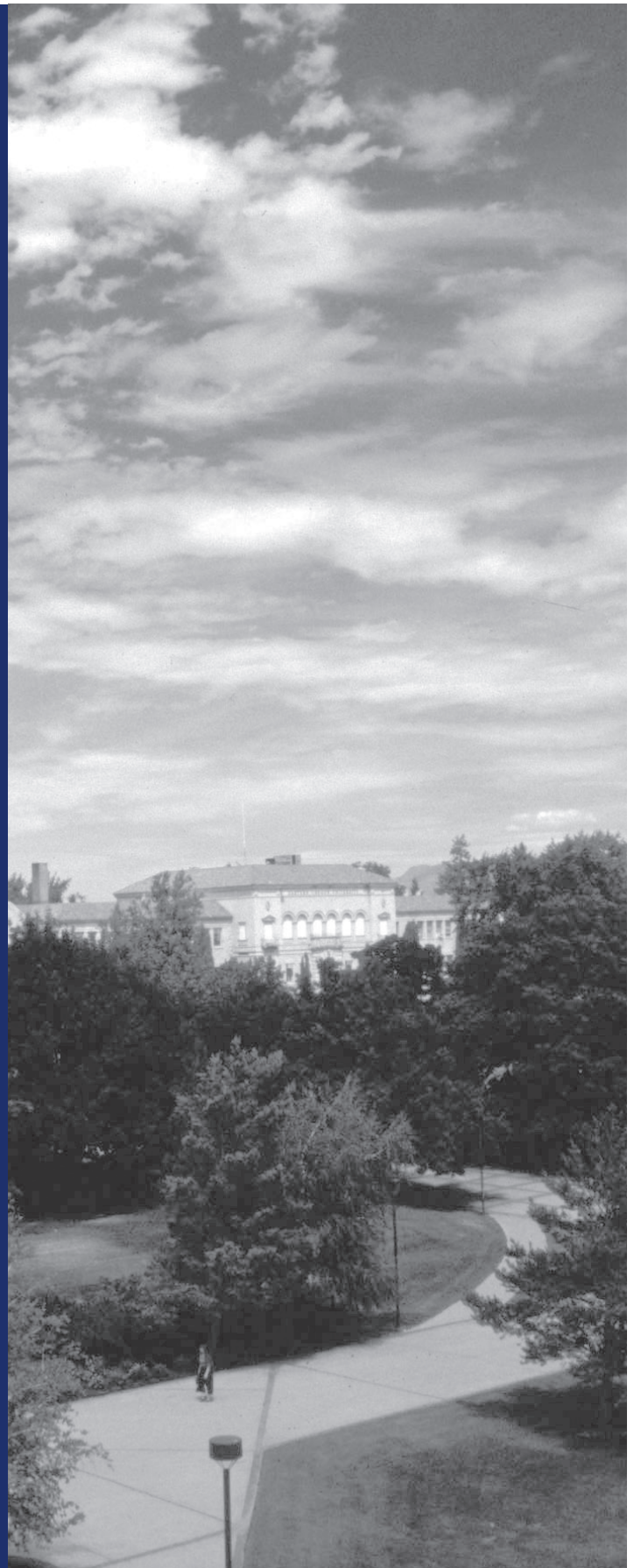


2006 Annual Financial Report



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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You may view this financial report at
http://www.ous.edu/cont-div/reports/annfinst_fy2006.html

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Visit the OUS home page at
<http://www.ous.edu>

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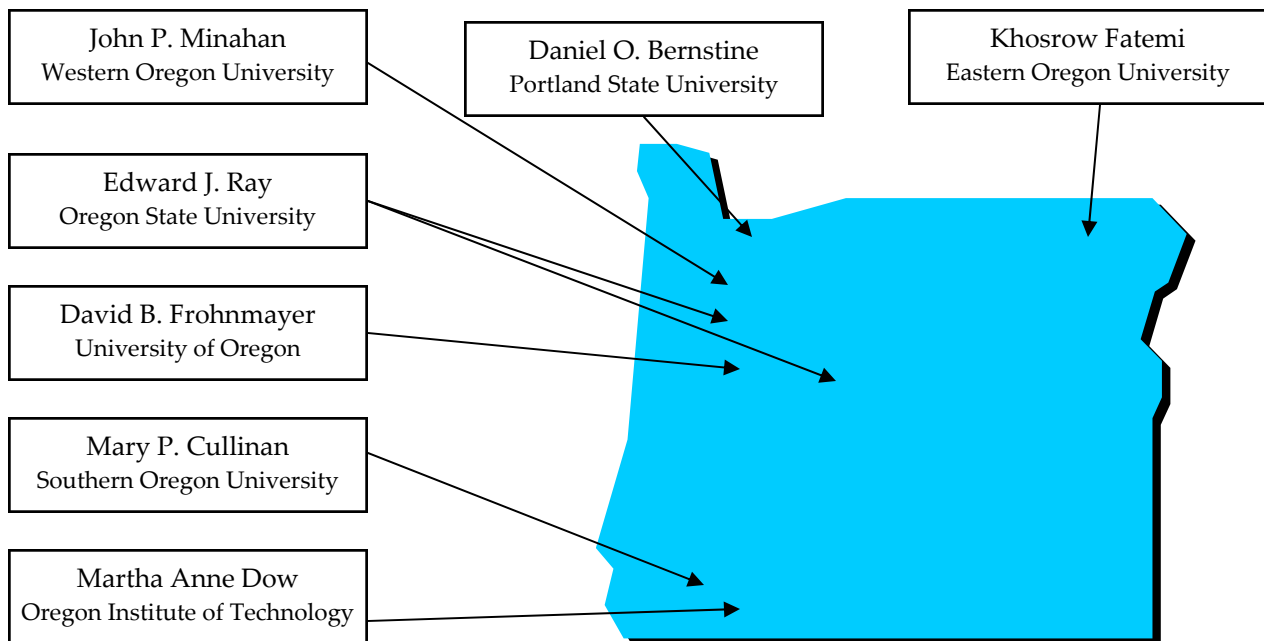
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University Presidents



Oregon University System 2006 Annual Financial Report

Message from the Chancellor

After receiving our 2005-2007 budget at the end of the nine-month Legislative Session in August 2005, the Chancellor's Office and the seven universities worked quickly to solidify budgets and programs, and meet the academic needs of our 81,000 students. Despite receiving lower levels of state funding than seen in 1999, the OUS continues to produce record numbers of graduates, garner record amounts of research funding, and reach across the state to help our diverse students achieve their academic and career goals.

This year also marked a period of intense strategic planning for the Oregon State Board of Higher Education. Continuing to face low-investment in the OUS by the state, the Board spent nine months in discussions and planning with the seven university Presidents, Provosts, student leaders, state government officials, and the Chancellor's Office, assessing the state of the system and its key assets and needs. Planning focused on the higher education needs of the state; developing an outcomes-focused future; system funding scenarios; and strategies to achieve the desired outcomes in access, student learning, workforce development, and research. Encompassing these areas are broad action steps developed by the Board, including establishment of a viable, stable financial system; creation of higher educational expectations in Oregon; a focus on student-centered goals; and developing a seamless education system to enhance accountability. The result is a well-defined roadmap for the system that will help the OUS plan for the higher education needs of Oregonians through 2025. The road ahead is not without significant challenges, but it is also lined with the creative, intelligent engagement of the leadership, faculty, students and communities of the Oregon University System.



Transforming the State through Educational Attainment

Those who have experienced the opportunity to attend college also experience the transformational effect that it has on their lives. First generation college students alter the entire dynamic of the educational culture within their families, beginning a movement toward higher educational attainment and the fulfillment of their own education and career goals. Families with more of a history of college attendance often work hard to extend the transformation they experienced into the next generation, again strengthening their families' ability to find personal and financial success through the flexibility and options provided by a postsecondary degree.

The Oregon University System is in the business of transforming the lives of Oregonians across the state. We believe that all citizens deserve opportunities to improve their "quality of life" through further education, and in so doing, to then contribute collectively to economic and social improvements that benefit Oregon's diverse communities. Higher education positively changes the lives of all Oregonians by improving and stabilizing the state's available revenue through higher earning taxpayers – 78% more than those with only a high school diploma. We also know that postsecondary education will be required for 80% of high wage Oregon job openings in the future; and as it prepares Oregonians for top-level jobs, it also attracts and retains companies and industries, and lessens the need to import talent from out of state, thus giving our own citizens a chance to succeed. States ultimately save money and lives by improving educational attainment which reduces the amount of state funds required for social services – such as public assistance, health care, and incarceration – while also reducing unemployment rates.

Student Success: the Business We're In

The State Board of Higher Education worked throughout the last year to help align priorities across the public education sectors, and ensure that the postsecondary needs of Oregonians are efficiently and appropriately met. Working Groups of the Board, established in 2004, continued to advance their important agendas around expanding access and affordability; ensuring improved productivity, transferability, and throughput of our students; and aligning the research strengths of our universities with the needs of business and industry in the state.

Reaching Affordability, Securing Oregon’s Future

After their unprecedented success at helping to secure a 77% increase in the need-based Oregon Opportunity Grant in 2005, the **Access and Affordability Working Group** of the Board continued working towards their end goal of achieving college affordability for all Oregon students. Throughout the year, the AAWG worked tirelessly with a diverse group of education and civic leaders to develop the Shared Responsibility Model of the Opportunity Grant. This groundbreaking model acknowledges Oregonians’ concerns about unearned entitlements, and their wishes that taxpayers’ contributions be matched by the efforts of students who pursue college. Oregonians feel strongly that students who strive to pursue post-secondary education, even if they have no family resources, should at least be able to work their way through college.

Thus, the Model’s precepts are based on the premise of sharing the responsibility to cover college costs, commensurate with the benefits received by the student, family, federal government, and the state. The model assumes that the student, as primary beneficiary of the education, bears the first and most significant responsibility for paying for college through some combination of working, borrowing, and saving, as well as pursuit of scholarships. The contributions of other partners – family, federal government, and the state – are based on the resources it takes to close the “affordability gap” for each student. Working through a diverse, cross-sector partnership, OUS will strive to secure funding for the new Model in the 2007 Legislative Session. The gains will include greater financial support for low-income students, grant aid for middle-income students who in the past were not eligible for the program, and lower levels of borrowing for grant recipients due to larger support amounts than currently exist for most students.

Facilitating Student Success in Postsecondary Education

Identifying and developing opportunities and program changes that result in more Oregonians receiving a college education and undergraduate degrees is the key focus of the **Excellence in Delivery and Productivity Working Group** of the Board. Over the last year, their consistent, focused work has included: developing and testing the *PreK-20 Integrated Data Transfer System* that will allow transcripts to be sent electronically between high schools, community colleges and OUS; implementing *ATLAS*, a *web-based statewide course articulation system* that will enable students to better plan their academic pathways to a degree; developing *consistent AP credit awards* at all 24 public Oregon colleges and universities; working with the Oregon Department of Education to further *Senate Bill 300*, which increases the availability of college credit programs in high schools; proposing *rural college outreach centers* for state funding in 2007-09; proposing a *statewide virtual university* for state funding in 2007-09; implementing the *Oregon Transfer Module*, a first year core of general education courses; creating draft statewide outcomes for *transferable general education courses* which will help align education; continuing to add *dual-enrollment programs* among Oregon’s community colleges and 4-year universities, now totaling 32 programs across the system; compiling *Oregon’s best practices for student retention* in college; and working to create a *student success center* to implement, maintain, and train educators across the state in best practices. Combined, all of these collaborative postsecondary and K-12 initiatives will continue to facilitate more and better transfer movement for students from community colleges to 4-year institutions, improve graduation rates for undergraduates at OUS institutions, provide better delivery of academic programs to Oregon University System (OUS) and community college students, and help speed up the time to degree for OUS undergraduates.

OUS by the Numbers

Student Enrollment (Headcount) = 80,888 and 111,567 (Fall 2005 and Annual unduplicated headcount 2005-06)

Student Diversity = 11,033 or 13.7% students of color (2006 Report)

Degrees Awarded = 17,061 (2005-06; an additional 2,077 certificates were also awarded in 2005-06)

Student Satisfaction = 84.3% (education experience at OUS was excellent or very good, Class of 2005 surveyed in 2006)

Student Persistence = 80% (to second year, from 2003-04 to 2004-05)

Student/Faculty Ratio = 25.7 to 1 (2005-06, full time faculty)

New Degree Programs Approved = 11 (2005-06)

Dual enrollment programs between Oregon public community colleges and universities = 32 statewide (2005-06)

University Foundations’ net worth = \$1.068 billion (2005-06)

Message from the Chancellor—Continued

Throughout the year, OUS also worked with its partners in preK-12 and community colleges to pursue efforts towards a unified public education enterprise that will reduce the barriers between sectors that can inhibit student success. Providing a seamless progression of learning opportunities beginning in preK through the end of postsecondary education, which have high expectations for students, will enable every high school graduate to be college ready, regardless of whether they go into a 2-year or 4-year college, or into trade or apprenticeship programs.

Aligning Research Strengths with Economic Needs

With growing strength and diversity in its faculty research, the OUS is in a strong position to support Oregon's businesses and industry through the innovative work underway at our universities. During the year, the Academic Excellence and Economic Development Working Group of the Board – which includes academic and industry experts – defined those key areas of convergence between OUS expertise and state needs, which could also show a measurable return on investment over 20 years. These opportunity areas include: Nanotechnology; sustainability combined with natural resources; healthcare workforce; engineering and information technology; neuroscience and biomedical research; and preK-12 education. With this agenda defined, the AEED was able to “sunset” its work, and pass the agenda on to the newly established OUS Research Council. Serving as an advisory council to the Board on research issues within the System, the Council promotes collaborations in research within OUS and with outside entities, as well as ensuring that best practices are utilized in areas such as research commercialization, publishing, and consulting with industry. Assuring effective technology transfer and commercialization, reinforcing the important connections between instruction and research, and communicating the excellence in OUS research in the state and outside, especially the spires of excellence within OUS, are also important roles of the Council.

Supporting All of Oregon's Students

Oregon's increasingly diverse populations necessitate greater efforts to enhance inclusion and engagement of all Oregonians in postsecondary education. Almost one-quarter of Oregon's public preK-12 population are students of color; and 14.5% of our community college students and 13.7% of OUS are students of color. Diversity considerations also include issues related to gender, disabilities, ge-

ography, first-generation college student status, and other areas. The continuing challenge for OUS is how to encourage student success in a seamless way to all populations within these increasingly complex educational environments. Key factors in advancing the state's student-centered agenda include early and adequate preparation for college in order to ensure success to graduation, and greater attention to outreach, encouragement, readiness and ease of accessibility and transferability for students to college.

Throughout the year, the Board and Chancellor's Office studied the swiftly changing demographics in the state related to Oregon's preK-12 Hispanic/Latino students – who will increase from about 14% today to 27% in 2020 – to begin planning for greater support and outreach to this population. About 11% of Oregon's public school students speak at least one of 138 different languages besides English; about 13% are special education students; and about 40% are qualified for free or reduced lunches based on their income level. It is imperative that OUS work diligently to increase the college-going rates of currently under-represented populations in postsecondary education.

Some ways that OUS is currently working to strengthen the educator/student pipeline infrastructure include outreach that enhances, among other factors, the racial/ethnic, gender, and socioeconomic diversity of teacher candidates; preparing candidates to work effectively in increasingly diverse environments; and focusing on high need areas for teachers, such as special education, math/science, and ESL. The Statewide Education Pathways for Teachers Project has created advising materials to help candidates navigate multiple teacher education paths. There are also many campus-specific initiatives that connect with Oregon's communities to promote postsecondary awareness and opportunities, and which enhance campus environments that encourage a sense of fellowship and help to retain students. Proactive, creative approaches must be infused throughout OUS and pre-kindergarten through college (preK-20) efforts to ensure access and success for all students, efforts which are supported in the Board's strategic plan and for which the OUS is seeking additional funding in the 2007 Legislative Session. Without harnessing the talents of all of Oregon's “people assets” the state cannot maintain and improve its economic strength or support the educational, social and other needs of all of our citizens.

Nurturing Higher Educational Attainment

Higher education creates great positive energy for the economic, social and cultural vitality of Oregon. The Oregon University System will continue to advocate strongly for increased investments in higher education that support students, strong academic programs, and faculty research that spurs innovation and creates and attracts companies and jobs that benefit the entire state. As part of the 21st century global economy, Oregon must do better to increase educational attainment in the state. There is no greater asset that we need to protect in Oregon than the welfare of our citizens, and higher education is a sure path to this important end.



Chancellor

October 2006

Top Accomplishments at Oregon University System Institutions 2005-06

Eastern Oregon University

- New residence halls were completed in December 2005 with many amenities that facilitate student learning and engagement.
- The new MBA program had 17 graduates in its first June cohort, and has expanded to serve students in Hermiston and The Dalles. MBA and MTE graduate programs were approved for international student enrollment in March 2006.
- EOU's College of Education completed its accreditation review by Teacher Standards Commission of Oregon in spring 2006, receiving approval in August 2006.
- A University School Partnership Grant funded the Science Empowerment program, a series of summer institutes helping elementary school teachers in eastern Oregon incorporate inquiry-based learning in their classrooms.

- The Office of High School Initiatives held its first summer institute for high school students in June 2006, serving 218 students in Union, Wallowa, Umatilla and Grant counties, enabling them to earn college credits before graduating from high school.
- *Ignite the Future* campaign was launched by the EOU Foundation in May 2006 with a goal of raising \$2 million by 2008 – its first major unrestricted campaign.
- Student Affiliates Chapter of American Chemical Society received a national award in April 2006 for the 2004-05 academic year, recognizing the EOU Student Affiliates Chapter for commendable achievements, including involvement with campus activities, and the community.
- EOU partnered with the Oregon Council for the Humanities to deliver classes to inmates at the Eastern Oregon Correctional Institute in fall term 2005, boosting the GED and Adult Basic Education course offerings.
- An EOU Chemistry professor's collaborative research with scientists from OHSU and the ODFW was funded by a \$97,000 Oregon Sea Grant for a two year period beginning in March 2006 to develop a non-lethal method to detect bacterial kidney disease in salmon and trout.
- EOU partnered with University of Lodz in Poland in June 2005, expanding international exchange opportunities already established with the Universidad Autonoma del Sur in Chile, Group Sup de Co Montpellier in France, and Kainan University in Taiwan.
- A new partnership with OIT and the new ODS dental hygiene school in La Grande began serving all of eastern Oregon, with EOU providing pre-requisite and general education courses and services to enrolled students.
- The new EOU Literacy Advancement Resource Center encourages literacy and language arts in the community by providing resources to teachers in the region through education faculty and staff including professional consultation, development, research, advocacy and tutoring.

