

OREGON UNIVERSITY SYSTEM



2008 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_fy2008.php

or

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

SYSTEM UNIVERSITIES

Eastern Oregon University

EOU was founded in 1929 as a teachers college and today serves its regional mission through programs in the liberal arts; professional programs in business, education, and community service; and cooperative programs in agriculture and nursing. EOU is located in La Grande, Oregon.

Oregon Institute of Technology

OIT, the Northwest's only polytechnic institution, was founded in 1947 and serves the state with programs in business, engineering and health technologies, and a cooperative program in nursing. OIT is located in Klamath Falls, Oregon.

Oregon State University

OSU, one of only two universities in the country to hold land, space, sea, and sun grant designations, was founded in 1858 and provides programs in the liberal arts and sciences, and professional programs in agricultural sciences, business, education, engineering, forestry, health and human sciences, oceanography, pharmacy, and veterinary medicine. OSU is located in Corvallis, Oregon. OSU-Cascades Campus, in Bend, Oregon, opened in Fall 2001 as a branch campus on the site of its major partner, Central Oregon Community College.

Portland State University

PSU located in downtown Portland, Oregon is an urban university founded in 1946 and offers liberal arts and sciences programs and professional programs in business, education, engineering, health, performing arts, social work, and urban and public affairs.

Southern Oregon University

SOU located in Ashland, Oregon was founded in 1882 and provides liberal arts and sciences programs; professional programs in business, education, and performing arts; and a cooperative program in nursing.

University of Oregon

UO was founded in 1876 and is a major liberal arts and sciences university with professional programs in architecture and allied arts, business, education, journalism, law, music and performing arts, and planning and public policy. UO is located in Eugene, Oregon.

Western Oregon University

WOU was founded in 1856 as a teachers college and provides programs in liberal arts and sciences and professional programs in education, business, and public services. WOU is located in Monmouth, Oregon.



OREGON STATE BOARD OF HIGHER EDUCATION

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OREGON UNIVERSITY SYSTEM EXECUTIVE OFFICERS

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Chancellor

Jay D. Kenton
Vice Chancellor for Finance and Administration

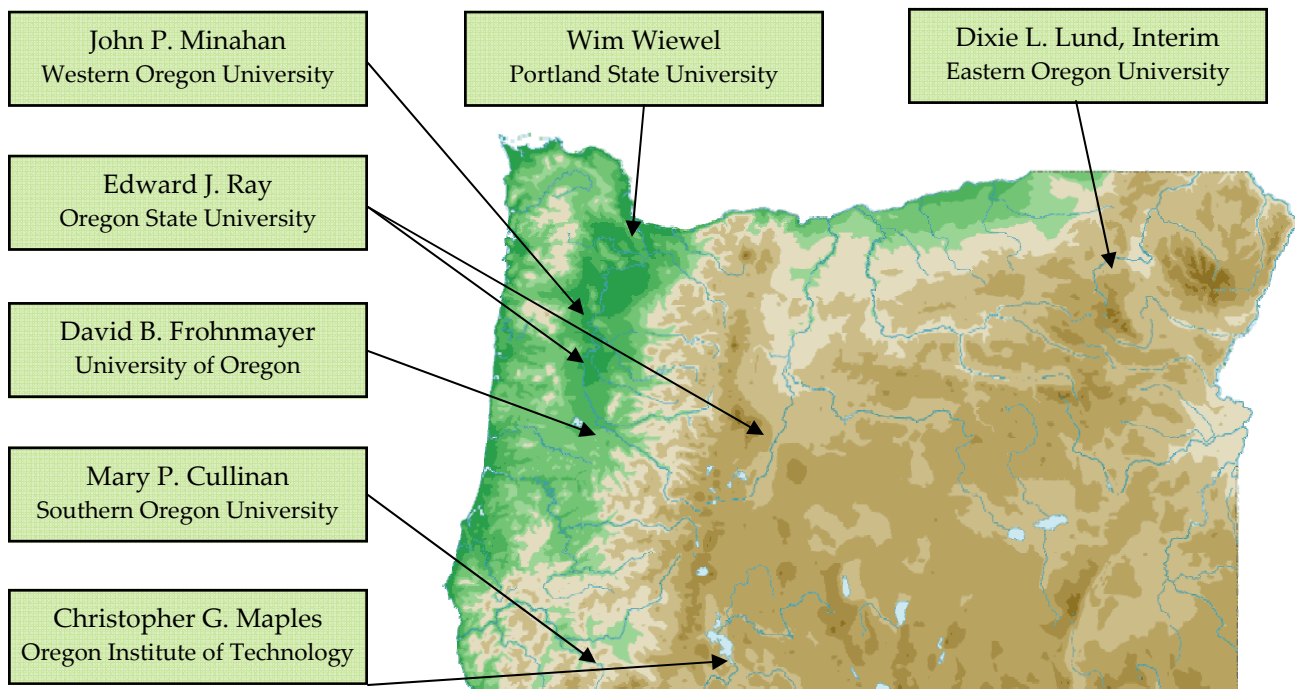
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Associate Vice Chancellor for Finance and
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Budget Operations