Oregon Institute of Technology

- January 2006 brought approval of \$10 million in XI-F Bonds for the Oregon Center for Health Professions, with the ground-breaking for the 80,000-square-foot facility in June 2006, and staged occupation in fall 2007 and early 2008.
- Statewide healthcare education initiatives were led by the university, including: a collaborative effort between

Message from the Chancellor—Continued

OIT, EOU and ODS for an associate's degree program in Dental Hygiene in La Grande; and another cooperative arrangement with Rogue Community College to provide Respiratory Care education from OIT faculty in Medford.

- New bachelor's degree offerings were approved by the State Board of Higher Education in Applied Mathematics and Embedded Systems, extending OIT's long history of math-focused programs into a major in the discipline. Embedded Systems allows the coupling of computer engineering and allied health endeavors, as all high-tech diagnostic medical equipment require embedded computer systems to function.
- Fundraising reached a five-year high, with the success of the capital campaign surrounding the Oregon Center for Health Professions. Total Oregon Tech Foundation contributions are in excess of \$6.2 million (un-audited), of which \$5.8 million are from the capital campaign.
- OIT graduated its first three Master of Science in Manufacturing Engineering Technology students in June 2006.

Oregon State University

- Oregon State University reached a milestone with \$193 million in research expenditures and a record \$2.1 million in licensing revenues in 2005-06. A new classification of U.S. colleges and universities recognizes OSU as the state's most productive four-year institution, giving it the designation reserved for universities with "very high research activity."
- The OSU Men's Baseball Team won the NCAA national championship; the OSU Softball Team competed in the national finals; the Women's Basketball team earned a spot in the Women's National Invitational Tournament; and two OSU wrestlers advanced to the national championship.
- Fall 2005 marked the opening of the Kelley Engineering Building, a LEEDS Gold-Rated Building.
- International attention was garnered by OSU Zoology Professor Jane Lubchenco as she and a team of scientists revealed data concerning "dead zones" off the Oregon coast that are spreading throughout the oceans of the Pacific Northwest.
- OSU Dean of the College of Oceanic and Atmospheric Sciences Mark Abbott was appointed to the governing board of the National Science Foundation and to the Governor's Commission on Climate Change, punctuating OSU's leadership in climate change research.
- Tracy Daugherty, noted author, OSU professor of English, and the state's only three-time Oregon Book Award winner, received a prestigious 2006 Guggenheim Fellowship.
- OSU received the CIO 100 Award from *CIO Magazine* as one of the top 100 organizations that successfully used technology in support of innovation.
- Kelly Benoit Bird, assistant professor in OSU's College of Oceanic and Atmospheric Sciences and holder of a National Science Foundation Young Investigator award, was honored by the White House with a prestigious Presidential Early Career Award for Scientists and Engineers.
- OSU has been named one of the 100 best campuses for lesbian, gay, bisexual and transgender students by "The Advocate College Guide for LGBT Students."
- A recent report by ISI Web of Knowledge, an international index of scientific information, listed 12 OSU scientists among the top 250 scientists in the world, in each of 21 subject areas, whose work is most often cited in peer-reviewed scientific journals.
- OSU's role as one of the nation's leading centers of "bioenergy" research got a significant boost when President George Bush signed federal legislation providing more than \$8 million in funding for the Sun Grant Center at OSU.
- OSU researchers John Wager, Doug Keszler, Janet Tate and graduate student Rick Presley, created the world's first completely transparent integrated circuit from inorganic compounds, another major step forward for the rapidly evolving field of transparent electronics.
- The OSU Foundation secured \$78.3 million in new commitments from alumni and friends in fiscal year 2005-06 to benefit students, facilities, and research at OSU.
- Three undergraduate students in the OSU College of Engineering participated in the NASA 10 week Robotics Program at the Goddard Space Flight Center in Maryland, and were three of the four student interns overall recognized for their achievements and dedication to the program.

Portland State University

- Enrollment grew for the 10th consecutive year in 2005-06, serving more than 25,000 students, and graduating more than 4,500 students, making it the largest class ever.

Message from the Chancellor—Continued

- Research expenditures grew for the fourth consecutive year, from \$35.8 million to \$40 million in 2005-06. Faculty projects included: \$1.4 million from the National Institute for Occupational Safety and Health (NIOSH) to create a center focused on the health and safety of workers; a \$775,000 grant from the Lumina Foundation to improve the success of community college students in transferring to 4-year universities; funding from Google for an open source initiative; and \$1.6 million to support a collaboration with the University of Michigan on research polypeptide synthases proteins within plants and bacteria with pharmaceutical and agricultural applications.
- Portland State University gained national recognition including: rankings as among the best in the nation for “Academic Programs – Programs to Look For” in *U.S. News and World Report*; named as one of the “Best Colleges in the West” by the Princeton Review; profiled in *Colleges with a Conscience: 81 Great Schools with Outstanding Community Involvement* by the Princeton Review; a 2nd ranking in the nation for its Master’s in Public Health Program (a partnership with OSU and OHSU); the School of Business Administration was named in the Princeton Review’s *Best 237 Business Schools*; and the School of Business Administration earned a 20th position in a worldwide ranking by “Beyond Grey Pinstripes” for preparing graduates with social and environmental stewardship.
- PSU completed its first-ever comprehensive campaign, raising \$114 million and exceeding its goal of \$100 million for support of student scholarships, faculty research, new construction, and programs. As part of the campaign, the University dedicated the Northwest Center for Engineering and Computer Science in May, home to the Maseeh College of Engineering and Computer Science.
- The University continued to expand its partnerships with the City of Portland, signing a Memorandum of Understanding with the Portland Development Commission to guide the further development and revision of the University District plan (originally adopted nearly 12 years ago). As part of this agreement, PSU completed an economic analysis demonstrating the University’s impact in 2005 to be \$1.068 billion.
- PSU expanded its work with community colleges, including partnership programs with Clatsop Community College; forming the Portland Area Higher Education Consortium with Clackamas, Chemeketa, Mt. Hood, and Portland community colleges; and establishing a new hospitality and tourism program with MHCC that allows students to earn an associate degree and complete a degree in business administration. PSU also began offering its online degree completion program in Criminology and Criminal Justice.
- Students gained national distinction including: real estate students won the third annual National Association of Industrial and Office Properties Pacific Northwest Real Estate Challenge by proposing the creation of new energy efficient and affordable lofts; and advertising students from the School of Business Administration won the Cadillac National Advertising Case Competition.
- In response to demands, PSU gained approval for several new academic programs including: the PhD in Biology, the PhD in Technology Management, the BS/BA in Environmental Studies, and several certificates.

Southern Oregon University

- SOU was listed by *The New York Times* as one of twenty hidden gems in higher education with special recognition for its Shakespeare studies program and educational ties to the Oregon Shakespeare Festival.
- SOU finalized architectural plans and prepared for groundbreaking on the SOU/Rouge Community College higher education center in Medford, which will create a new academic culture by joining two and four year degree students, and facilitating greater ease in degree completion (opens 2008).
- In partnership with the Siskiyou Field Institute and through the SOU Foundation, the University acquired an 800 acre property in the Illinois Valley (the former John Wayne ranch) for the creation of the Deer Creek Field Research and Education Research Center. This unique property will allow SOU to focus on environmental education and research in addition to promoting ecotourism. The SOU Foundation was recently awarded a \$500,000 grant for this project from the Oregon Watershed Enhancement Board. Classes will be offered beginning in the summer of 2007.
- SOU received a \$140,000 grant for its “Hispanic Academic Outreach” initiative through Learn and Serve America, an organization that facilitates in service-learning projects at schools, colleges and community-based organizations nationwide. This project was one of only 9 grants funded in the individual initiative category and the only school in Oregon to receive funding from Learn and Serve America.

Message from the Chancellor—Continued

- SOU created a comprehensive new student orientation program including a civic engagement piece with students fanning out to over 20 sites in the region to participate in community service.
- The campus revised the general education curriculum and created a first year experience securing SOU's participation in the national program "Foundations of Excellence" to focus on retention issues.
- 2006 SOU Graduate Karla Nelson, a McNair Scholar, received the prestigious Jack Kent Cooke Scholarship, covering six years of her graduate work in health policy.

University of Oregon

- Geri Richmond, Professor of Chemistry, and Richard M. and Patricia H. Noyes Professor, was elected a fellow of the American Academy of Arts and Sciences.
- The University of Oregon and Portland Public Schools received a National Security Education Program grant to jointly oversee the nation's first National Flagship Language Initiative Chinese K-16 language program, an effort to produce linguistically and culturally competent students in order to help address deficits in languages critical to national security.
- Philanthropist Lorry Lokey contributed \$12.5 million for the University of Oregon's new College of Education complex.
- University of Oregon physicists released a study that helps track global warming in the Pacific Northwest by providing a way to test and refine regional climate models.
- The University of Oregon announced that it had signed an agreement to relocate and expand its Portland Center to the historic Old Town section of Portland.

Western Oregon University

- Western Oregon University, founded by hearty pioneers in 1856, celebrated its sesquicentennial during 2006 with various activities—not only celebrating the successes of the past 150 years, but looking forward to the challenges of the future.
- Four new programs were approved in the humanities and creative arts giving undergraduate and graduate students expanded degree offerings: a bachelor of arts in German studies, a bachelor of fine arts in art, a bachelor of fine arts in theatre, and a master of music in contem-

porary music.

- An honorary doctorate was awarded to Dr. Richard W. Woodcock for his many contributions to the field of education and to WOU. Among his many accomplishments was his participation in the development of the Woodcock-Johnson battery of tests.
- WOU dedicated the Roy E. Lieuallen Administration Building in honor of former WOU president and Oregon University System Chancellor Roy E. Lieuallen, who served as president of WOU, then known as the Oregon College of Education, from 1955 to 1961, and previously served as the university's registrar.
- As one of two recipients of AACTE's Model Early Childhood Teacher Preparation Initiative Grants funded by the Lumina Foundation of Education, WOU was recognized for its work with Chemeketa Community College to serve "discovery" students wanting to become early childhood educators.
- Since September of 2005, The Teaching Research Institute has received 21 new grants and contracts in addition to the 30 projects that were funded prior to that time. TR's two newest projects are the National Technical Assistance and Dissemination Center for Children and Youth Who are Deaf-Blind (\$10.5 million) and a \$1.5 million grant from the U.S. Department of Education for their proposal, "Systematic hospital to school transition for students with traumatic brain injury." This five-year grant will involve the Denver Children's Hospital Medical Center and Legacy-Emanuel Children's Hospital Medical Center in Portland.



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, 2006 and 2005. 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 2005, OUS enrolled a total of 80,888 students on its seven campuses, up 1% from fall 2004. Enrollment increased 9% over the five years from fall 2001 to fall 2005. The 2005 fall student enrollment comprised 81% undergraduates and 19% enrolled in graduate and professional programs. Fall term enrollment by university is shown below. Enrollment growth has flattened over the past four years. This can be attributed mainly to increasing tuition and fee rates caused by the decline in state appropriations and increased operating costs.

University	Fall Term Student Enrollment				
	2001	2002	2003	2004	2005
EOU	2,978	3,418	3,287	3,338	3,533
OIT	3,088	3,139	3,236	3,373	3,351
OSU	18,277	19,161	19,347	19,597	19,727
PSU	20,185	21,841	23,117	23,486	24,015
SOU	5,469	5,478	5,505	5,161	4,989
UO	19,008	20,044	20,034	20,339	20,394
WOU	4,878	5,030	5,032	4,772	4,879
Total System	73,883	78,111	79,558	80,066	80,888

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,	2006	2005	2004
(In millions)			
Current Assets	\$ 516.2	\$ 539.3	\$ 708.4
Noncurrent Assets	425.1	453.9	422.9
Capital Assets, Net	1,381.8	1,331.1	1,173.3
Total Assets	\$ 2,323.1	\$ 2,324.3	\$ 2,304.6
Current Liabilities	\$ 318.8	\$ 369.6	\$ 508.9
Noncurrent Liabilities	925.0	884.2	737.9
Total Liabilities	\$ 1,243.8	\$ 1,253.8	\$ 1,246.8
Invested in Capital Assets, Net of Related Debt	\$ 464.8	\$ 450.5	\$ 451.8
Restricted - Nonexpendable	17.3	14.7	14.7
Restricted - Expendable	428.4	427.2	416.3
Unrestricted	168.8	178.1	175.0
Total Net Assets	\$ 1,079.3	\$ 1,070.5	\$ 1,057.8

Total Assets

Comparison of fiscal year 2006 to fiscal year 2005

Total Assets remained at \$2.3 billion during the fiscal year ended 2006 compared to 2005. Current Assets decreased \$23.1 million mainly due to \$29.2 million in decreased Collateral from Securities Lending, \$14.6 million in decreased cash relating, mainly, to the spend down of reserves in the funds used for instruction. This was partially offset by \$22.5 million in increased Accounts Receivable, Net due mainly to increased student tuition and fees receivables. Noncurrent Assets decreased \$28.8 million mainly relating to cash decreases of \$27.9 million for debt proceeds used to construct capital assets. Capital Assets increased \$50.7 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.

Management's Discussion and Analysis

For the Year Ended June 30, 2006

Comparison of fiscal year 2005 to fiscal year 2004

Total Assets increased \$19.7 million to \$2.3 billion during the fiscal year ended 2005 compared to 2004. Current Assets decreased \$169.1 million mainly due to \$163.5 million in decreased Collateral from Securities Lending, \$21.8 million in decreased cash relating to the timing of payments for certain retirement plans (see "Total Liabilities" discussion below) and debt payment to the State relating to the restructuring of PERS paid January 2005. This was partially offset by \$19.9 million in increased Accounts Receivable, Net due mainly to increased grant and contract receivables. Noncurrent Assets increased \$31.0 million mainly relating to cash increases of \$23.6 million for unexpended construction funding. Capital Assets increased \$157.8 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.

Total Liabilities

Comparison of fiscal year 2006 to fiscal year 2005

Total Liabilities decreased \$10 million to \$1.2 billion during the fiscal year ended 2006 compared to 2005. Current Liabilities decreased \$50.8 million mainly due to a \$29.2 million decrease in Obligations under Securities Lending. Accounts Payable and Accrued Liabilities also decreased \$37.2 million mainly relating to the timing of construction payments and lower contract retainage accruals. Noncurrent Liabilities increased \$40.8 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 2005 to fiscal year 2004

Total Liabilities increased \$7.0 million to \$1.3 billion during the fiscal year ended 2005 compared to 2004. Current Liabilities decreased \$139.3 million mainly due to a \$163.5 million decrease in Obligations under Securities Lending. Deposits also decreased \$8.5 million mainly relating to fiscal year 2004 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. Accounts Payable and Accrued Liabilities increased \$22.3 million mainly due to construction and contract retainage accruals, and the timing of benefit payments to the State. This was partially offset by the fiscal year 2004 accrual of a debt payment to the State relating to the restructuring of PERS paid January 2005. Noncurrent Liabilities increased \$146.3 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

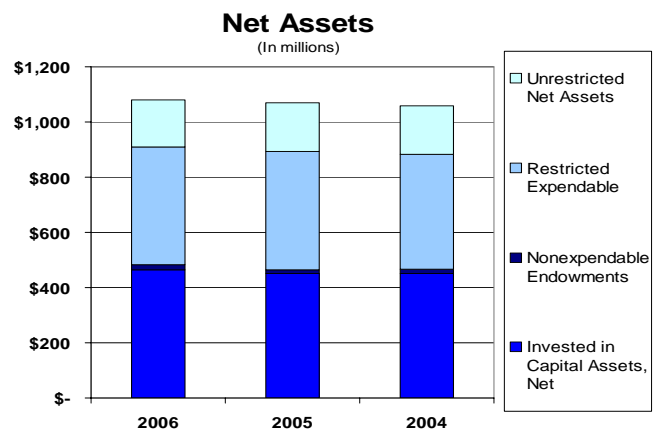
Comparison of fiscal year 2006 to fiscal year 2005

OUS's overall financial position remained the same in fiscal year 2006. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased \$8.8 million to \$1.1 billion during the fiscal year ended 2006 compared to 2005. In addition, for both fiscal years, current assets are sufficient to meet current obligations.

Comparison of fiscal year 2005 to fiscal year 2004

OUS's overall financial position improved in fiscal year 2005. As a result of changes to Total Assets and Total Liabilities, Total Net Assets increased \$12.7 million to \$1.1 billion during the fiscal year ended 2005 compared to 2004. 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 2006, 2005 and 2004.

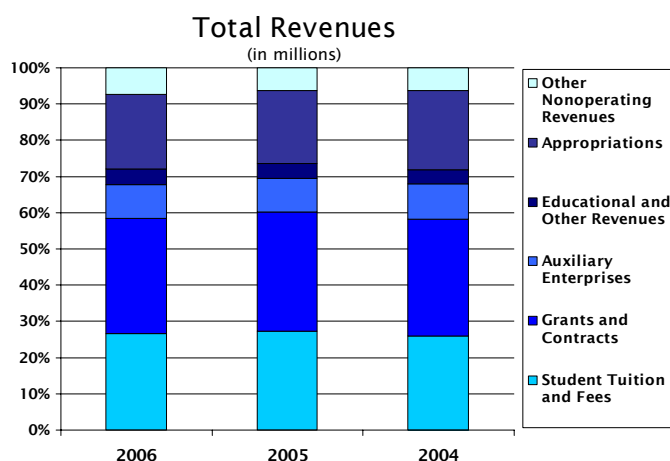


Total Net Assets increased \$8.8 million, or less than 1%, for the fiscal year ended June 30, 2006. Though Net Assets increased overall, Unrestricted Net Assets declined \$9.3 million due mainly to the spend down of reserves in the funds used for instruction. Total Net Assets increased \$12.7 million, or 1%, for the fiscal year ended June 30, 2005. There was no significant change in any category of net assets.