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UNIVERSITY PRESIDENTS



MESSAGE FROM THE CHANCELLOR

Over the last year the Oregon University System (OUS) worked with our colleagues and partnering organizations to advance the important higher education agenda of the State Board of Higher Education (the “Board”). This was aided by a significant increase in state support for the Oregon University System provided by the 2007 Legislature—an increase of 23% to \$870 million, up from \$707 million in the prior biennium.

The State Board of Higher Education adopted a long-term strategic vision to guide the Oregon University System through 2025. Its principal goals are to: (1) create an educated citizenry while ensuring access to all qualified Oregonians to quality postsecondary education; (2) ensure high-quality student learning leading to student success; (3) Create original knowledge and advance innovation; and (4) contribute to the economic, civic, and cultural life of communities and regions of Oregon.

Based on the Board’s long-term strategic plan, its 2007-08 agenda made **advancements on several priority objectives**, including those to:

- increase the number of under-served students entering postsecondary education in Oregon;
- help campuses improve retention rates through increased funding and incentives for improvement;
- increase college affordability by supporting statewide outreach on the “new and improved” Oregon Opportunity Grant program, and continuing to maintain low tuition increases;
- improve the financial stability of the smaller OUS universities;
- make significant advancements on capital repair and deferred maintenance projects, and invest in new construction of critically needed facilities; and
- examine ways to expand higher education opportunities and partnerships in the Portland metropolitan region.

Enrollment at OUS universities climbed to an all-time high of 82,249 in the fall of 2007. This continued a pattern of slow growth in the past few years. However, for the fall of 2008, student enrollment is expected to increase rapidly due to the state General Fund support to OUS, to the implementation of the Shared Responsibility Model of the Oregon Opportunity Grant and a doubling of its funding to more than \$70 million, and to the efforts of OUS and its institutions to help Oregonians understand that college attendance is an affordable dream they can attain.

In 2007-08, the retrenchment plans and **focus on financial management** by Eastern Oregon University and Southern Oregon University placed both institutions well on the road to financial sustainability. Both ended the fiscal year with fund balances (reserves) above the minimum level set by Board of Higher Education policy and met or exceeded their financial targets for the year. However, despite the careful management of resources by OUS and its institutions, and the overall increase in fund balances system-wide, the current ratio, at 1.4, remains below the recommended level of 2.0, and four of the seven universities showed losses in 2007-08. Oregon’s public universities continue to have significantly fewer resources than do similar institutions elsewhere in the United States and they expend far less of their limited resources on administration and support than do other comparable American universities. These factors leave OUS institutions vulnerable if state support were to be reduced further. This is especially true for the smaller OUS universities which, unlike the larger ones, have tuition levels that already are higher than their peers.

To **stop the growth of deferred maintenance**, eliminate the backlog of projects, improve the seismic safety of OUS buildings, and reduce energy consumption, OUS has developed a 20 year plan to achieve these goals, insuring continued access for future generations of Oregon students. The rehabilitation of hundreds of major buildings will take at least 20 years to accomplish due to the physical constraints of accommodating displaced students and faculty while buildings are shut down for renewal. In the 2007 session, OUS was able to double the previous funding level from \$12 million to \$25 million per year; however, the amount needed to meet the current needs, and therefore stop the backlog from growing beyond \$640 million, is \$46 million per year.

Each campus has **ramped up their capital construction staff** to manage twice their normal allocation of capital repair funds. Projects have been initiated as soon as the Lottery funds were released, providing a flurry of activity this summer. Most of the



George Pernsteiner

capital repair funds are projected to be expended by the end of summer 2009. Progress on each of the six deferred maintenance projects approved in 2007, totaling \$89.5 million, are dependent upon the release of state funds to pay bond debt service, the majority of which cannot be sold prior to the Spring of 2009. Currently the projects are under design.

Federal grants and contracts reached a peak of more than \$322 million in 2007-08, and now stand \$35 million higher than they did in 2004. The success of OUS faculty in attracting research funding has been among the highest in the country in the past few years on a per faculty member basis. However, the leveling off of federal research funding could arrest that upward trajectory in the near future. Despite the recent state investment in research through the Oregon Innovation Council (Oregon InC), such a reduction at the federal level could make the achievement of the knowledge economy goals set for Oregon more difficult—just at the time that Oregon is beginning to see the direct benefit of the research of its universities.

One 2008 initiative was to tie some funding for campuses to **increases in retention** of freshmen until their sophomore years. Completion of the freshman year and a student's return in the following year are related directly to degree attainment. Campuses were rewarded for meeting or exceeding their retention targets—and most of them did so. OUS is now seeing an increase in its student retention rates and will continue to focus on this critical component of the access-success continuum. This should lead to an increase in the number of degrees awarded to Oregonians.

Looking Ahead: Access, Affordability and Success

2007-08 also saw an increased focus by the State Board of Higher Education on mapping strategies for the future through budget policy option packages for the 2009 legislative session that highlighted investments the state could make to achieve the Board's 2025 goals. These packages also aim to meet the target set by the Oregon Progress Board for an adult population in 2025 that includes 40% with at least a bachelor's degree and another 40% with an associate's degree or other post high school certificate.

The Board made clear in its strategic plan an understanding that **Oregon's economy and society cannot be sustained at a healthy level without an increase in the educational attainment rates** of our state's citizens. The imperative to increase the number of Oregon students who are prepared for, attend, and complete a postsecondary education could not be clearer given the changing demographics of more underserved, historically under-represented students across the state whose college-going rates have traditionally been much lower than

those of more advantaged students.

Through the Board's **Committee on Student Participation and Completion**, a series of forums and a symposium were convened in 2007 to learn from several student population groups the specific barriers inhibiting postsecondary participation and success. These information-sharing meetings also focused on the best practices currently underway in the state to help students prepare for and succeed in college, and included the following communities: American Indian; African American; Latino; Asian American; rural; urban; first-generation; and students with disabilities.

A proposal to the 2009 Legislature seeks to **redress inequities in those who attend and succeed in college** by (1) significantly and quickly increasing the number of students entering postsecondary education; (2) improving their academic preparation for college, and thus increasing their ability to complete a degree; and (3) increasing the capacity of Oregon's public institutions of higher education to support students' success. If adopted in full, this approach will enable Oregon to make significant progress in improving the alignment of K-12 and postsecondary education, increasing its educational attainment rate among the most underserved populations in the state, meeting the knowledge and skill requirements of the current and future economy, and ensuring growth and community success in every corner of the state.

Another area of focus for the Board over the last year was the work of the **Portland Higher Education Committee**. This group worked with a broad constituent group of leaders in education, business, community and government to develop recommendations to sharpen higher education strategies in the Portland Metropolitan area, identifying strengths and gaps in postsecondary offerings. One 2009 Legislative proposal is **creating University Centers at community colleges** in the metro area, especially between Portland State University and Portland Community College (PCC). This will broaden access and create options for both transfer and career-technical education and increased bachelor degree attainment for PCC students, with a focus on underserved students. Also proposed is creating an Urban Rural Connected Center in order to change the paradigm of disconnection between Oregon's urban and rural communities from one of division to connection, and to apply this knowledge to statewide problems.

In the area of research, the Portland Committee began work over the last year to seek a federally designated **National Center on Sustainability Research** for Oregon to enhance strategic research partnerships via intercampus and interdisciplinary collaborations. Another major initiative is the creation of a **new life sciences facility** in Portland's South Waterfront district. This will feature collaborative programs and research led

MESSAGE FROM THE CHANCELLOR—CONTINUED

by Oregon Health & Science University (OHSU) and PSU in partnership with Oregon State University, Oregon Institute of Technology, University of Oregon, and the Oregon Translational Research and Drug Institute (ORTRADI). The facility will provide a cooperative space for coordinated instructional programs, research and business opportunities.

The upcoming year will be a challenging one given the situation in the financial markets and in the economic downturn being experienced in Oregon as well as many other states. Yet the Board and the OUS look forward with optimism for one reason: **we know what we need to do in Oregon** to improve educational attainment as a foundational element of a strong economy. The OUS will continue to follow the precepts laid out in the Board's long-range strategy, continuing the path to improvement in access, affordability, degree attainment, research, and educational quality overall.