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,	2006	2005	2004
	(In millions)		
Operating Revenues	\$ 1,348.4	\$ 1,286.8	\$ 1,194.4
Operating Expenses	1,814.8	1,695.1	1,582.3
Operating Loss	(466.4)	(408.3)	(387.9)
Nonoperating Revenues, Net of Expenses	438.8	399.7	406.4
Other Revenues	36.4	21.3	27.5
Increase In Net Assets	8.8	12.7	46.0
Net Assets, Beginning of Year	1,070.5	1,057.8	1,011.8
Net Assets, End of Year	\$ 1,079.3	\$ 1,070.5	\$ 1,057.8



Operating Revenues

Operating revenues increased \$61.6 million in fiscal year 2006, or 5% over fiscal year 2005, to \$1.3 billion. This variance is due to increases in Student Tuition and Fees and Federal Grants and Contracts. Operating revenues increased \$92.4 million in fiscal year 2005, or 8% over fiscal

year 2004, to \$1.3 billion. This variance is due to increases in Student Tuition and Fees and Federal Grants and Contracts.

For the Year Ended June 30,	2006	2005	2004
	(In millions)		
Student Tuition and Fees	\$ 496.5	\$ 476.3	\$ 432.4
Grants and Contracts	593.8	574.0	536.8
Auxiliary Enterprises	174.9	162.1	159.7
Educational and Other	83.2	74.4	65.5
Total Operating Revenues	\$1,348.4	\$1,286.8	\$1,194.4

Comparison of fiscal year 2006 to fiscal year 2005

Student tuition and fees increased \$20.2 million in 2006 compared to 2005 due to increased tuition and fee rates that accounted for \$20.0 million and increased enrollment that accounted for \$4.5 million. Offsetting the increases were increased fee remissions that accounted for \$4.6 million. In the previous fiscal year fee remissions were limited to a legislative cap, and scholarships were used in lieu of fee remissions to help meet students' financial needs. 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

increased \$19.7 million in 2006 compared to 2005. This was mainly related to Federal Research and Development grants growing by \$22.8 million during fiscal year 2006 when compared to the prior year. Almost all grants increased when compared to the prior year with significant increases in agricultural research, forestry, military medical research, technology transfer, scientific research, technology development and science financial assistance.

Auxiliary Enterprise revenue increased \$12.8 million compared to the prior year. Revenue growth of \$7.4 million occurred in Intercollegiate Athletics relating to higher sponsorship income, increased ticket gate receipts and post-season football income. Higher Housing and Student Center revenues of \$5.3 million in 2006 related mainly to new housing facilities, higher rates and student enrollment, and an aggregation of many small increases across auxiliary activities.

Management's Discussion and Analysis For the Year Ended June 30, 2006

Educational and Other Revenues increased \$8.8 million between the two fiscal periods. Educational services increased \$3.9 million mainly due to increased services provided by OSU's Veterinarian Teaching Hospital, books and publications, and conference income. Other revenues increased \$4.9 million mainly relating to a change in the recognition of student loan income when compared to the prior year.

Comparison of fiscal year 2005 to fiscal year 2004

Student tuition and fees increased \$43.9 million in 2005 compared to 2004 due to increased tuition and fee rates that accounted for \$35.7 million, decreased fee remissions that accounted for \$8.0 million and increased enrollment that accounted for \$3.3 million. Offsetting the increases were increased scholarship allowances of \$3.7 million due to increased financial aid as a result of higher tuition and fees and lower fee remissions. 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 increased \$37.2 million in 2005 compared to 2004. Federal Student Aid was higher than the prior year by \$15.9 million due to increased tuition and fees, housing costs, and student enrollment. Research and Development grants increased \$13.1 million during fiscal year 2005 when compared to the prior year mainly due to increased Federal grants received from the Department of Defense, Department of Education, the National Science Foundation, and the Department of Transportation. Other federal grants remained even with the prior year, with completed grants being offset with new grant activity. State and Local Grants and Contracts decreased \$1.1 million during fiscal year 2005 when compared to the prior year. Nongovernmental Grants and Contracts increased \$9.4 million mainly due to the decreased deferral of grant revenues and increased grants from coastal ocean studies foundations and the Ford Foundation.

Auxiliary Enterprise revenue increased \$2.4 million compared to the prior year. Housing and Student Center sales increased \$5.5 million in 2005 relating to higher rates and student enrollment. This was partially offset by a \$1.5 million decline in Intercollegiate Athletics due to lower post-season income for football bowl games, a \$1.4 million de-

cline in Health Center revenues due to a change in the revenue recognition method of insurance premiums and all other auxiliary activities decreasing \$2.2 million

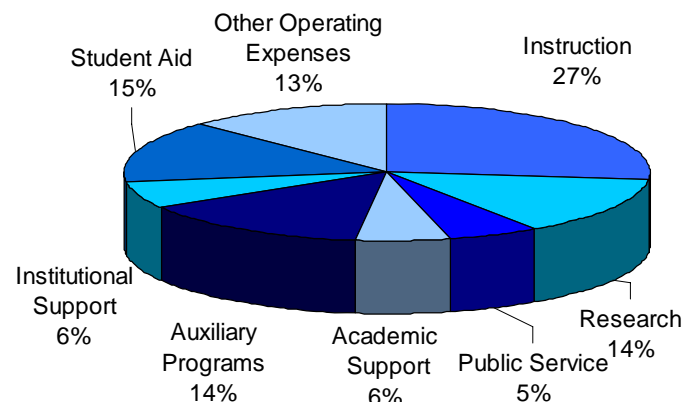
Educational and Other Revenues increased \$8.9 million between the two fiscal periods. Interest income earned on student loans increased \$3.6 million during fiscal year 2005. Income from conferences and workshops increased \$1.6 million. Other revenues increased \$1.5 million relating to higher insurance reimbursements for various claims and \$1.2 million relating to student housing reimbursements when compared to the prior year.

Operating Expenses

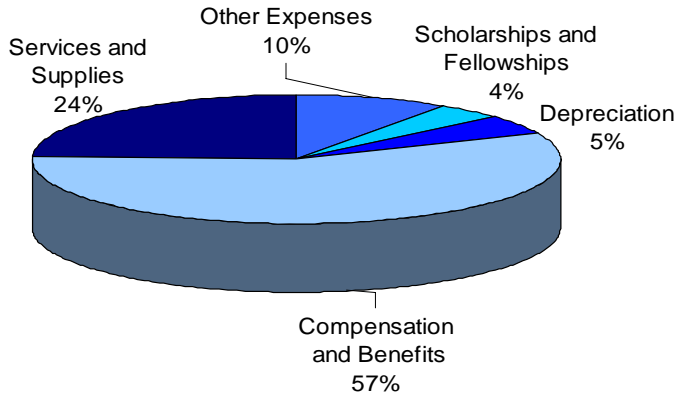
Operating expenses increased \$119.7 million in fiscal year 2006, or 7%, over fiscal year 2005, to \$1.8 billion. This change is due to increases in Instruction, Research, Auxiliary Programs, Institutional Support, Public Service, Academic Support and Other Operating Expenses. Operating expenses increased \$112.8 million in fiscal year 2005, or 7%, over fiscal year 2004, to \$1.7 billion. This change is due to increases in Instruction, Research, Student Aid, Auxiliary Programs, Public Service, Academic Support and Other Operating Expenses.

For the Year Ended June 30,	2006	2005	2004
	(In millions)		
Instruction	\$ 482.6	\$ 444.3	\$ 417.2
Research	255.8	231.2	223.0
Student Aid	266.2	266.8	246.3
Auxiliary Programs	260.7	237.7	223.8
Institutional Support	117.3	108.2	109.1
Public Service	98.7	92.0	86.4
Academic Support	108.1	97.7	89.6
Other Operating Expenses	225.4	217.2	186.9
Total Operating Expenses	\$1,814.8	\$1,695.1	\$1,582.3

2006 Operating Expenses by Functional Classification



2006 Operating Expenses by Natural Classification



Due to the way in which expenses are incurred by OUS, variances are presented and explained by analyzing changes in the natural classifications of expenses. Each natural classification analysis can be applied to many of the functional expense caption items. Please refer to the tables below to see the relationship between the natural expense variance and the functional expense variance for fiscal year 2006 compared to 2005 and fiscal year 2005 compared to 2004 (in thousands):

Comparison of fiscal year 2006 to fiscal year 2005

Variances relating to:	Compen-	Scholar-	Services	Depre-	Other
	sation & Benefits	ships & Fellowships	& Supplies	ciation	Variations
	Expense (Decrease)		Increase		
Instruction	\$ 36,304	\$ (281)	\$ 3,475	\$ -	\$ (1,148)
Research	17,156	380	7,010	-	6
Public Service	7,083	(272)	154	-	(197)
Academic Support	8,540	(45)	2,500	(31)	(532)
Auxiliary Programs	13,070	382	5,082	4,936	(527)
Institutional Support	8,167	(5)	1,392	-	(492)
Student Aid	(2,172)	(2,801)	(429)	-	4,828
Other Operating Exp.	8,052	(104)	477	8,797	(9,099)
Total Variance	\$ 96,200	\$ (2,746)	\$ 19,661	\$ 13,702	\$ (7,161)

Compensation and Benefits increased \$96.2 million in fiscal year 2006 compared to 2005. This increase can be separated into three main variances. Employee Growth, mainly related to increased teaching positions and positions relating to grants, increased compensation and benefits by \$32 million. For existing employees, Benefit Costs increased \$31 million compared to fiscal year 2005. Insurance costs increased 12% and retirement costs increased 28%. Wage increases, the first since fiscal year 2003,

raised compensation and benefits by \$31 million compared to fiscal year 2005.

Scholarships and Fellowships decreased \$2.7 million when comparing fiscal year 2006 and 2005. This was mainly due to a \$2.6 million one-time contribution of student aid received in fiscal year 2005.

Services and Supplies increased \$19.7 million, or 5%, during fiscal year 2006. Utilities, miscellaneous services and supplies, contractor expenses, supplies expenses, rents and leases, assessments and travel all increased during fiscal year 2006. Offsetting the expense increases were maintenance and repairs decreases. During fiscal year 2005, a higher than average amount was provided by the State to address the most serious maintenance and repair risks to capital assets.

Depreciation increased \$13.7 million during fiscal year 2006. A change in accounting estimate pertaining to depreciation of research-intensive buildings increased depreciation expense by \$4.1 million. See "Note 1.G Organization and Summary of Significant Accounting Policies -- Capital Assets" in the Notes to the Financial Statements for additional information related to this change. The remaining increase was due to increased depreciable capital assets.

Other variances decreased \$7.2 million when comparing fiscal year 2006 and 2005. Changes in internal reimbursements were partially offset by increased student loans.

Comparison of fiscal year 2005 to fiscal year 2004

Variances relating to:	Compen-	Scholar-	Services	Depre-	Other
	sation & Benefits	ships & Fellowships	& Supplies	ciation	Variations
	Expense (Decrease)		Increase		
Instruction	\$ 26,375	\$ (488)	\$ 312	\$ -	\$ 811
Research	5,891	18	2,565	-	(258)
Public Service	2,543	1,107	1,896	-	(30)
Academic Support	4,547	78	3,918	-	(405)
Auxiliary Programs	4,651	1,833	4,872	2,735	(115)
Institutional Support	1,759	55	(1,628)	-	(1,115)
Student Aid	167	19,816	488	-	(34)
Other Operating Exp.	10,965	24	12,577	5,720	1,189
Total Variance	\$ 56,898	\$ 22,443	\$ 25,000	\$ 8,455	\$ 43

Compensation and Benefits increased \$56.9 million in fiscal year 2005 compared to 2004. This increase can be broken into three main variances. For existing employees,

Management's Discussion and Analysis

For the Year Ended June 30, 2006

Benefit Costs increased \$24.9 million and represented a 16% overall rate increase compared to fiscal year 2004. Insurance costs increased 14% and retirement costs increased 19%. Employee Growth was related to increased teaching positions and positions relating to grants. Student Worker Growth of \$1.7 million, or 4%, was due to increased work-study opportunities relating to financial aid during fiscal year 2005.

Scholarships and Fellowships increased \$22.4 million when comparing fiscal year 2005 and 2004. Federal Loan Programs increased \$15.5 million and OUS Student Aid increased \$6.9 million mainly in response to increased tuition and housing rates and enrollment growth.

Services and Supplies increased \$25.0 million, or 6%, during fiscal year 2005. Maintenance and repairs increased \$16.5 million. OUS has a large amount of deferred maintenance and has been trying to address the most serious risks to capital asset usefulness. There was also activity relating to energy efficiency projects for buildings. Contractor expenses, supplies expenses, professional services, miscellaneous services and supplies, utilities, equipment, rents and leases, and travel all increased during fiscal year 2005. Offsetting the expense increases was a non-recurring debt payment to the State for \$14.0 million accrued in fiscal year 2004 relating to the restructuring of PERS.

Depreciation increased \$8.5 million during fiscal year 2005. A change in accounting estimate pertaining to depreciation of research-intensive buildings increased depreciation expense by \$3.5 million. See "Note 1.G Organization and Summary of Significant Accounting Policies -- Capital Assets" in the Notes to the Financial Statements for additional information related to this change. The remaining increase was due to increased depreciable capital assets.

Other variances remained unchanged in fiscal year 2005 compared to 2004. A decline in bad debt expense was offset by small increases in several activities.

Nonoperating Revenues (Expenses)

The increase in Nonoperating Revenues of \$54.2 million during 2006 can be directly tied to the increases in Government and Capital Appropriations, Other Nonoperating Items, and increased Investment Activity. This was partially offset by increased Interest Expense. The decline in Nonoperating Revenues of \$12.9 million during 2005 can

be directly tied to the reduction in Government and Capital Appropriations, and increased Interest Expense. This was partially offset by increased Capital Grants and Gifts and Other Nonoperating Items.

For the Year Ended June 30,	2006	2005	2004
	(In millions)		
Appropriations	\$ 383.7	\$ 348.2	\$ 363.6
Investment Activity	23.2	18.3	18.4
Interest Expense	(44.5)	(38.3)	(33.3)
Capital Grants and Gifts	18.4	20.6	15.4
Other Nonoperating Items	94.4	72.2	69.8
Total Nonoperating Revenues, Net	\$ 475.2	\$ 421.0	\$ 433.9

Comparison of fiscal year 2006 to fiscal year 2005

Government and Capital Appropriations increased \$35.5 million in 2006. State Appropriations that are used to fund operations at OUS increased \$24.1 million and State Capital Appropriations were \$14.8 million for the 2005-2007 biennium. All of the capital appropriations were drawn down in fiscal year 2006. A debt service reversion of \$2.0 million and a Federal Appropriations decrease of \$1.7 million partially offset the above increases during fiscal year 2006.

Investment Activity increased \$4.9 million in 2006 mainly relating to increased interest income due to higher interest rates. See "Note 9. Investment Activity" in the Notes to the Financial Statements for additional information related to investments.

Interest Expense increased by \$6.2 million due to a partial year's interest accrual on debt issued in fiscal year 2006 and a full year's interest accrual on debt issued in fiscal year 2005. New debt was issued at slightly higher interest rates overall in fiscal year 2006 when compared to 2005. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts decreased \$2.2 million in 2006 relating to the timing of the fundraising for construction projects.

Other Nonoperating Items increased \$22.2 million in 2006. Gifts increased \$14.1 million mainly relating to increased scholarships and beginning balance adjustments to capital assets of \$5.7 million that were not recorded in prior years. Changes to Permanent Endowments and Capital Contributions make up the remaining increase for the fiscal year ended 2006 when compared to 2005.

Comparison of fiscal year 2005 to fiscal year 2004

Government and Capital Appropriations declined \$15.4 million in 2005 relating to the \$9.3 million decline in State appropriations that are used to fund operations at OUS. The allocation for debt service increased \$2.3 million related to new bond issuances. State Capital Appropriations were \$11.5 million for the 2003-2005 biennium. All of the capital appropriations were drawn down in fiscal year 2004. Federal Appropriations increased \$3.4 million during fiscal year 2005 when compared to 2004.

Investment Activity remained flat in 2005. See "Note 9. Investment Activity" in the Notes to the Financial Statements for additional information related to investments.

Interest Expense increased by \$5.0 million due to a partial year's interest accrual on debt issued in fiscal year 2005 and a full year's interest accrual on debt issued in fiscal year 2004. See "Capital Assets and Related Financing Activities," below, for information relating to this variance.

Capital Grants and Gifts increased \$5.2 million in 2005 relating to the timing of the fundraising for construction projects.

Other Nonoperating Items increased \$2.4 million in 2005. Gifts increased \$6.3 million mainly relating to increased scholarships. This was partially offset by beginning balance adjustments to capital assets of \$3.2 million that were not recorded in the prior year and decreased net gains on asset sales of \$1.3 million.

Change in Net Assets

The Increase in Net Assets declined \$3.9 million in 2006 compared to 2005. Operating Loss increases of \$58.1 million were mostly offset by increased Other Nonoperating Items, Government Appropriations and Investment Activities. The Increase in Net Assets declined \$33.3 million in 2005 compared to 2004 relating to declines in Governmental and Capital Appropriations of \$15.4 million and increased Operating Loss of \$20.4 million. This was partially offset by increased Capital Grants and Gifts of \$5.2 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 these come due, and to determine the need for external financing.

A summary statement of cash flows for the years ended June 30, 2006, 2005 and 2004, is as follows:

For the Year Ended June 30,	2006	2005	2004
	(In millions)		
Net Cash Used by			
Operating Activities	\$ (387.9)	\$ (336.2)	\$ (290.7)
Net Cash Provided by Noncapital			
Financing Activities	447.6	417.0	428.1
Net Cash Used by Capital and			
Related Financing Activities	(119.5)	(91.7)	(91.4)
Net Cash Provided by			
Investing Activities	17.3	12.6	32.1
Net (Decrease) Increase in Cash	(42.5)	1.7	78.1
Cash, Beginning of Year	551.5	549.8	471.7
Cash, End of Year	\$ 509.0	\$ 551.5	\$ 549.8

Comparison of fiscal year 2006 to fiscal year 2005

Cash Used by Operating Activities increased by \$51.7 million in 2006 compared to 2005. This increase in the use of cash was impacted by increased expenses relating to Payments for Salaries and Benefits of \$87.0 million and Payments to Suppliers of \$35.3 million. Partially offsetting these unfavorable changes were cash increases of \$31.2 million in Grants and Contracts, \$16.4 million in Other Operating Receipts and \$12.0 million in Auxiliary Enterprise Operations. 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 \$30.6 million in 2006. This increase related to increased cash from Other Gifts and Private Contracts and Governmental Appropriations. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to the revenue increase.