George Pernsteiner
Chancellor
Oregon University System

Top Campus Accomplishments 2007-08

Eastern Oregon University

- EOU launched the "Discover Your Future" program encouraging high school sophomores and juniors to start thinking about going to college, drawing more than 300 students from Oregon, Washington and Idaho. A University-County Connections Committee was established to bring more students to EOU and forge stronger bonds with current students in the community, including a scholarship campaign to benefit students in Union County.
- The "Great Discoveries" science curriculum developed by EOU received \$738,995 from the Howard Hughes Medical Institute for a joint proposal submitted by OHSU and EOU to fund implementation of the curriculum in elementary and middle schools and a follow-up program. The Oregon Agriculture Foundation, formed by the late Glen McKenzie, 1936 EOU graduate, established a \$90,000 EOU Foundation scholarship endowment to benefit students studying agriculture or pre-veterinary sciences at EOU.
- The Oregon Writing Project at EOU generated more than \$1 million in federal grants and matching funds since the program's inception in 1991. Most of the federal dollars received support teachers throughout EOU's service region.
- Anna Cavinato, professor of chemistry at EOU, was elected secretary of the American Chemical Society's Division of Analytical Chemistry, joining a group of internationally renowned scholars and scientists. The EOU Chemistry Club

and EO Science Journal also won repeat national awards.

- The EOU Mountaineers claimed the Cascade Collegiate Conference All-Sports Trophy, winning or sharing four league titles and recording top three finishes in six out of eight sports.

Oregon Institute of Technology

- Oregon Institute of Technology was tied for 9th in the *U.S. News & World Report* list of Top Baccalaureate Colleges in the West, and ranked fourth on the Top Public Baccalaureate Colleges in the West.
- The first wing of the *Martha Anne Dow Center for Health Professions* opened in September 2007, two weeks before the late president's death. Students are using the facility for medical imaging, anatomy and physiology, biology and other life science programs. The second wing is scheduled for completion in April 2009.
- Oregon's Legislature approved the final \$3.5 million in Article XI-G bonds to complete construction on the *Martha Anne Dow Center for Health Professions*. Other funding of note was \$1.5 million from the Ford Family Foundation and \$25,000 from the M.J. Murdock Charitable Trust.
- The university graduated its first Renewable Energy and Applied Mathematics students in June 2008 commencement exercises.
- The Oregon Tech Hustlin' Owls men's basketball team won its second national championship in five years in the NAIA Division II.

Oregon State University

- In October 2007, OSU launched "The Campaign for OSU," a \$625 million fundraising effort and the university's first-ever capital campaign, with more than \$439 million raised as of July 31, 2008. Simultaneously, it announced private and public commitments of \$77 million for the Linus Pauling Science Center. A \$5 million gift from an anonymous donor will jump-start the development of a new Student Success Center at OSU. The College of Veterinary Medicine opened a new large animal facility, made possible through \$12 million in private giving, a project launched by a \$5 million grant from the Wayne and Gladys Valley Foundation of Oakland, Calif.
- OSU research funding in 2007-08 grew to \$231 million, a \$25 million jump and 12 percent increase over the previous fiscal year. OSU had a record \$2.5 million in licensing income during 2007-08, including 25 new patents filed, 19 patents issued, 39 license/options executed and 54 invention disclosures.
- Last fall OSU was ranked among the top 10 U.S. universities in eight of the graduate disciplines measured, in a survey that was published in *The Chronicle of Higher Education*. This included a top national ranking in wildlife science, second in fisheries science and fourth in zoology.
- 2008 was a banner year for many OSU professors who were honored for their academic achievements: Dawn Wright, professor of geosciences, was named Oregon Professor of the Year by the Council for the Advancement and Support of Education; Jane Lubchenco, the Wayne and Gladys Valley Professor of Marine Biology, received the Zayed International Prize for the Environment; James Carrington, professor of botany and plant pathology and pioneer in

MESSAGE FROM THE CHANCELLOR—CONTINUED

the study of “small RNA,” was elected to the prestigious National Academy of Sciences.

- OSU was ranked in the Top 25 for 2008 in the second annual “College Sustainability Report Card.” The Kaplan College Guide listed OSU as one of the country’s top 25 “green colleges” for 2008, in recognition of leadership in environmentally responsible practices. The U.S. Environmental Protection Agency in 2008 ranked OSU in the top five among higher education users of “green power” nationwide, and best in the Pac-10.