Cash Used by Capital and Related Financing Activities increased by \$27.8 million in 2006. The decline of \$101.4 million in Bond Proceeds on Capital Debt was mostly offset by lower Purchase of Capital Assets of \$78.1 million. Decreased Sales of Capital Assets caused the OUS cash position to decrease by \$5.8 million. Interest Payments

Management's Discussion and Analysis For the Year Ended June 30, 2006

increased cash usage by \$9.5 million. Capital Appropriations of \$14.8 million received during fiscal year 2006 partially offset the cash used. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to these changes in revenue.

Cash Provided by Investing Activities increased by \$4.7 million in 2006 when compared to 2005. This was mainly due to the increase in Interest on Investments and Cash Balances of \$4.4 million. Fiscal year 2006 reflects investment purchases of \$19.2 million and investment sales of \$17.5 million. Fiscal year 2005 reflects investment purchases of \$2.0 million.

Comparison of fiscal year 2005 to fiscal year 2004

Cash Used by Operating Activities increased by \$45.5 million in 2005 compared to 2004. This increase in the use of cash was impacted by increased Payments to Suppliers of \$48.5 million and increased expenses relating to Payments for Salaries and Benefits of \$67.6 million. Partially offsetting these unfavorable changes were cash increases of \$43.5 million in Tuition and Fees, and \$23.9 million in Grants and Contracts. 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 decreased by \$11.1 million in 2005. This decrease related to the \$11.7 million use of cash in the Agency Funds caused by the timing of payments for certain retirement plans. Increased cash from Other Gifts and Private Contracts mostly offset the decreased cash from 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.

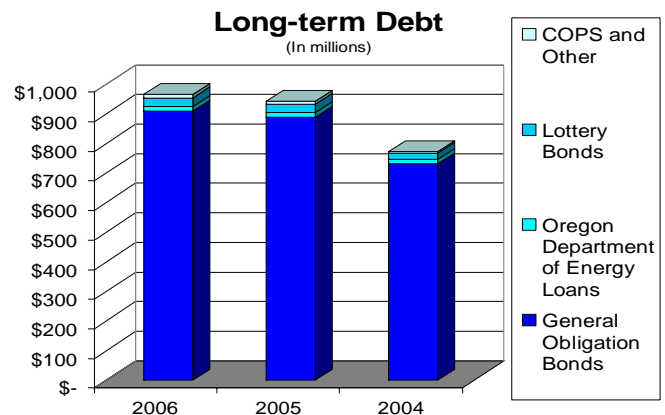
Cash Used by Capital and Related Financing Activities was the same between the fiscal years. Increased construction and purchase of capital assets caused the OUS cash position to decrease by \$65.3 million. Sales of capital assets increased \$8.6 million. Capital Appropriations of \$11.5 million used during fiscal year 2004 also caused cash to be lower in fiscal year 2005. The timing of debt issuances increased principal and interest payments by \$5.4 million during fiscal year 2005. Debt issuances increased

\$67.8 million during fiscal year 2005 when compared to 2004. Cash increases were also realized in Capital Grants and Gifts of \$5.4 million. See "Statement of Revenues, Expenses and Changes in Net Assets – Nonoperating Revenues (Expenses)," above, for further information relating to these changes in revenue.

Cash Provided by Investing Activities decreased by \$19.5 million in 2005 when compared to 2004. This was mainly due to the change in (Purchases) Sales of Investments of \$22.5 million. Fiscal year 2005 reflects investment purchases of \$2.0 million. Fiscal year 2004 reflects investment maturities of \$20.4 million.

Capital Assets and Related Financing Activities

During fiscal years 2006, 2005 and 2004, OUS issued bonds totaling \$72 million, \$173 million and \$106 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. During 2006, 2005 and 2004, capital expenditures exceeded debt proceeds as debt proceeds were used from the past three fiscal years, as well as gifts and other funding sources, 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 2006 and 2005.



OUS facilities include 1,176 buildings totaling 21.9 million gross square feet. 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 \$156 million for the fiscal year 2006, \$255 million for 2005 and \$180 million for 2004. For the seven universities, fiscal year 2006 saw purchased buildings, and new and renovated buildings completed, such as PSU Northwest Engineering, PSU Ondine Conversion, PSU Montgomery Student Housing, OSU Reser Stadium, OSU Kelly Engineering, OSU Dixon Recreation Center, UO Outdoor Tennis Court/Field Relocation, SOU Madrone Student Housing, and WOU Arbor/Alder Park Student Housing. Fiscal year 2005 included purchased buildings, and new and renovated buildings completed, such as UO Williams Bakery, OSU Veterinary Medicine Small Animal Hospital, UO East Campus Childcare Center, UO Many Nations Longhouse, UO Museum of Art, PSU Helen Gordon Childcare Center Phase II, PSU Smith Center Renovation/Student Health Center, UO Museum of Natural History, UO Heart of Campus Rehabilitation and UO Allen Hall Renovation. Fiscal year 2004 included 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. Facilities under construction at the end of the fiscal year ended 2006 include projects funded from private gifts, general obligation bonds, State capital appropriations, certificates of participation (COPs) and internal funds.

2005 compared to 2004 due to increased depreciable assets and the refining of building componentization for certain research buildings.

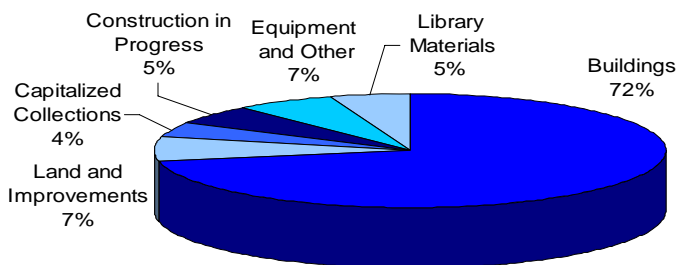
Economic Outlook

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

State funding levels continue to challenge the institutional mission of OUS. The Board established limits on tuition and fee increases, further limiting the ability to offset the state funding declines and operating cost increases. As the Oregon economy strengthens, enrollment growth and state funding levels will likely increase for the next several years, although general fund increases could be affected by the passage of certain ballot measures.

OUS will have some difficult years ahead but the Board and management are committed to ensuring the long-term health of OUS and supporting the core mission of access, affordability, excellence and economic development.

2006 Capital Assets, Net - \$1.4 Billion



Accumulated depreciation at June 30, 2006 increased \$65.2 million, which represented \$89.7 million in depreciation expense offset by \$24.5 million in asset retirements. Depreciation expense increased \$13.7 million during 2006 compared to 2005 due to increased depreciable assets and the refining of building componentization for certain research buildings. Accumulated depreciation at June 30, 2005 increased \$59.3 million, which represented \$76.0 million in depreciation expense offset by \$16.6 million in asset retirements. Depreciation expense increased \$8.5 million during

INDEPENDENT AUDITOR'S REPORT

Oregon State Board of Higher Education
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the accompanying basic financial statements of Oregon University System (System) as of and for the years ended June 30, 2006 and 2005, 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 5 of the 8 discretely presented component units which represents 7% of the total net assets and 7% of the total revenues of the System's discretely presented component units as described in Note 14 for the year ended June 30, 2006. We also did not audit 7 of the 8 discretely presented component units which represent 98% of total net assets and 99% of total revenues of the System's discretely presented component units as described in Note 14 for the year ended June 30, 2005. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included in those component units described in Note 14, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Oregon University System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of Oregon University System and its discretely presented component units as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, on our consideration of Oregon University System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 9 through 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 50 through 66 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.



Eugene, Oregon
October 6, 2006

Statements of Net Assets

As of June 30,	University System	
	2006	2005
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 262,190	\$ 276,766
Collateral from Securities Lending (Note 2)	68,528	97,710
Accounts Receivable, Net (Note 3)	150,396	127,941
Notes Receivable, Net (Note 4)	15,429	16,838
Inventories	6,214	5,977
Prepaid Expenses	13,428	14,051
Total Current Assets	516,185	539,283
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	246,815	274,739
Long-Term Investments (Note 2)	77,590	71,658
Notes Receivable, Net (Note 4)	100,744	107,529
Capital Assets, Net of Accumulated Depreciation (Note 5)	1,381,804	1,331,109
Total Noncurrent Assets	1,806,953	1,785,035
Total Assets	\$ 2,323,138	\$ 2,324,318
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	\$ 75,476	\$ 112,631
Deposits	15,597	12,705
Obligations Under Securities Lending (Note 2)	68,528	97,710
Current Portion of Long-Term Liabilities (Note 8)	78,418	70,605
Deferred Revenue	80,767	75,901
Total Current Liabilities	318,786	369,552
Noncurrent Liabilities		
Long-Term Liabilities (Note 8)	925,064	884,244
Total Noncurrent Liabilities	925,064	884,244
Total Liabilities	\$ 1,243,850	\$ 1,253,796
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 464,832	\$ 450,474
Restricted For:		
Nonexpendable Endowments	17,263	14,682
Expendable:		
Gifts, Grants and Contracts	93,038	84,378
Student Loans	85,286	85,103
Capital Projects	186,210	193,200
Debt Service	63,896	64,594
Unrestricted Net Assets (Note 10)	168,763	178,091
Total Net Assets	\$ 1,079,288	\$ 1,070,522

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

Statements of Financial Position

As of June 30,	Component Units	
	2006	2005
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	\$ 50,593	\$ 56,622
Contributions, Pledges and Grants Receivable, Net	108,887	103,354
Investments	970,033	855,842
Prepaid or Deferred Expenses, and Other Assets	22,749	21,176
Property and Equipment, Net	58,905	54,430
Real Property (held for sale)	-	669
Total Assets	\$ 1,211,167	\$ 1,092,093
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 3,289	\$ 2,465
Obligations to Beneficiaries of Split-Interest Agreements	72,296	61,838
Deposits Held in Custody	11,420	10,058
Deferred Revenue	405	142
Long-Term Liabilities	55,345	56,980
Total Liabilities	\$ 142,755	\$ 131,483
NET ASSETS		
Unrestricted	\$ 61,137	\$ 57,621
Temporarily Restricted	514,957	446,277
Permanently Restricted	492,318	456,712
Total Net Assets	\$ 1,068,412	\$ 960,610

Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30,	University System	
	2006	2005
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowance of \$70,409 and \$65,832, respectively)	\$ 496,510	\$ 476,344
Federal Grants and Contracts	531,755	508,940
State and Local Grants and Contracts	30,677	31,360
Nongovernmental Grants and Contracts	31,333	33,754
Educational Department Sales and Services	58,410	54,490
Auxiliary Enterprise Revenues (Net of Scholarship Allowance of \$8,201 and \$8,672, respectively)	174,877	162,093
Other Operating Revenues	24,808	19,863
Total Operating Revenues	1,348,370	1,286,844
OPERATING EXPENSES		
Instruction	482,612	444,262
Research	255,754	231,202
Public Service	98,716	91,948
Academic Support	108,140	97,708
Student Services	58,480	55,023
Auxiliary Programs	260,680	237,737
Operation and Maintenance of Plant	69,755	66,913
Institutional Support	117,271	108,209
Student Aid	266,187	266,761
Other Operating Expenses	97,234	95,410
Total Operating Expenses	1,814,829	1,695,173
Operating Loss	(466,459)	(408,329)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	368,967	348,249
Investment Activity (Note 9)	23,203	18,313
Gain on Sale of Assets, Net	260	371
Interest Expense	(44,480)	(38,335)
Other Nonoperating Items	90,880	71,125
Net Nonoperating Revenues	438,830	399,723
Loss Before Other Revenues, Expenses, Gains and Losses	(27,629)	(8,606)
Capital Appropriations (Note 12)	14,796	-
Capital Grants and Gifts	18,400	20,627
Capital Contributions	619	693
Additions to Permanent Endowments	2,580	-
Total Other Nonoperating Revenues	36,395	21,320
Increase In Net Assets	8,766	12,714
NET ASSETS		
Beginning Balance	1,070,522	1,057,808
Ending Balance	\$ 1,079,288	\$ 1,070,522

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

Statements of Activities

For The Year Ended June 30,	Component Units	
	2006	2005
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	\$ 147,930	\$ 154,204
Interest and Dividends	10,423	8,653
Investment Income, Net	75,316	48,497
Change in Value of Life Income Agreements	3,048	4,884
Other Revenues	12,338	8,621
Total Revenues	249,055	224,859
EXPENSES		
General and Administrative	21,884	19,477
Development Expenses	5,564	5,346
University Support	98,758	88,220
Other Expenses	8,167	7,355
Total Expenses	134,373	120,398
Increase In Net Assets Before Capital Contributions	114,682	104,461
Capital Contributions to Real Estate Operations	1,034	-
Increase In Net Assets	115,716	104,461
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	960,610	856,149
Prior Period Adjustments and Restatements	(7,914)	-
NET ASSETS, END OF YEAR	\$ 1,068,412	\$ 960,610

Statements of Cash Flows

For the Years Ended June 30,	University System	
	2006	2005
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 478,495	\$ 475,636
Grants and Contracts	598,063	566,828
Sales and Services of Educational Departments	58,234	54,597
Auxiliary Enterprise Operations	174,881	162,896
Student Loan Collections	18,844	18,939
Payments for Salaries and Benefits	(1,032,291)	(945,292)
Payments to Suppliers	(620,745)	(585,432)
Student Financial Aid	(73,219)	(75,965)
Student Loan Issuance and Costs	(18,728)	(20,544)
Other Operating Receipts	28,555	12,169
Net Cash Used by Operating Activities	(387,911)	(336,168)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	358,778	347,312
Private Gifts Received for Endowment Purposes	2,580	-
Other Gifts and Private Contracts	86,568	73,084
Net Agency Fund Payments	(289)	(3,376)
Net Cash Provided by Noncapital Financing Activities	447,637	417,020
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	14,796	-
Capital Grants and Gifts	17,669	20,627
Capital Contributions	619	693
Bond Proceeds on Capital Debt	71,976	173,366
Sales of Capital Assets	16,194	21,962
Purchase of Capital Assets	(167,232)	(245,340)
Interest Payments on Capital Debt	(43,747)	(34,216)
Principal Payments on Capital Debt	(29,812)	(28,836)
Net Cash Used by Capital and Related Financing Activities	(119,537)	(91,744)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments, Net	(1,749)	(2,043)
Interest on Investments and Cash Balances	19,060	14,679
Interest Income from Securities Lending	1,908	1,517
Interest Expense from Securities Lending	(1,908)	(1,517)
Net Cash Provided by Investing Activities	17,311	12,636
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(42,500)	1,744
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	551,505	549,761
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 509,005	\$ 551,505

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

For the Years Ended June 30,	University System	
	2006	2005
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (466,459)	\$ (408,329)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation Expense	89,652	75,950
Changes in Assets and Liabilities		
Accounts Receivable	(10,016)	(18,365)
Notes Receivable	3,512	(394)
Inventories	(236)	3
Prepaid Expenses	618	(2,058)
Accounts Payable and Accrued Liabilities	(12,958)	9,507
Long-Term Liabilities	5,056	496
Deposits	(12)	492
Deferred Revenue	2,932	6,530
NET CASH USED BY OPERATING ACTIVITIES	\$ (387,911)	\$ (336,168)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Incurring Capital Lease Obligations	\$ 43	\$ 898
Capital Assets Acquired by Gifts in Kind	839	-
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	4,181	3,671

Combining Financial Statements—Component Units

STATEMENTS OF FINANCIAL POSITION	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
As of June 30, 2006 (in thousands)			
ASSETS			
Cash and Cash Equivalents	\$ 398	\$ 314	\$ 31,583
Contributions, Pledges and Grants Receivable, Net	115	3,701	27,776
Investments	2,590	18,379	425,514
Prepaid or Deferred Expenses, and Other Assets	20	9	1,773
Property and Equipment, Net			14,398
Total Assets	\$ 3,123	\$ 22,403	\$ 501,044
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 64	\$ 123	\$ 1,664
Obligations to Beneficiaries of Split-Interest Agreements		151	30,554
Deposits Held in Custody			
Deferred Revenue and Deposits	102		
Long-Term Liabilities			
Total Liabilities	\$ 166	\$ 274	\$ 32,218
NET ASSETS			
Unrestricted	\$ 308	\$ 9,785	\$ 36,517
Temporarily Restricted	860	8,066	222,511
Permanently Restricted	1,789	4,278	209,798
Total Net Assets	\$ 2,957	\$ 22,129	\$ 468,826
STATEMENTS OF ACTIVITIES			
For the Year Ended June 30, 2006 (in thousands)			
REVENUES			
Grants, Bequests and Gifts	\$ 512	\$ 6,695	\$ 53,347
Interest and Dividends			10,197
Investment Income, Net	162	1,444	25,742
Change in Value of Life Income Agreements		57	
Other Revenues	10	86	4,611
Total Revenues	684	8,282	93,897
EXPENSES			
General and Administrative	72	483	13,226
Development Expenses			
University Support	243	1,345	45,061
Other Expenses	107		2,401
Total Expenses	422	1,828	60,688
Increase (Decrease) In Net Assets Before Capital Contributions	262	6,454	33,209
Capital Contributions to Real Estate Operations			
Increase (Decrease) In Net Assets	262	6,454	33,209
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	2,747	15,675	443,479
Prior Period Adjustments and Restatements	(52)		(7,862)
NET ASSETS, END OF YEAR	\$ 2,957	\$ 22,129	\$ 468,826

* As of December 31, 2005

			Western			
Portland	Southern	University	Oregon	Agricultural	Total	
State	Oregon	of	University	Research	Component	
University	University	Oregon	Development	Foundation	Units	
Foundation	Foundation	Foundation	Foundation	Foundation		
\$ 2,314	\$ 2,203	\$ 12,987	\$ 219	\$ 575	\$ 50,593	
4,279	240	72,747	29		108,887	
34,508	14,691	454,817	8,205	11,329	970,033	
6,631	1,051	13,215	50		22,749	
42,523	1,431		547	6	58,905	
\$ 90,255	\$ 19,616	\$ 553,766	\$ 9,050	\$ 11,910	\$ 1,211,167	
\$ 532	\$ 274	\$ 632			\$ 3,289	
1,027	528	38,409	\$ 1,627		72,296	
		11,420			11,420	
139	164				405	
49,761		5,584			55,345	
\$ 51,459	\$ 966	\$ 56,045	\$ 1,627	\$ -	\$ 142,755	
\$ (2,206)	\$ 3,116	\$ 12,339	\$ 536	\$ 742	\$ 61,137	
18,084	2,980	248,174	3,782	10,500	514,957	
22,918	12,554	237,208	3,105	668	492,318	
\$ 38,796	\$ 18,650	\$ 497,721	\$ 7,423	\$ 11,910	\$ 1,068,412	
\$ 7,452	\$ 1,983	\$ 71,406	\$ 1,024	\$ 5,511	\$ 147,930	
	226				10,423	
2,855	1,499	43,050	626	(62)	75,316	
	(56)	3,047			3,048	
4,912	558	2,015	146		12,338	
15,219	4,210	119,518	1,796	5,449	249,055	
1,476	841	5,598	188		21,884	
				5,564	5,564	
5,099	1,497	44,704	809		98,758	
5,659					8,167	
12,234	2,338	50,302	997	5,564	134,373	
2,985	1,872	69,216	799	(115)	114,682	
1,034					1,034	
4,019	1,872	69,216	799	(115)	115,716	
34,777	16,778	428,505	6,624	12,025	960,610	
					(7,914)	
\$ 38,796	\$ 18,650	\$ 497,721	\$ 7,423	\$ 11,910	\$ 1,068,412	

Combining Financial Statements—Component Units

STATEMENTS OF FINANCIAL POSITION	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
As of June 30, 2005 (in thousands)			
ASSETS			
Cash and Cash Equivalents	\$ 254	\$ 357	\$ 39,816
Contributions, Pledges and Grants Receivable, Net		174	27,297
Investments	2,493	15,406	389,329
Prepaid or Deferred Expenses, and Other Assets			1,102
Property and Equipment, Net			8,892
Real Property (held for sale)			
Total Assets	\$ 2,747	\$ 15,937	\$ 466,436
LIABILITIES			
Accounts Payable and Accrued Liabilities		\$ 95	\$ 281
Obligations to Beneficiaries of Split-Interest Agreements		167	22,676
Deposits Held in Custody			
Deferred Revenue			
Long-Term Liabilities			
Total Liabilities	\$ -	\$ 262	\$ 22,957
NET ASSETS			
Unrestricted	\$ 354	\$ 9,389	\$ 35,578
Temporarily Restricted	747	2,209	207,608
Permanently Restricted	1,646	4,077	200,293
Total Net Assets	\$ 2,747	\$ 15,675	\$ 443,479
STATEMENTS OF ACTIVITIES			
For the Year Ended June 30, 2005 (in thousands)			
REVENUES			
Grants, Bequests and Gifts	\$ 1,052	\$ 1,239	\$ 51,237
Interest and Dividends	7		8,385
Investment Income, Net	184	1,064	17,284
Change in Value of Life Income Agreements		21	
Other Revenues	55	23	4,108
Total Revenues	1,298	2,347	81,014
EXPENSES			
General and Administrative	183	427	10,344
Development Expenses			
University Support	726	756	40,848
Other Expenses			2,545
Total Expenses	909	1,183	53,737
Increase (Decrease) In Net Assets	389	1,164	27,277
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	2,358	14,511	416,202
NET ASSETS, END OF YEAR	\$ 2,747	\$ 15,675	\$ 443,479

* As of December 31, 2004

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
\$ 1,026	\$ 2,581	\$ 11,902	\$ 58	\$ 628	\$ 56,622
5,420	189	70,238	36		103,354
30,209	12,831	386,816	7,366	11,392	855,842
6,787	674	12,567	46		21,176
43,624	1,425		484	5	54,430
	669				669
\$ 87,066	\$ 18,369	\$ 481,523	\$ 7,990	\$ 12,025	\$ 1,092,093
\$ 894	\$ 253	\$ 942			\$ 2,465
679	546	36,404	\$ 1,366		61,838
		10,058			10,058
	142				142
50,716	650	5,614			56,980
\$ 52,289	\$ 1,591	\$ 53,018	\$ 1,366	\$ -	\$ 131,483
\$ (1,808)	\$ 2,524	\$ 9,830	\$ 419	\$ 1,335	\$ 57,621
16,071	2,105	204,363	3,152	10,022	446,277
20,514	12,149	214,312	3,053	668	456,712
\$ 34,777	\$ 16,778	\$ 428,505	\$ 6,624	\$ 12,025	\$ 960,610
\$ 6,593	\$ 3,136	\$ 84,539	\$ 718	\$ 5,690	\$ 154,204
	261				8,653
2,031	628	25,809	643	854	48,497
	(59)	4,922			4,884
3,236	379	713	107		8,621
11,860	4,345	115,983	1,468	6,544	224,859
1,624	703	6,038	158		19,477
				5,346	5,346
7,408	3,891	33,808	783		88,220
4,810					7,355
13,842	4,594	39,846	941	5,346	120,398
(1,982)	(249)	76,137	527	1,198	104,461
36,759	17,027	352,368	6,097	10,827	856,149
\$ 34,777	\$ 16,778	\$ 428,505	\$ 6,624	\$ 12,025	\$ 960,610

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 (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO), 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 the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of OUS assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

OUS implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the year ended June 30, 2006. GASB 42 establishes accounting and financial reporting standards for impairment of capital assets and establishes requirements for application of related insurance

recoveries. No disclosures were required for this reporting period.

OUS implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, effective for the year ended June 30, 2006. GASB 46 establishes and modifies the requirements related to restrictions of net assets resulting from enabling legislation. It amends GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*, paragraph 34. No disclosures were required for this reporting period.

OUS implemented GASB Statement No. 47, *Accounting for Termination Benefits*, effective for the year ended June 30, 2006. GASB 47 establishes standards of accounting and financial reporting for termination benefits. As used in GASB 47, termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination or as a consequence of the involuntary early termination of services. See "Note 8. J. Early Retirement Liabilities" for disclosure relating to this GASB.

OUS implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, effective for the year ended June 30, 2005. GASB 40 updates the custodial credit risk disclosure requirements of GASB 3 and establishes more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. See "Note 2. Cash and Investments" for additional information about OUS investments.

New Accounting Standards – In June 2004, the GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 generally requires that OUS account for and report the cost and obligations related to postemployment healthcare and other nonpension benefits (OPEB) and include disclosures regarding its OPEB plans. The requirements of GASB 45 are effective for the fiscal year ending June 30, 2008. Currently, OUS OPEB is limited to providing retirees the option of continuing with OUS medical insurance, provided the retiree pays the monthly premium. This benefit option creates an "implicit rate subsidy" because the premium paid by the retiree is based on what OUS pays on behalf of its current employees, not the cost of what the premium would be if it were purchased by the retiree inde-

pendently. Although an actuarial study is yet to be performed, at this time, OUS is not anticipating that the adoption of GASB 45 will have a material impact on its financial statements.

In preparing the financial statements, significant interfund transactions and balances between universities have been eliminated. The fiscal year 2005 financial statements reflect certain reclassifications to conform to the fiscal year 2006 presentation.

C. Basis of Accounting

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

OUS has the option to apply all 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.

D. Cash and Cash Equivalents

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

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

E. Investments

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

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

F. Inventories

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

G. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. OUS policy is to capitalize equipment with unit costs of \$5,000 or more and an estimated useful life of greater than one year. OUS also capitalizes major improvements to buildings that 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 50 years for buildings, 10 to 20 years for infrastructure and land improvements, 10 years for library books and 5 to 11 years for equipment. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

Estimates of useful lives of building components were revised by OSU for fiscal year ended June 30, 2005 and by PSU and UO for fiscal year ended June 30, 2006. The revisions were made to more accurately measure the useful lives of each component of componentized buildings. Previously, all componentized buildings comprised four components with useful lives ranging from 15 to 40 years. OSU, PSU and UO componentized buildings now contain 17 components with useful lives ranging from 15 to 50 years. The change in estimate had the effect of increasing building depreciation expense and decreasing net assets by approximately \$4.1 million during fiscal year 2006 and \$3.5 million during fiscal year 2005.

H. Deferred Revenues

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

I. Compensated Absences

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

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

J. Net Assets

OUS net assets are classified as follows:

Invested in capital assets, net of related debt

Invested in capital assets represents the total investment in capital assets, net of accumulated depreciation and 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 which OUS is legally or contractually obligated to spend 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, restricted resources are applied first.

K. Endowments

Oregon Revised Statutes (ORS) Section 351.130 gives OUS the authority to use the interest, income, dividends, or profits of endowments. Current Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. 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, 2006 and 2005, the net amount of appreciation available for authorization for expenditure was \$18,227,000 and \$16,184,000, respectively.

Nonexpendable Endowments on the Statements of Net Assets of \$17,263,000 and \$14,682,000 at June 30, 2006 and 2005, respectively, represent the original corpus of true endowment funds and does not include the accumulated

gains of those endowments.

L. Income Taxes

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

M. Revenues and Expenses

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

Operating revenues and expenses have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include (1) student tuition and fees; (2) sales and services of auxiliary enterprises; (3) most federal, state and local grants and contracts; and (4) other operating revenues. Examples of operating expenses include (1) employee 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.

N. 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. OUS has two types of scholarship allowances that net into tuition and fees. Tuition waivers, provided directly by OUS, amounted to

\$32,150,000 and \$27,289,000 for the fiscal years ended 2006 and 2005, respectively. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and State Need Grants) used for paying student tuition and fees and campus housing were estimated to be \$46,460,000 and \$47,215,000 for the fiscal years ended 2006 and 2005, respectively.

O. Student Loan Programs

OUS universities use two categories of student loan programs. The Federal Direct Student Loan Program is recorded as pass through revenue in Federal Grants and Contracts and offset in Student Aid in Operating Expenses. The Federal Family Education Loan Program is paid directly to the student and not reported in operations. Federal student loans received by OUS students but not reported in operations were \$120,153,000 and \$116,379,000 for the fiscal years ended 2006 and 2005, respectively.

P. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that 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

Deposits with State Treasury

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, in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state funds. At the fiscal years ended June 30, 2006 and 2005, OUS carrying amounts of cash and cash equivalents were \$505,529,000 and \$548,297,000, respectively, while the State Treasury balances were \$528,909,000 and \$559,141,000, respectively. Differences between the OUS carrying amount and the State Treasury balance occur due to timing differences between transfers.

A copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St NE Suite 100, Salem, OR 97310-0840.

Custodial Credit Risk - Deposits

OUS cash balances exceed the limits of Federal deposit insurance. Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to OUS.

To reduce custodial credit risk, the State Treasury requires financial institutions holding public funds to participate in a state-wide collateral pool. For funds not covered by Federal deposit insurance, the manager of the state-wide collateral pool issues certificates of participation (COPs) to the State Treasury. The financial institution holding those public funds is required to pledge securities with a value of at least 25% of the COPs to a separate custodian for the benefit of the State of Oregon. The manager of the state-wide collateral pool ensures that the value of the securities pledged is at least 25% of the COPs.

Since OUS cash balances on deposit with the State Treasury are combined with funds from other State agencies, additional information on the State Treasury custodial credit risk exposure applicable to OUS is not available.

Foreign Currency Risk - Deposits

Deposits in foreign currency run the risk of losing value due to fluctuations in foreign exchange rates. State Treasury deposits are in U.S. currency and therefore not exposed to foreign currency risk. In the course of providing students and faculty opportunities for international studies and research abroad, foreign bank accounts have been established in several countries. The aggregate account balances converted into U.S. dollars equaled \$161,000 at June 30, 2006.

Other Deposits

OUS cash and cash equivalents held by a fiscal agent outside the State Treasury comprised \$3,476,000 and \$3,208,000 at June 30, 2006 and 2005, respectively. The fiscal agent is the custodian for distributing the OUS bond principal and interest repayments to bondholders. The cash balance with the fiscal agent is subject to Federal deposit insurance for the first \$100,000 for each bondholder. At June 30, 2006, no bondholders had balances exceeding \$100,000.

Notes to the Financial Statements

For the Years Ended June 30, 2006 and 2005

Other Cash Activities

OUS participates in a limited amount of forward contracts relating to international currency purchases. The contracts are used to limit the exposure to currency fluctuations during the school year and establish a fixed cost to the students who participate in international studies abroad. The unused portions of the forward currency contracts totaled \$756,000 and were in favorable positions at June 30, 2006.

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 who are under contract to the Council.

Investments are reported at the fair values reported by the applicable investment trustee. The following schedule presents the fair value of OUS investments at June 30, 2006 (in thousands):

Investment Type:	Fair Value	Concentration of Credit Risk
Money Market Funds	\$ 4,460	5%
Corporate Bonds	56	-
Mutual Funds - Domestic Fixed Income	14,613	18%
Guaranteed Investment Contracts	8,366	10%
Fixed Income Investments	<u>27,495</u>	
Mutual Funds - Domestic Equity Securities	41,836	51%
Mutual Funds - International Equity Securities	8,430	10%
Equity Investments	<u>50,266</u>	
Alternative Equities	27	-
Real Estate	3,754	5%
Other Investments	<u>3,781</u>	
Total All Investments	81,542	100%
Less Amounts Recorded As Cash	<u>(3,952)</u>	
Total Investments	<u>\$ 77,590</u>	

Of the total investments, \$69 million are in pooled endowment investments, \$3 million are separately invested endowments, and \$9 million are investments of unspent bond

proceeds. OUS has an endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Credit Risk

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS investment policy pertaining to credit risk requires fixed income securities to have an average credit quality of A or better and limits below investment grade bonds to no more than 15% of the bond portfolio. At June 30, 2006, OUS fixed income investments (in thousands) had the following credit quality ratings:

Investment Type:	Total	Money Market Funds	Corporate Bonds	Mutual Funds - Domestic Fixed Income	Guaranteed Investment Contracts
AAA	\$ 11,297	\$ 191		\$ 11,106	
AA	585			585	
A	731			731	
BBB	1,023			1,023	
Aaa	8,422		\$ 56		\$ 8,366
Unrated	5,437	4,269		1,168	
Fair Value	<u>\$ 27,495</u>	<u>\$ 4,460</u>	<u>\$ 56</u>	<u>\$ 14,613</u>	<u>\$ 8,366</u>

Custodial Credit Risk-Investments

Custodial credit risk refers to OUS investments that are held by others and not registered in OUS's or the State Treasury's name. This risk typically occurs in repurchase agreements where one transfers cash to a broker-dealer in exchange for securities, but the securities are held by a separate trustee in the name of the broker-dealer. Custodial credit risk does not apply to OUS investments because they do not participate in repurchase agreements.

Concentration of Credit Risk

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. OUS policy for reducing this risk in fixed income securities is that, with exception of US Government and Agency issues, no more than 10% of the bond portfolio, at market value, will be invested in securities of a single issuer or five percent of the individual issue. For equity securities, not more than five percent of the market value of any investment fund will be invested in any single issue, property, or security, with exception of U.S. Government-issued securities, and no investment in any single issue, security, or property shall be greater than five percent of the total value of the issue, security, or property. No in-

vestments representing five percent or more of total investments were held at June 30, 2006.

Interest Rate Risk

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. OUS does not have a specific policy pertaining to interest rate risk other than to limit fixed income investments of endowments to 20% - 30% of total investments. OUS has the following investments in corporate bonds and mutual funds:

Investment Type:	Total	Money Market Funds	Corporate Bonds	Mutual Funds- Domestic Fixed	Guaranteed Investment Contracts
Investment Maturities (in years):					
Less than 1	\$ 7,550	\$ 4,460		\$ 2,923	\$ 167
1 to 5	4,446			2,078	2,368
6 to 10	5,207		\$ 56	926	4,225
More than 10	10,292			8,686	1,606
Fair Value	\$ 27,495	\$ 4,460	\$ 56	\$ 14,613	\$ 8,366

Foreign Currency Risk

Foreign currency risk is the risk of investments losing value due to fluctuations in foreign exchange rates. OUS does not directly invest in foreign currency investments and is therefore not subject to foreign currency risk. However, OUS has \$8,430,000 in mutual funds that are primarily invested in international equities.

C. 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 Short-Term Fund (OSTF) are shown on the following tables (in thousands) and illustrate that the State Treasury had no credit risk exposure to borrowers related to securities on loan:

	June 30, 2006	June 30, 2005
OUS Securities on loan:		
Fair Value	\$ 2,763	\$ 675
Collateral held by OUS:		
Fair Value	2,688	692
Reported Value	2,867	693
Securities on loan by OSTF:		
Fair Value	64,338	95,041
Cash Collateral held by OSTF:		
Fair Value	65,602	96,748
Reported Value	65,661	97,017

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

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

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for OUS securities on loan in the OSTF held by the Custodian. At June 30, 2006, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit (TCD), and corporate notes. The funds' rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third party custodian, which holds the funds' securities in the State of Oregon's name. The TCDs, comprising approximately one percent of total OSTF investments, are exposed to custodial credit risk. The TCDs are collateralized by securities pledged by the bank equal to 25% of the COPs provided by the bank.