Portland State University

- The State Board of Higher Education named Dr. Wim Wiewel, former provost and senior vice president of the University of Baltimore, as the new president of Portland State University.
- The 2007–08 academic year was the 12th straight year of enrollment growth for Portland State and included the highest number of entering freshman in the school’s history.
- The Jimmy & Rosalynn Carter Partnership Foundation selected Portland State’s Community Watershed Stewardship program for its first-ever national Award for Community-Campus Partnerships.
- A new signature research center, the Oregon Built Environment and Sustainable Technologies Center (Oregon BEST), was created and tasked with making Oregon an international epicenter of sustainable technology development.
- Portland State’s men’s basketball team won the Big Sky Basketball Champions and made its first-ever NCAA Division I Tournament appearance.

Southern Oregon University

- SOU’s commitment to partnership, academic access, workforce development, and sustainability is highlighted by the RCC/SOU Higher Education Center (HEC), opening September 2008. Jointly financed, designed, and constructed by SOU and Rogue Community College, the center serves both students and the business community. The HEC is on track to be the first OUS building to attain LEED Platinum certification.
- SOU alumnus Michael Geisen, who teaches science at Crook County Middle School in Prineville, was named the 2008 National Teacher of the Year. Geisen is the first Oregon teacher to attain this honor. He earned his master of arts in teaching (MAT) with a science endorsement from SOU in 2001, and will be SOU’s 2009 Commencement speaker.
- SOU’s goal to expand student access through online programming was advanced through SOU being invited to join the New Century Learning Consortium as one of six charter institutions. Funded by the Alfred P. Sloan Foundation, the Consortium is dedicated to designing initiatives for sharing resources and expertise in delivering outstanding online and blended learning.
- SOU’s commitment to the success of diverse students is underscored by the U.S. Department of Education’s 4-year award of \$924,000 to the SOU Ronald McNair Post Baccalaureate Achievement Program, which encourages low-income, first-generation students and students from traditionally under-represented groups to complete a baccalaureate degree and pursue a doctoral degree. Highlighting this focus on access, SOU student Lily Yasana was named Higher Education Student of the Year by the Ore-

gon Indian Education Association (OIEA).

- SOU’s commitment to civic engagement was celebrated by being named to the President’s 2007 Higher Education Community Service Honor Roll by the Corporation for National and Community Service, recognizing exemplary service efforts and service to disadvantaged youth.

University of Oregon

- The University of Oregon received *The Princeton Review*’s highest honors for sustainability as one of only 11 institutions named to the “Green Rating Honor Roll.”
- A new University of Oregon facility opened in Old Town Portland’s historic White Stag Block, giving the state’s students and professionals more hands-on opportunities in subjects such as journalism, architecture, digital arts, product design and law.
- The Campaign Oregon historic fundraising campaign surpassed its goal of \$600 million and is helping the UO attract top students and professors, maintain premier facilities and continue groundbreaking research. The total at the end of June 2008 was approximately \$800 million.
- UO opened doors to achievement with PathwayOregon, a program to cover tuition and fees for lower-income Oregonians entering the university as freshmen, and provide academic support to keep them on the road to graduation.
- UO researchers earned international acclaim for scientific discoveries, including the oldest DNA found in the New World -- dating 14,300 years into the past -- in dried excrement recovered from Oregon’s Paisley Caves.

Western Oregon University

- The Communication Studies program won the Program of Excellence Award from the National Communication Association’s Undergraduate College and University Division, which is presented to one undergraduate program each year.
- WOU hired 13 faculty members within the College of Education and College of Liberal Arts and Sciences in programs such as teacher education, health communication and biology; and hired its new provost, Dr. Kent Neely.
- The College of Education received re-accreditation by the National Council for Accreditation of Teacher Education and Oregon’s Teacher Standards and Practices Commission.
- Three academic advisers received awards for outstanding advising from the National Academic Advising Association. Michael LeMaster, assistant professor of biology, was recognized as an Outstanding Advising Award Winner in the academic advising faculty category; Tamie Saffell, assistant director of the Academic Advising and Learning Center (AALC); and Roberta Weber, also with AALC, received the Outstanding New Advisor Certificate of Merit.
- WOU received international attention in the world of sports with 2007 graduate, Kevin Boss, who was a part of this year’s winning Super Bowl team, the New York Giants. Also of note, was an act of sportsmanship involving 2008 graduate Sara Tucholsky, a softball player who injured her knee running to first base upon hitting her first-ever home run. Two Central Washington University players carried her around to the bases during the pivotal conference game; Tucholsky won an ESPN ESPY award for Best Sports Moment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2008