The cash collateral of OSTF securities on loan was invested in a short-term investment fund (STIF) maintained by the custodial agent, into U.S. agency securities, and corporate

Notes to the Financial Statements

For the Years Ended June 30, 2006 and 2005

notes. The investments were held by a third-party custodian in the State of Oregon's name. The STIF is not rated by a nationally recognized statistical rating organization, although the STIF's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

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

3. Accounts Receivable

Accounts Receivable comprised the following (in thousands):

	June 30, 2006	June 30, 2005
Student Tuition and Fees	\$ 82,801	\$ 62,418
Auxiliary Enterprises and Other		
Operating Activities	13,761	11,783
Federal Grants and Contracts	11,381	13,814
State, and Private Gifts and Contracts	43,592	39,088
Other	7,699	9,533
	<u>159,234</u>	<u>136,636</u>
Less: Allowance for Doubtful Accounts	(8,838)	(8,695)
Accounts Receivable, Net	<u>\$ 150,396</u>	<u>\$ 127,941</u>

4. Notes Receivable

Notes Receivable comprised the following (in thousands):

	June 30, 2006		
	Current	Noncurrent	Total
Institutional Student Loans	\$ 2,762	\$ 8,613	\$ 11,375
Federal Student Loans	12,668	57,008	69,676
Amounts Due from OHSU for Bond			
Indebtedness (See Note 8.G.)	6,039	35,401	41,440
	<u>21,469</u>	<u>101,022</u>	<u>122,491</u>
Less: Allowance for Doubtful			
Accounts	(6,040)	(278)	(6,318)
Notes Receivable, Net	<u>\$ 15,429</u>	<u>\$ 100,744</u>	<u>\$ 116,173</u>

	June 30, 2005		
	Current	Noncurrent	Total
Institutional Student Loans	\$ 2,145	\$ 9,731	\$ 11,876
Federal Student Loans	12,277	57,640	69,917
Amounts Due from OHSU for Bond			
Indebtedness (See Note 8.G.)	6,018	40,158	46,176
	<u>20,440</u>	<u>107,529</u>	<u>127,969</u>
Less: Allowance for Doubtful			
Accounts	(3,602)	-	(3,602)
Notes Receivable, Net	<u>\$ 16,838</u>	<u>\$ 107,529</u>	<u>\$ 124,367</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2006 and 2005. The program is funded through annual capital contributions from the federal government, an OUS match, interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

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

5. Capital Assets

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

	Balance July 1, 2004			Balance June 30, 2005			Balance June 30, 2006
	Balance	Additions	Retirements	Balance	Additions	Retirements	Balance
Capital assets, non-depreciable:							
Land	\$ 51,860	\$ 37,411	A	\$ 89,271	\$ 2,480	\$ (11,731)	A \$ 80,020
Capitalized Collections	58,230	962	\$ (337)	58,855	11,042	(11,346)	58,551
Construction in Progress	128,994	180,933	(116,516)	193,411	119,354	(237,830)	74,935
Total capital assets, non-depreciable	239,084	219,306	(116,853)	341,537	132,876	(260,907)	213,506
Capital assets, depreciable							
Equipment	256,500	24,586	(18,887)	262,199	23,698	(24,721)	261,176
Library Materials	272,407	11,900	(2,360)	281,947	11,776	(1,477)	292,246
Buildings	1,258,952	107,414	(11,439)	1,354,927	234,461	A (195)	1,589,193
Land Improvements	25,013	1,286	(3,786)	22,513	1,679		24,192
Improvements Other Than Buildings	13,533	3,379	(352)	16,560	679	(2,741)	14,498
Infrastructure	47,053	3,272	(354)	49,971	730		50,701
Total capital assets, depreciable	1,873,458	151,837	(37,178)	1,988,117	273,023	(29,134)	2,232,006
Less accumulated depreciation for:							
Equipment	(182,977)	(19,751)	15,401	(187,327)	(20,662)	22,847	(185,142)
Library Materials	(201,173)	(13,305)	1,539	(212,939)	(13,438)	1,396	(224,981)
Buildings	(504,814)	(38,830)	(15)	(543,659)	(51,425)	158	(594,926)
Land Improvements	(10,853)	(965)	(56)	(11,874)	(1,096)		(12,970)
Improvements Other than Buildings	(8,031)	(942)	(88)	(9,061)	(947)	88	(9,920)
Infrastructure	(31,377)	(2,157)	(151)	(33,685)	(2,084)		(35,769)
Total accumulated depreciation	(939,225)	(75,950)	16,630	(998,545)	(89,652)	24,489	(1,063,708)
Total capital assets, net	\$ 1,173,317	\$ 295,193	\$ (137,401)	\$ 1,331,109	\$ 316,247	\$ (265,552)	\$ 1,381,804
Capital Assets Summary							
Capital assets, nondepreciable	\$ 239,084	\$ 219,306	\$ (116,853)	\$ 341,537	\$ 132,876	\$ (260,907)	\$ 213,506
Capital assets, depreciable	1,873,458	151,837	(37,178)	1,988,117	273,023	(29,134)	2,232,006
Total cost of capital assets	2,112,542	371,143	(154,031)	2,329,654	405,899	(290,041)	2,445,512
Less accumulated depreciation	(939,225)	(75,950)	16,630	(998,545)	(89,652)	24,489	(1,063,708)
Capital Assets, net	\$ 1,173,317	\$ 295,193	\$ (137,401)	\$ 1,331,109	\$ 316,247	\$ (265,552)	\$ 1,381,804

A — In fiscal year 2005, an asset purchase of \$11,731,000 was recorded as land. Upon further evaluation of the asset during fiscal year 2006, the asset was reclassified to buildings.

Notes to the Financial Statements
For the Years Ended June 30, 2006 and 2005

6. Accounts Payable and Accrued Liabilities

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

	June 30, 2006	June 30, 2005
Services and Supplies	\$ 44,309	\$ 79,915
Accrued Interest	12,427	10,097
Salaries and Wages	8,557	7,924
Payroll Related Expenses	3,809	3,635
Contract Retainage Payable	2,879	7,831
Matured Bonds, COPs and Interest Payable	3,476	3,208
Financial Aid	19	21
	<u>\$ 75,476</u>	<u>\$ 112,631</u>

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 \$5,393,000 and \$4,869,000 for the years ended June 30, 2006 and 2005, respectively. The value of assets leased, net of depreciation, was \$48,064,000 and \$37,177,000 for the years ended June 30, 2006 and 2005, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2006 were (in thousands):

For the year ending June 30,

2007	\$ 4,357
2008	2,702
2009	2,619
2010	2,253
2011	2,096
2012-2016	5,792
2017-2021	2,709
2022-2026	2,777
2027-2031	2,114
2032-2036	891
2037-2041	978
2042-2046	800
2047-2051	286
Total Minimum Operating Lease Revenue	<u>\$ 30,374</u>

B. Payables

OUS leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were \$5,294,000 and \$2,951,000 for the years ended June 30, 2006 and 2005, respectively. Minimum future lease payments on operating leases at June 30, 2006 were (in thousands):

For the year ending June 30,

2007	\$ 5,930
2008	3,921
2009	3,267
2010	2,469
2011	1,431
2012-2016	4,823
2017-2021	169
2022-2026	154
2027-2031	154
2032-2036	154
2037-2041	154
2042-2046	154
2047-2051	154
Total Minimum Operating Lease Payments	<u>\$ 22,934</u>

8. Long-Term Liabilities

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

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	\$ 678,786	\$ 48,165	\$ (27,455)	\$ 699,496	\$ 30,001
General Obligation Bonds XI-G	187,645	27,489	(6,320)	208,814	7,278
Oregon Department of Energy Loans	14,641	2,670	(1,670)	15,641	1,733
Certificates of Participation	9,065	5,707	(2,648)	12,124	2,656
Lottery Bonds	30,255		(1,514)	28,741	1,586
Arbitrage	130	52		182	-
Other Notes Payable	10	27	(5)	32	5
Total Long-Term Debt	<u>920,532</u>	<u>84,110</u>	<u>(39,612)</u>	<u>965,030</u>	<u>43,259</u>
Other Noncurrent Liabilities					
Capital Leases	694	32	(260)	466	268
Compensated Absences	33,109	37,554	(33,109)	37,554	34,752
Early Retirement Liability	514		(82)	432	139
Total Other Noncurrent Liabilities	<u>34,317</u>	<u>37,586</u>	<u>(33,451)</u>	<u>38,452</u>	<u>35,159</u>
	<u>\$ 954,849</u>	<u>\$ 121,696</u>	<u>\$ (73,063)</u>	<u>\$ 1,003,482</u>	<u>\$ 78,418</u>
	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	\$ 562,507	\$ 176,569	\$ (60,290)	\$ 678,786	\$ 27,447
General Obligation Bonds XI-G	167,893	39,017	(19,265)	187,645	6,317
Oregon Department of Energy Loans	16,082	7	(1,448)	14,641	1,552
Certificates of Participation	6,000	5,020	(1,955)	9,065	2,636
Lottery Bonds	20,342	11,049	(1,136)	30,255	1,514
Arbitrage	158		(28)	130	-
Other Notes Payable	30		(20)	10	5
Total Long-Term Debt	<u>773,012</u>	<u>231,662</u>	<u>(84,142)</u>	<u>920,532</u>	<u>39,471</u>
Other Noncurrent Liabilities					
Capital Leases	500	898	(704)	694	244
Compensated Absences	31,492	33,109	(31,492)	33,109	30,679
Early Retirement Liability	708		(194)	514	211
Total Other Noncurrent Liabilities	<u>32,700</u>	<u>34,007</u>	<u>(32,390)</u>	<u>34,317</u>	<u>31,134</u>
	<u>\$ 805,712</u>	<u>\$ 265,669</u>	<u>\$ (116,532)</u>	<u>\$ 954,849</u>	<u>\$ 70,605</u>

Notes to the Financial Statements
For the Years Ended June 30, 2006 and 2005

A. General Obligation Bonds XI-F(1)

The Oregon Constitution authorizes OUS to issue Article XI-F(1) State of Oregon General Obligation Bonds. Article XI-F(1) bond issuances are used to finance the construction of self-liquidating and self-supporting projects with debt service generated by these projects. OUS policy requires the establishment and maintenance of sinking funds and those funds are included in Noncurrent Cash and Cash Equivalents.

XI-F(1) bonds, with effective yields ranging from 1.5 percent to 7.5 percent, are due serially through 2037.

During the fiscal year ended June 30, 2006, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bond Series 2006 A, \$38,440,000, effective rate of 4.6 percent for capital construction due serially through 2037.
- XI-F(1) Taxable Bond Series 2006 C, \$1,430,000, effective rate of 6.1 percent for capital construction due serially through 2037.

During the fiscal year ended June 30, 2005, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bond Series 2005 A, \$137,175,000, effective rate of 4.55 percent for capital construction and refunding due serially through 2036.
- XI-F(1) Taxable Bond Series 2005 C, \$27,400,000, effective rate of 5.47 percent for property acquisition due serially through 2036.

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

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 22,890	\$ 33,445	\$ 56,335
2008	23,824	33,671	57,495
2009	21,672	33,890	55,562
2010	21,266	33,309	54,575
2011	21,614	32,553	54,167
2012-2016	112,639	147,108	259,747
2017-2021	120,656	110,718	231,374
2022-2026	125,558	58,392	183,950
2027-2031	105,595	27,457	133,052
2032-2036	58,305	6,711	65,016
2037	1,635	41	1,676
	<u>635,654</u>	<u>517,295</u>	<u>1,152,949</u>
Add: Accreted Interest Payable	54,553	(54,553)	-
Add: Unamortized Bond Premiums	21,166		21,166
Less: Deferred Gain on Refunding	(11,877)		(11,877)
	<u>\$ 699,496</u>	<u>\$ 462,742</u>	<u>\$ 1,162,238</u>

B. General Obligation Bonds XI-G

The Oregon Constitution authorizes OUS to issue Article XI-G State of Oregon General Obligation Bonds. Article XI-G bond issuances are used to finance designated educational buildings and facilities with debt service funded by State legislative appropriation.

XI-G bonds, with effective yields ranging from 1.4 percent to 7.0 percent, are due serially through 2037.

During the fiscal year ended June 30, 2006, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bonds Series 2006 B, \$23,230,000, effective rate of 4.5 percent for capital construction and refunding due serially through 2037.
- XI-G Taxable Bonds Series 2006 D, \$1,695,000, effective rate of 6.1 percent for capital construction due serially through 2037.

During the fiscal year ended June 30, 2005, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bonds Series 2005 B, \$27,785,000, effective rate of 4.1 percent for capital construction and refunding due serially through 2036.
- XI-G Taxable Bonds Series 2005 D, \$10,000,000, effective

Notes to the Financial Statements
For the Years Ended June 30, 2006 and 2005

rate of 5.5 percent for capital construction due serially through 2036.

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

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 5,693	\$ 9,112	\$ 14,805
2008	6,034	9,368	15,402
2009	5,758	9,422	15,180
2010	5,345	9,391	14,736
2011	5,404	9,410	14,814
2012-2016	27,626	46,665	74,291
2017-2021	34,597	36,254	70,851
2022-2026	43,912	20,562	64,474
2027-2031	39,835	9,691	49,526
2032-2036	20,075	2,154	22,229
2037	810	20	830
	<u>195,089</u>	<u>162,049</u>	<u>357,138</u>
Add: Accreted Interest Payable	15,900	(15,900)	-
Add: Unamortized Bond Premiums	1,099		1,099
Less: Deferred Gain on Refunding	(3,274)		(3,274)
	<u>\$ 208,814</u>	<u>\$ 146,149</u>	<u>\$ 354,963</u>

C. Oregon Department of Energy Loans

OUS has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at OUS institutions. OUS makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 2.0 percent to 7.5 percent, are due through 2021.

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

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,733	\$ 817	\$ 2,550
2008	1,659	722	2,381
2009	1,523	632	2,155
2010	1,324	551	1,875
2011	1,229	483	1,712
2012-2016	5,453	1,516	6,969
2017-2021	2,720	342	3,062
	<u>\$ 15,641</u>	<u>\$ 5,063</u>	<u>\$ 20,704</u>

D. Certificates of Participation

Certificates of Participation (COPs) are issued to finance certain equipment and computer software. OUS makes monthly payments (principal and interest) to a trustee in accordance with the interagency agreement. The trustee, in turn, makes the debt service payments to COPs holders. COPs, with effective yields ranging from 1.9 percent to 4.0 percent, are due through fiscal year 2012.

During the fiscal year ended June 30, 2006, OUS issued COPs as follows:

- Series 2005 B, \$2,855,000, effective rate of 3.5 percent for technology projects due serially through 2011.
- Series 2006 A, \$2,720,000, effective rate of 4.0 percent for technology projects due serially through 2012.

During the fiscal year ended June 30, 2005, OUS issued COPs as follows:

- Series 2005 A, \$4,860,000, effective rate of 3.27 percent for technology projects due serially through 2010.

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

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 2,589	\$ 445	\$ 3,034
2008	3,187	352	3,539
2009	2,095	240	2,335
2010	2,190	147	2,337
2011	1,190	50	1,240
2012	590	11	601
	<u>11,841</u>	<u>1,245</u>	<u>13,086</u>
Add: Unamortized Premium	283	-	283
	<u>\$ 12,124</u>	<u>\$ 1,245</u>	<u>\$ 13,369</u>

Notes to the Financial Statements

For the Years Ended June 30, 2006 and 2005

E. Lottery Bonds

Lottery Bonds are special obligations of the State, secured and payable from net revenues of the Oregon State Lottery. Lottery Bonds are issued pursuant to ORS Chapters 286.560 to 286.580 and 348.716, and under the authority of ORS Chapter 942. Lottery Bonds, with effective yields ranging from 1.7 percent to 5.3 percent, are due through fiscal year 2025.

In fiscal year 2006, there were no lottery bond issuances.

In fiscal year 2005, Taxable Lottery Bond Series 2005 B was issued with net proceeds of \$11,095,000 and an effective interest rate of 5.22 percent. The proceeds were used for capital construction.

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

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,526	\$ 1,308	\$ 2,834
2008	1,579	1,259	2,838
2009	1,626	1,208	2,834
2010	1,686	1,149	2,835
2011	1,769	1,070	2,839
2012-2016	10,156	3,999	14,155
2017-2021	6,556	1,578	8,134
2022-2025	3,150	420	3,570
	28,048	11,991	40,039
Less: Deferred Loss on Refunding	(441)	-	(441)
Add: Unamortized Premium	1,134	-	1,134
	<u>\$ 28,741</u>	<u>\$ 11,991</u>	<u>\$ 40,732</u>

F. Arbitrage Rebate Liability

The Tax Reform Act of 1986 placed restrictions on the non-purpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the 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, 2006 and 2005 was \$182,000 and \$130,000, respectively.

G. Debt Related to Oregon Health & Science University

Prior to 1996, Oregon Health & Science University (OHSU) was part of OUS. Pursuant to an act of the 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, 2006 and 2005, long-term debt of OUS that relates to OHSU was \$41,440,000 and \$46,176,000, respectively.

H. Defeased Debt

OUS did not refund any debt during the year ended June 30, 2006.

During the year ended June 30, 2005, OUS issued \$35,320,000 of XI-F(1) bonds with an average interest rate of 4.55 percent to refund \$35,180,000 in XI-F(1) bonds with an average interest rate of 5.36 percent. The net proceeds of the XI-F(1) bonds were \$37,150,000 (after bond premium of \$2,073,000 and payment of \$243,000 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 \$2,887,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 25 years by \$2,029,000 and resulted in an economic gain of \$1,554,000.

During the year ended June 30, 2005, OUS issued \$13,890,000 of XI-G bonds with an average interest rate of 4.1 percent to refund \$13,190,000 in XI-G bonds with an average interest rate of 4.84 percent. The net proceeds of the XI-G bonds were \$13,662,000 (after bond discount of \$143,000 and payment of \$85,000 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 \$726,000. The refunding was undertaken to reduce total

debt service payments (principal and interest) over the next 23 years by \$609,000 and resulted in an economic gain of \$523,000.

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 \$175,034,000 at June 30, 2006 and \$175,100,000 at June 30, 2005 of which \$269,000 and \$335,000, respectively, related to OHSU.

I. Capital Leases

OUS has acquired assets under capital lease agreements. The cost of OUS assets held under capital leases totaled \$1,548,000 and \$1,514,000 as of June 30, 2006 and 2005, respectively. Accumulated depreciation of leased equipment totaled \$750,000 and \$559,000 for June 30, 2006 and 2005, 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 8.2 percent.

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

For the Year Ending June 30,

2007	\$ 290
2008	132
2009	73
2010	1
Total Minimum Lease Payments	496
Less: Amount Representing Interest	(30)
Present Value of Minimum Lease Payments	\$ 466

J. Early Retirement Liability

Since 1998, SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty electing this plan relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2006, 22 retirees were participating in the health and benefits option of this plan.

Early retirement liabilities comprised \$139,000 and \$211,000 in Current Portion of Long-Term Liabilities and \$293,000 and \$303,000 in Long-Term Liabilities as of June 30, 2006 and 2005, respectively. This liability was calculated using a discounted present value of expected future benefit payments, with a discount rate of six percent.

9. Investment Activity

Investment Activity detail is as follows (in thousands):

	June 30, 2006	June 30, 2005
Interest Income	\$ 13,815	\$ 8,094
Net Appreciation of Investments	4,179	3,671
Royalties Income	4,108	5,453
Endowment Income	2,315	2,343
Trust Income Distribution	(2,310)	(2,338)
Gain on Sale of Investments	1,083	920
Dividend Income	3	3
Rent Income	10	163
Other		4
	\$23,203	\$18,313

For the years ended June 30, 2006 and 2005, the fair value of endowment investments appreciated by \$4,179,000 and \$3,671,000, respectively.

Notes to the Financial Statements
For the Years Ended June 30, 2006 and 2005

10. Unrestricted Net Assets

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2006	June 30, 2005
Budgeted Operating Funds	\$ 87,291	\$ 102,548
Designated Operating Funds	15,210	12,764
Service Department Funds	5,126	6,108
Housing Funds	23,698	16,848
Intercollegiate Athletics Funds	(1,401)	(792)
Other Auxiliary Funds and Other Funds	35,508	37,387
Unrestricted Endowment Funds	3,241	3,228
	<u>\$ 168,673</u>	<u>\$ 178,091</u>

11. Operating Expenses by Natural Classification

The Statements of Revenues, Expenses and Changes in Net Assets report operating expenses by their functional classification. The following displays operating expenses by natural classification (in thousands):

	June 30, 2006	June 30, 2005
Compensation and Benefits	\$1,037,211	\$ 941,011
Services and Supplies	442,519	422,858
Scholarships and Fellowships	73,219	75,965
Depreciation	89,652	75,950
Other Expenses	172,228	179,389
	<u>\$1,814,829</u>	<u>\$1,695,173</u>

12. Government Appropriations

Government appropriations comprised the following (in thousands):

	June 30, 2006			Total
	General Operations	Debt Service	Capital Construc- tion	
General Fund	\$ 338,006	\$ 13,916	\$ 14,796	\$ 366,718
Debt Service Reversion		(2,020)		(2,020)
Lottery	1,138	2,541		3,679
Harvest Tax	2,819			2,819
Total State	341,963	14,437	14,796	371,196
Federal Appropriations	7,157			7,157
County Appropriations	5,410			5,410
Total Appropriations	<u>\$ 354,530</u>	<u>\$ 14,437</u>	<u>\$ 14,796</u>	<u>\$ 383,763</u>

	June 30, 2005			Total
	General Operations	Debt Service	Capital Construc- tion	
General Fund	\$ 312,294	\$ 13,894	\$ -	\$ 326,188
Lottery	2,178	2,750		4,928
Dispute Resolution	624			624
Harvest Tax	2,813			2,813
Total State	317,909	16,644	-	334,553
Federal Appropriations	8,862			8,862
County Appropriations	4,834			4,834
Total Appropriations	<u>\$ 331,605</u>	<u>\$ 16,644</u>	<u>\$ -</u>	<u>\$ 348,249</u>

Appropriations specific to capital construction are reported separately from appropriations for general operations and debt service on the Statements of Revenues, 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 was 8.69 percent for Tier One and Two for the fiscal years ended 2006 and 2005.

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, 2003. The valuation included projected salary increases at 4.0 percent in 2003.

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, 2003, for PERS as a whole, determined through an actuarial valuation performed as of that date, was \$44.6 billion. PERS' net assets available for benefits on that date (valued at market) were \$42.9 billion. Information for OUS as a stand-alone entity is not available.

The ten-year historical trend information showing the 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, 2006.

The PERS defined benefit 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 linking on the internet at http://oregon.gov/PERS/docs/financial_reports/2005_cafr_web.pdf, 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

Notes to the Financial Statements

For the Years Ended June 30, 2006 and 2005

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 was 4.43 percent for OPSRP for the fiscal year ended 2006 and 4.71 percent for the fiscal year ended 2005.

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 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%. Payroll assessments for the fiscal years ended June 30, 2006 and 2005 were \$24,268,000 and \$24,421,000, respectively. OUS employer contributions to PERS and OPSRP for the years ended June 30, 2006 and 2005 were \$31,409,000 and \$17,317,000, respectively, equal to the required contributions for those years.

Optional Retirement Plan

The 1995 Oregon Legislature enacted legislation that authorized OUS to offer a defined contribution retirement plan as an alternative to PERS. The Board appointed a Retirement Plan Committee to administer the Optional Retirement

Plan (ORP) and established trustees to manage plan assets placed with mutual funds and insurance companies. Beginning April 1, 1996, the ORP was made available to OUS unclassified faculty and staff who are eligible for PERS membership. Employees choosing the ORP may invest the employee and employer contributions in one of 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):

	2006	2005
ORP Tier One	16.75%	11.31%
ORP Tier Two	16.75%	11.31%
OPSRP Equivalent	8.04%	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 on Federal

Notes to the Financial Statements

For the Years Ended June 30, 2006 and 2005

appointment hired after December 31, 1983 were automatically converted to FERS. Other federal employees not covered by FERS had a one-time option to transfer to FERS up to December 31, 1987. New FERS employees contribute 0.8 percent with an employer contribution rate of 10.7 percent, which changed to 11.2 percent effective October 1, 2004. FERS employees are not eligible for membership in PERS and they contribute at the full FICA rate. They also participate in a Thrift Savings Plan (TSP) with an automatic employer contribution of 1 percent. Employees may also contribute to this plan at variable rates up to 12 percent, in which case the employer contributes at a variable rate up to 5 percent. CSRS employees are also eligible for participation in the Thrift Savings Plan but without employer contributions.

OUS total payroll for the year ended June 30, 2006 was \$754,282,000, of which \$556,910,000 was subject to retirement contributions. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2006			
	Employer Contri- bution	As a % of Covered Payroll	Employee Contri- bution	As a % of Covered Payroll
PERS/OPSRP	\$ 31,409	5.64%	\$ 22,365	4.01%
ORP	25,301	4.54%	10,355	1.86%
TIAA-CREF	221	0.04%	221	0.04%
Federal	495	0.09%	210	0.04%
FERS - TSP	130	0.02%	341	0.06%
	\$ 57,556	10.33%	\$ 33,492	6.01%

Of the employee share, the employer paid \$22,219,000 of PERS/OPSRP, \$10,298,000 of ORP, and \$221,000 of TIAA-CREF during the fiscal year ended June 30, 2006. The federal contributions of \$210,000 represent FERS and CSRS employees, and the \$341,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched from one to five percent by the employer in fiscal year 2006.

OUS total payroll for the year ended June 30, 2005 was \$706,896,000, of which \$515,192,000 was subject to retirement contributions. The following schedule lists payments to pension plans made by OUS for the fiscal year (in thousands):

	June 30, 2005			
	Employer Contri- bution	As a % of Covered Payroll	Employee Contri- bution	As a % of Covered Payroll
PERS/OPSRP	\$ 17,317	3.36%	\$ 21,093	4.10%
ORP	16,578	3.22%	8,891	1.73%
TIAA-CREF	220	0.04%	220	0.04%
Federal	509	0.10%	227	0.04%
FERS - TSP	129	0.03%	332	0.06%
	\$ 34,753	6.75%	\$ 30,763	5.97%

Of the employee share, the employer paid \$20,932,000 of PERS/OPSRP, \$8,845,000 of ORP, and \$220,000 of TIAA-CREF during the fiscal year ended June 30, 2005. The federal contributions of \$227,000 represent FERS and CSRS employees, and the \$332,000 represents employee contributions to the Thrift Savings Plan for FERS employees that were matched from one to five percent by the employer in fiscal year 2005.

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, 2006 and 2005, gifts of \$86,263,000 and \$80,407,000, respectively, were transferred from university foundations to OUS universities. All of the OUS affiliated foundations are audited annually and received unqualified audit opinions except for the following: Agricultural Research Foundation financial statements are prepared on the cash basis of accounting which does not conform to generally accepted accounting principles; Oregon Tech Foundation financial statements contained a gift of privately held stock that could not be valued by the report date.

Notes to the Financial Statements

For the Years Ended June 30, 2006 and 2005

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
- Agricultural 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, 2006 and 2005, was \$5,976,000 and \$5,492,000, 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 settle-

ments 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 \$68,189,000 and \$72,638,000 at June 30, 2006 and 2005, 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, 2006.

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Supplementary Schedules
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2006 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,939	\$ 8,963	\$ 95,073
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	5,021	3,505	50,631
Notes Receivable, Net	162	500	4,227
Inventories	314	375	1,610
Prepaid Expenses	401	46	2,093
Total Current Assets	7,837	13,389	153,634
Noncurrent Assets			
Cash and Cash Equivalents	2,359	10,797	19,144
Long-Term Investments	-	-	3,200
Notes Receivable, Net	1,436	2,893	23,311
Due From Other OUS Funds and Entities	829	110	13,066
Capital Assets, Net of Accumulated Depreciation	59,370	19,647	486,165
Total Noncurrent Assets	63,994	33,447	544,886
TOTAL ASSETS	\$ 71,831	\$ 46,836	\$ 698,520
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 1,106	\$ 1,651	\$ 16,791
Deposits	509	398	2,382
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,023	1,070	17,261
Deferred Revenue	1,349	1,019	26,024
Total Current Liabilities	3,987	4,138	62,458
Noncurrent Liabilities			
Long-Term Liabilities	41,482	23,779	231,456
Due to Other OUS Funds and Entities	195	902	583
Total Noncurrent Liabilities	41,677	24,681	232,039
TOTAL LIABILITIES	\$ 45,664	\$ 28,819	\$ 294,497
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 17,717	\$ (4,197)	\$ 255,660
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	394	555	25,765
Student Loans	1,868	4,108	33,657
Capital Projects	2,417	10,375	26,896
Debt Service	91	69	619
Unrestricted Net Assets	3,126	7,107	57,244
TOTAL NET ASSETS	\$ 26,167	\$ 18,017	\$ 404,023

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 22,364	\$ 11,385	\$ 92,924	\$ 14,814	\$ 14,728		\$ 262,190
-	-	-	-	68,528		68,528
40,780	4,876	35,915	6,169	3,499		150,396
1,087	466	2,527	420	6,040		15,429
420	624	1,680	1,191	-		6,214
1,379	432	1,799	82	7,196		13,428
66,030	17,783	134,845	22,676	99,991		516,185
9,236	5,031	50,608	1,989	147,651		246,815
-	-	56	-	74,334		77,590
7,662	3,694	22,819	3,527	35,402		100,744
10,380	2,059	12,379	15	1,840	\$ (40,678)	-
247,403	77,452	436,903	47,961	6,903		1,381,804
274,681	88,236	522,765	53,492	266,130	(40,678)	1,806,953
\$ 340,711	\$ 106,019	\$ 657,610	\$ 76,168	\$ 366,121	\$ (40,678)	\$ 2,323,138
\$ 8,060	\$ 1,481	\$ 14,481	\$ 2,610	\$ 29,296		\$ 75,476
2,948	707	3,989	623	4,041		15,597
-	-	-	-	68,528		68,528
5,531	1,451	9,005	1,085	41,992		78,418
18,136	2,417	27,152	3,511	1,159		80,767
34,675	6,056	54,627	7,829	145,016		318,786
176,922	49,584	226,872	38,771	136,198	-	925,064
9,101	494	2,385	13	27,005	\$ (40,678)	-
186,023	50,078	229,257	38,784	163,203	(40,678)	925,064
\$ 220,698	\$ 56,134	\$ 283,884	\$ 46,613	\$ 308,219	\$ (40,678)	\$ 1,243,850
\$ 70,475	\$ 28,151	\$ 210,156	\$ 9,278	\$ (122,408)		\$ 464,832
1,284	1,812	7,387	2	2,042		17,263
1,604	906	21,178	813	41,264	\$ 559	93,038
9,763	4,756	25,686	5,442	6		85,286
4,083	8,215	56,376	3,826	65,952	8,070	186,210
200	78	636	49	62,154		63,896
32,604	5,967	52,307	10,145	8,892	(8,629)	168,763
\$ 120,013	\$ 49,885	\$ 373,726	\$ 29,555	\$ 57,902	\$ -	\$ 1,079,288

Supplementary Schedules

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

For The Year Ended June 30, 2006 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 13,022	\$ 11,511	\$ 127,314
Federal Grants and Contracts	7,081	6,831	218,679
State and Local Grants and Contracts	1,011	604	7,732
Nongovernmental Grants and Contracts	32	323	17,271
Educational Department Sales and Services	158	251	30,116
Auxiliary Enterprise Revenues, Net	4,770	4,485	52,006
Other Operating Revenues	808	319	6,169
Total Operating Revenues	26,882	24,324	459,287
OPERATING EXPENSES			
Instruction	14,775	17,535	139,825
Research	670	11	163,675
Public Service	2,012	2,801	48,511
Academic Support	3,642	2,830	36,834
Student Services	2,421	2,221	16,850
Auxiliary Programs	7,032	6,764	82,625
Operation and Maintenance of Plant	3,151	2,255	21,477
Institutional Support	4,440	3,888	37,277
Student Aid	2,237	2,316	88,469
Other Operating Expenses	2,523	3,692	36,351
Total Operating Expenses	42,903	44,313	671,894
Operating Loss	(16,021)	(19,989)	(212,607)
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	13,605	16,299	153,057
Investment Activity	165	192	5,848
Gain on Sale of Assets, Net	-	22	115
Interest Expense	(2,352)	(828)	(12,212)
Other Nonoperating Items	245	1,627	36,516
Net Nonoperating Revenues	11,663	17,312	183,324
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(4,358)	(2,677)	(29,283)
Capital Appropriations	394	564	3,683
Capital Grants and Gifts	-	582	14,493
Capital Contributions	28	-	217
Additions to Permanent Endowments	-	-	-
Transfers within OUS	2,235	989	8,917
Total Other Nonoperating Revenues	2,657	2,135	27,310
Increase (Decrease) In Net Assets	(1,701)	(542)	(1,973)
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	27,868	18,559	405,996
NET ASSETS, END OF YEAR	\$ 26,167	\$ 18,017	\$ 404,023

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 119,513	\$ 23,729	\$ 181,616	\$ 19,640	\$ 165		\$ 496,510
49,486	28,992	186,328	34,006	2,808	\$ (2,456)	531,755
8,040	1,662	6,162	3,268	2,198		30,677
8,261	(620)	6,392	441	(767)		31,333
5,958	3,002	16,649	2,238	38		58,410
25,120	12,297	64,707	11,412	80		174,877
3,899	656	9,982	599	2,376	-	24,808
220,277	69,718	471,836	71,604	6,898	(2,456)	1,348,370
113,431	24,282	149,931	20,999	1,834		482,612
24,836	612	59,864	7,695	-	(1,609)	255,754
10,010	3,230	28,805	497	2,850		98,716
22,590	6,217	30,947	5,029	51		108,140
9,830	3,666	19,648	3,844	-		58,480
40,006	15,764	92,663	15,921	(95)		260,680
16,057	4,601	18,923	3,291	-		69,755
17,235	4,477	33,324	4,739	11,891		117,271
14,664	26,269	106,943	25,289	-		266,187
16,781	4,009	31,957	2,779	(11)	(847)	97,234
285,440	93,127	573,005	90,083	16,520	(2,456)	1,814,829
(65,163)	(23,409)	(101,169)	(18,479)	(9,622)	-	(466,459)
62,280	15,510	64,927	16,426	26,863		368,967
1,000	375	4,919	309	10,395		23,203
18	19	81	5	-		260
(8,382)	(2,923)	(11,910)	(1,983)	(3,890)		(44,480)
5,488	3,983	42,078	18	925		90,880
60,404	16,964	100,095	14,775	34,293	-	438,830
(4,759)	(6,445)	(1,074)	(3,704)	24,671	-	(27,629)
1,722	3,714	3,223	639	857		14,796
1,949	26	1,350	-	-		18,400
91	66	145	72	-		619
-	1,557	99	-	924		2,580
3,958	2,494	5,262	1,309	(25,164)		-
7,720	7,857	10,079	2,020	(23,383)	-	36,395
2,961	1,412	9,005	(1,684)	1,288	-	8,766
117,052	48,473	364,721	31,239	56,614		1,070,522
\$ 120,013	\$ 49,885	\$ 373,726	\$ 29,555	\$ 57,902	\$ -	\$ 1,079,288

Supplementary Schedules
CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	\$ 13,324	\$ 10,911	\$ 120,100
Grants and Contracts	7,217	8,001	242,497
Sales and Services of Educational Departments	171	250	30,017
Auxiliary Enterprise Operations	4,681	4,466	53,271
Student Loan Collections	412	662	7,384
Payments for Salaries and Benefits	(27,881)	(30,127)	(384,271)
Payments to Suppliers	(11,942)	(9,567)	(243,938)
Student Financial Aid	(2,352)	(2,188)	(22,009)
Student Loan Issuance and Costs	(501)	(580)	(7,750)
Other Operating Receipts	696	30	4,976
Net Cash (Used) Provided by Operating Activities	(16,175)	(18,142)	(199,723)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	13,605	16,299	153,057
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	184	1,852	35,537
Net Agency Fund Receipts (Payments)	(149)	113	151
Net Transfers to (from) Other Funds and OUS Universities	2,091	1,751	7,710
Net Cash Provided (Used) by Noncapital Financing Activities	15,731	20,015	196,455
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	394	564	3,683
Capital Grants and Gifts	-	582	13,762
Capital Contributions	28	-	217
Bond Proceeds on Capital Debt	2,936	10,575	10,536
Sales of Capital Assets	50	58	12,372
Purchase of Capital Assets	(6,121)	(2,076)	(58,185)
Interest Payments on Capital Debt	(2,208)	(828)	(11,004)
Principal Payments on Capital Debt	(1,483)	(904)	(7,770)
Net Cash (Used) Provided by Capital and Related Financing Activities	(6,404)	7,971	(36,389)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	165	192	5,848
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided by Investing Activities	165	192	5,848
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,683)	10,036	(33,809)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,981	9,724	148,026
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,298	\$ 19,760	\$ 114,217

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 112,831	\$ 22,693	\$ 179,436	\$ 19,032	\$ 168		\$ 478,495
68,596	29,943	200,455	38,854	4,956	\$ (2,456)	598,063
5,871	2,996	16,652	2,240	37		58,234
23,696	12,172	64,979	11,511	105		174,881
2,239	779	6,341	1,026	1		18,844
(185,702)	(44,831)	(308,621)	(42,910)	(7,948)		(1,032,291)
(73,225)	(42,366)	(201,985)	(39,991)	(187)	2,456	(620,745)
(15,421)	(4,133)	(21,529)	(4,324)	(1,263)		(73,219)
(3,463)	(806)	(4,463)	(1,166)	1		(18,728)
4,537	649	4,510	461	12,696		28,555
(60,041)	(22,904)	(64,225)	(15,267)	8,566	-	(387,911)
62,280	15,510	64,927	16,426	16,674		358,778
-	1,557	99	-	924		2,580
5,838	3,924	38,291	15	927		86,568
687	115	283	94	(1,583)		(289)
2,019	1,018	4,207	946	(19,742)		-
70,824	22,124	107,807	17,481	(2,800)	-	447,637
1,722	3,714	3,223	639	857		14,796
1,949	26	1,350	-	-		17,669
91	66	145	72	-		619
11,661	7,308	37,165	1,410	(9,615)		71,976
2,850	384	460	17	3		16,194
(31,583)	(7,513)	(60,282)	(1,472)	-		(167,232)
(6,358)	(2,905)	(11,342)	(1,607)	(7,495)		(43,747)
(6,667)	(1,636)	(7,823)	(1,612)	(1,917)		(29,812)
(26,335)	(556)	(37,104)	(2,553)	(18,167)	-	(119,537)
-	-	4	(1)	(1,752)		(1,749)
1,000	375	4,919	309	6,252		19,060
-	-	-	-	1,908		1,908
-	-	-	-	(1,908)		(1,908)
1,000	375	4,923	308	4,500	-	17,311
(14,552)	(961)	11,401	(31)	(7,901)	-	(42,500)
46,152	17,377	132,131	16,834	170,280		551,505
\$ 31,600	\$ 16,416	\$ 143,532	\$ 16,803	\$ 162,379	\$ -	\$ 509,005

Supplementary Schedules
CONSOLIDATING STATEMENT OF CASH FLOWS—Continued

For the Year Ended June 30, 2006 (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	\$ (16,021)	\$ (19,989)	\$ (212,607)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	2,699	1,813	35,969
Changes in Assets and Liabilities			
Accounts Receivable	(1,620)	(826)	(8,991)
Notes Receivable	(86)	69	(256)
Inventories	5	22	(95)
Prepaid Expenses	(258)	28	699
Accounts Payable and Accrued Liabilities	(1,886)	286	(17,768)
Long-Term Liabilities	111	266	1,851
Deposits	76	14	68
Deferred Revenue	805	175	1,407
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (16,175)	\$ (18,142)	\$ (199,723)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS			
Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ 20	\$ -	\$ -
Capital Assets Acquired by Gifts in Kind			11
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
\$ (65,163)	\$ (23,409)	\$ (101,169)	\$ (18,479)	\$ (9,622)		\$ (466,459)
14,072	3,506	28,121	3,229	243		89,652
(3,461)	(1,530)	(4,718)	274	10,856		(10,016)
371	77	3,456	(119)	-		3,512
(16)	24	(88)	(87)	(1)		(236)
(269)	13	379	(27)	53		618
(4,957)	(2,031)	7,297	(580)	6,681		(12,958)
723	220	1,575	166	144		5,056
95	1	(266)	-	-		(12)
(1,436)	225	1,188	356	212		2,932
\$ (60,041)	\$ (22,904)	\$ (64,225)	\$ (15,267)	\$ 8,566	\$ -	\$ (387,911)

\$ -	\$ -	\$ 23	\$ -	\$ -	\$ -	\$ 43
	85	743				839
-	-	-	-	4,181	-	4,181

Supplementary Schedules
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 4,044	\$ 9,110	\$ 105,040
Short-Term Investments	-	-	(5)
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	3,271	2,684	41,757
Notes Receivable, Net	128	509	4,183
Inventories	319	397	1,515
Prepaid Expenses	144	74	2,795
Total Current Assets	7,906	12,774	155,285
Noncurrent Assets			
Cash and Cash Equivalents	6,937	614	42,986
Long-Term Investments	-	-	3,205
Notes Receivable, Net	1,358	2,952	23,094
Due From Other OUS Funds and Entities	1,389	110	13,384
Capital Assets, Net of Accumulated Depreciation	55,997	19,420	476,196
Total Noncurrent Assets	65,681	23,096	558,865
TOTAL ASSETS	\$ 73,587	\$ 35,870	\$ 714,150
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 2,816	\$ 1,420	\$ 36,306
Deposits	496	302	2,350
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	931	882	15,275
Deferred Revenue	483	815	24,479
Total Current Liabilities	4,726	3,419	78,410
Noncurrent Liabilities			
Long-Term Liabilities	40,238	13,752	228,843
Due to Other OUS Funds and Entities	755	140	901
Total Noncurrent Liabilities	40,993	13,892	229,744
TOTAL LIABILITIES	\$ 45,719	\$ 17,311	\$ 308,154
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 15,663	\$ 5,525	\$ 248,221
Restricted For:			
Nonexpendable Endowments	554	-	4,182
Expendable:			
Gifts, Grants, and Contracts	257	793	22,996
Student Loans	1,808	4,197	33,494
Capital Projects	4,716	1,051	31,786
Debt Service	9	29	935
Unrestricted Net Assets	4,861	6,964	64,382
TOTAL NET ASSETS	\$ 27,868	\$ 18,559	\$ 405,996

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 31,216	\$ 14,929	\$ 84,885	\$ 15,169	\$ 12,373		\$ 276,766
-	-	5	-	-		-
-	-	-	-	97,710		97,710
35,432	3,340	30,949	6,424	4,084		127,941
1,132	473	3,988	405	6,020		16,838
404	648	1,592	1,102	-		5,977
1,109	445	2,178	56	7,250		14,051
69,293	19,835	123,597	23,156	127,437		539,283
14,936	2,448	47,246	1,665	157,907		274,739
-	-	55	-	68,398		71,658
7,988	3,763	24,796	3,420	40,158		107,529
8,226	512	12,482	15	814	\$ (36,932)	-
231,983	73,726	416,909	49,731	7,147		1,331,109
263,133	80,449	501,488	54,831	274,424	(36,932)	1,785,035
\$ 332,426	\$ 100,284	\$ 625,085	\$ 77,987	\$ 401,861	\$ (36,932)	\$ 2,324,318
\$ 13,681	\$ 3,293	\$ 21,593	\$ 3,201	\$ 30,321		\$ 112,631
2,012	609	3,855	528	2,553		12,705
-	-	-	-	97,710		97,710
4,911	1,346	7,992	933	38,335		70,605
17,708	2,163	26,223	3,127	903		75,901
38,312	7,411	59,663	7,789	169,822		369,552
170,199	43,995	198,240	38,959	150,018	-	884,244
6,863	405	2,461	-	25,407	\$ (36,932)	-
177,062	44,400	200,701	38,959	175,425	(36,932)	884,244
\$ 215,374	\$ 51,811	\$ 260,364	\$ 46,748	\$ 345,247	\$ (36,932)	\$ 1,253,796
\$ 61,637	\$ 29,927	\$ 206,499	\$ 10,845	\$ (127,843)		\$ 450,474
1,284	255	7,290	2	1,115		14,682
1,915	823	18,789	840	37,092	\$ 873	84,378
10,048	4,819	25,282	5,300	155		85,103
9,670	4,337	57,358	3,313	74,954	6,015	193,200
230	96	485	60	62,750		64,594
32,268	8,216	49,018	10,879	8,391	(6,888)	178,091
\$ 117,052	\$ 48,473	\$ 364,721	\$ 31,239	\$ 56,614	\$ -	\$ 1,070,522

Supplementary Schedules

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

For The Year Ended June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 12,967	\$ 11,380	\$ 125,553
Federal Grants and Contracts	6,180	6,801	205,806
State and Local Grants and Contracts	756	347	8,273
Nongovernmental Grants and Contracts	704	207	17,562
Educational Department Sales and Services	217	236	29,009
Auxiliary Enterprise Revenues, Net	4,191	4,677	47,433
Other Operating Revenues	742	272	5,047
Total Operating Revenues	25,757	23,920	438,683
OPERATING EXPENSES			
Instruction	13,128	15,701	127,807
Research	232	28	149,684
Public Service	1,792	2,396	43,701
Academic Support	3,087	2,616	31,235
Student Services	2,270	2,447	15,624
Auxiliary Programs	6,489	6,766	73,160
Operation and Maintenance of Plant	2,878	2,094	21,239
Institutional Support	4,132	4,076	33,707
Student Aid	2,049	2,461	89,343
Other Operating Expenses	2,392	2,088	43,885
Total Operating Expenses	38,449	40,673	629,385
Operating Loss	(12,692)	(16,753)	(190,702)
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	12,524	15,116	144,266
Investment Activity	102	101	4,603
Gain on Sale of Assets, Net	-	3	227
Interest Expense	(1,893)	(791)	(10,943)
Other Nonoperating Items	309	1,385	33,598
Net Nonoperating Revenues	11,042	15,814	171,751
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(1,650)	(939)	(18,951)
Capital Appropriations	-	-	1,790
Capital Grants and Gifts	(685)	-	8,829
Capital Contributions	13	42	258
Additions to Permanent Endowments	-	-	-
Transfers within OUS	4,078	2,471	17,507
Total Other Nonoperating Revenues	3,406	2,513	28,384
Increase (Decrease) In Net Assets	1,756	1,574	9,433
NET ASSETS, BEGINNING BALANCE FROM PRIOR YEAR	26,112	16,985	396,563
NET ASSETS, END OF YEAR	\$ 27,868	\$ 18,559	\$ 405,996

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 111,671	\$ 23,102	\$ 172,027	\$ 19,476	\$ 168		\$ 476,344
44,734	30,599	179,929	33,388	4,239	\$ (2,736)	508,940
5,886	1,656	7,995	3,579	2,868		31,360
8,305	993	5,559	357	67		33,754
5,789	2,881	14,274	2,213	(129)		54,490
21,905	12,247	60,189	11,185	1,013	(747)	162,093
3,029	654	7,061	615	2,443	-	19,863
201,319	72,132	447,034	70,813	10,669	(3,483)	1,286,844
103,932	22,919	136,652	20,501	3,622		444,262
21,787	556	52,906	7,056	443	(1,490)	231,202
10,578	2,985	25,368	648	4,480		91,948
21,415	5,511	28,392	5,182	270		97,708
9,797	3,230	18,090	3,443	122		55,023
35,904	15,309	85,662	14,325	869	(747)	237,737
15,922	3,940	17,611	3,142	87		66,913
14,784	4,061	31,520	4,187	11,742		108,209
14,817	27,604	105,377	25,104	6		266,761
12,753	4,622	24,121	6,519	276	(1,246)	95,410
261,689	90,737	525,699	90,107	21,917	(3,483)	1,695,173
(60,370)	(18,605)	(78,665)	(19,294)	(11,248)	-	(408,329)
57,925	14,729	60,982	14,540	28,167		348,249
595	178	5,563	187	6,984		18,313
59	42	20	19	1		371
(8,276)	(2,503)	(8,851)	(1,989)	(3,089)		(38,335)
7,271	2,701	26,712	(55)	(796)		71,125
57,574	15,147	84,426	12,702	31,267	-	399,723
(2,796)	(3,458)	5,761	(6,592)	20,019	-	(8,606)
-	-	-	-	(1,790)		-
2,443	6,526	3,514	-	-		20,627
93	28	238	21	-		693
-	-	-	-	-		-
11,703	4,195	16,000	3,217	(59,171)		-
14,239	10,749	19,752	3,238	(60,961)	-	21,320
11,443	7,291	25,513	(3,354)	(40,942)	-	12,714
105,609	41,182	339,208	34,593	97,556		1,057,808
\$ 117,052	\$ 48,473	\$ 364,721	\$ 31,239	\$ 56,614	\$ -	\$ 1,070,522

Supplementary Schedules
CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	\$ 12,528	\$ 11,012	\$ 124,242
Grants and Contracts	7,073	6,939	232,109
Sales and Services of Educational Departments	219	236	29,014
Auxiliary Enterprise Operations	4,213	4,614	46,990
Student Loan Collections	257	766	7,327
Payments for Salaries and Benefits	(24,453)	(27,408)	(348,920)
Payments to Suppliers	(7,891)	(9,587)	(218,504)
Student Financial Aid	(2,165)	(2,387)	(24,187)
Student Loan Issuance and Costs	(125)	(830)	(8,193)
Other Operating Receipts	670	146	4,309
Net Cash Used by Operating Activities	(9,674)	(16,499)	(155,813)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	12,524	15,116	144,266
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	175	1,367	33,679
Net Agency Fund Receipts (Payments)	(75)	(167)	(3,040)
Net Transfers to (from) Other Funds and OUS Universities	4,078	2,471	17,507
Net Cash Provided (Used) by Noncapital Financing Activities	16,702	18,787	192,412
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	1,790
Capital Grants and Gifts	(685)	-	8,829
Capital Contributions	13	42	258
Bond Proceeds on Capital Debt	10,386	83	70,802
Sales of Capital Assets	298	26	11,179
Purchase of Capital Assets	(9,077)	(1,177)	(127,028)
Interest Payments on Capital Debt	(1,893)	(791)	(10,943)
Principal Payments on Capital Debt	(2,414)	(1,625)	(12,947)
Net Cash (Used) Provided by Capital and Related Financing Activities	(3,372)	(3,442)	(58,060)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	102	101	4,603
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided by Investing Activities	102	101	4,603
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,758	(1,053)	(16,858)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,223	10,777	164,884
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 10,981	\$ 9,724	\$ 148,026

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 110,793	\$ 23,200	\$ 174,019	\$ 19,383	\$ 459		\$ 475,636
55,896	33,004	191,248	36,560	6,735	\$ (2,736)	566,828
5,760	2,882	14,186	2,226	74		54,597
22,223	12,212	61,666	10,971	754	(747)	162,896
2,147	998	6,342	1,101	1		18,939
(168,392)	(41,430)	(284,546)	(39,935)	(10,208)		(945,292)
(65,495)	(42,834)	(201,935)	(42,629)	(40)	3,483	(585,432)
(16,480)	(4,381)	(20,110)	(4,713)	(1,542)		(75,965)
(2,677)	(1,109)	(6,512)	(1,099)	1		(20,544)
106	1,098	3,022	423	2,395		12,169
(56,119)	(16,360)	(62,620)	(17,712)	(1,371)	-	(336,168)
57,925	14,729	60,982	14,540	27,230		347,312
-	-	-	-	-		-
7,648	2,189	28,046	13	(33)		73,084
(2,709)	(503)	(1,777)	(335)	5,230		(3,376)
11,703	4,195	16,000	3,217	(59,171)		-
74,567	20,610	103,251	17,435	(26,744)	-	417,020
-	-	-	-	(1,790)		-
2,443	6,526	3,514	-	-		20,627
93	28	238	21	-		693
20,100	6,058	41,225	1,000	23,712		173,366
3,967	476	5,782	234	-		21,962
(43,677)	(15,598)	(50,040)	(6,207)	7,464		(245,340)
(8,276)	(2,503)	(8,851)	(1,989)	1,030		(34,216)
(11,876)	(3,180)	(3,563)	(3,104)	9,873		(28,836)
(37,226)	(8,193)	(11,695)	(10,045)	40,289	-	(91,744)
-	-	14	2	(2,059)		(2,043)
595	178	5,563	187	3,350		14,679
-	-	-	-	1,517		1,517
-	-	-	-	(1,517)		(1,517)
595	178	5,577	189	1,291	-	12,636
(18,183)	(3,765)	34,513	(10,133)	13,465	-	1,744
64,335	21,142	97,618	26,967	156,815		549,761
\$ 46,152	\$ 17,377	\$ 132,131	\$ 16,834	\$ 170,280	\$ -	\$ 551,505

Supplementary Schedules
CONSOLIDATING STATEMENT OF CASH FLOWS—Continued

For the Year Ended June 30, 2005 (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	\$ (12,692)	\$ (16,753)	\$ (190,702)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation Expense	2,520	1,880	29,795
Changes in Assets and Liabilities			
Accounts Receivable	(920)	(518)	(6,634)
Notes Receivable	123	(82)	(776)
Inventories	3	(37)	(39)
Prepaid Expenses	35	(45)	(786)
Accounts Payable and Accrued Liabilities	1,313	(682)	7,942
Long-Term Liabilities	46	(37)	417
Deposits	(4)	(5)	22
Deferred Revenue	(98)	(220)	4,948
NET CASH USED BY OPERATING ACTIVITIES	\$ (9,674)	\$ (16,499)	\$ (155,813)

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

Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ -	\$ -	\$ -
Change in Fair Value of Investments Recognized as a Component of Investment Activity	-	-	-

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ (60,370)	\$ (18,605)	\$ (78,665)	\$ (19,294)	\$ (11,248)		\$ (408,329)
12,076	2,917	23,387	3,112	263		75,950
(6,601)	342	(2,095)	(1,348)	(591)		(18,365)
237	(68)	175	(3)	-		(394)
(14)	74	94	(77)	(1)		3
655	(211)	(1,116)	139	(729)		(2,058)
(3,003)	(814)	(5,467)	(578)	10,796		9,507
330	(176)	70	45	(199)		496
145	(11)	344	1	-		492
426	192	653	291	338		6,530
\$ (56,119)	\$ (16,360)	\$ (62,620)	\$ (17,712)	\$ (1,371)	\$ -	\$ (336,168)

\$ -	\$ -	\$ 898	\$ -	\$ -	\$ -	\$ 898
-	-	-	-	3,671	-	3,671

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Oregon State Board of Higher Education
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the basic financial statements of the Oregon University System as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. 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.

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 financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Oregon University System in a separate letter dated October 6, 2006.

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.



Eugene, Oregon
October 6, 2006