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, 2008, 2007 and 2006. 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)
- Western Oregon University (WOU)

University	FTE Student Enrollment				
	2008	2007	2006	2005	2004
EOU	2,435	2,460	2,609	2,558	2,565
OIT	2,350	2,319	2,377	2,486	2,499
OSU	18,963	18,875	18,821	18,749	18,698
PSU	19,213	18,927	18,719	18,204	17,965
SOU	4,213	4,174	4,249	4,418	4,659
UO	20,361	20,421	20,695	20,862	20,481
WOU	4,384	4,152	4,202	4,277	4,417
Total System	71,919	71,328	71,672	71,554	71,284

In addition to the information in this MD&A, OUS has eight supporting foundations, which are included as discretely presented component units in the OUS financial statements and in Notes 2 and 18 to the financial statements.

UNDERSTANDING THE FINANCIAL STATEMENTS

The MD&A focuses on OUS as a whole and is intended to help understand OUS's financial activities. Since this presentation includes summarized formats it should be read in conjunction with the financial statements which have the following five components.

Report of Independent Auditors presents an unqualified opinion prepared by an independent certified public accounting firm, Moss Adams LLP, on the fairness (in all material respects) of the financial statements.

Statements of Net Assets (SNA) present a snapshot of OUS assets and liabilities under the accrual basis of accounting at a point in time (June 30, 2008 and 2007). Generally, assets and liabilities are measured at net realizable value. The SNAs help the reader understand the assets available to support operations, how much OUS owes to vendors and bond holders; and a picture of net assets and their availability for future expenditures.

Statements of Revenues, Expenses, and Changes in Net Assets (SRE) present the results of OUS revenue and expense activity categorized as operating, nonoperating and other related activities. The SREs report the OUS operating results for a period of time (the fiscal years ended June 30, 2008 and 2007).

Statements of Cash Flows (SCF) provide information about OUS's sources (receipts) and uses (payments) of cash during the fiscal year. The SCFs classify sources and uses of cash into four categories, and assist in determining whether OUS has the ability to generate future net cash flows to meet its obligations as they come due, and to determine the need for external financing.

Notes to the Financial Statements (Notes) present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements.

The MD&A provides an objective analysis of OUS's financial activities based on currently known facts, decisions, and conditions. The MD&A discusses the current year results in comparison to the prior year. To see discussions relating to the prior year, refer to last year's annual financial report on the OUS website: http://www.ous.edu/content/div/reports/annfinst_fy2007.php. The fiscal year 2008 presentation has resulted in reclassifications to the fiscal year 2007 and 2006 financial statements. The reclassifications that materially affect the analysis provided in the prior year may have resulted in a restated analysis in this year's MD&A.

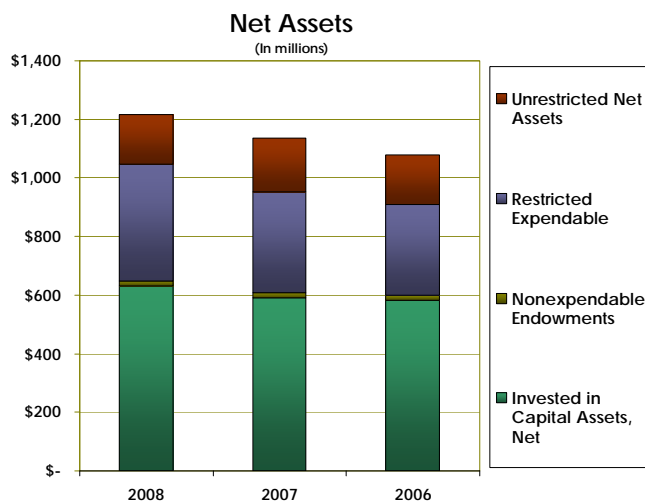
STATEMENTS OF NET ASSETS

The term "Net Assets" refers to the difference between total assets and total liabilities, and is an indicator of OUS's current financial condition. 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,	2008	2007	2006
	(In millions)		
Current Assets	\$ 998	\$ 773	\$ 573
Noncurrent Assets	639	474	368
Capital Assets, Net	1,549	1,421	1,382
Total Assets	\$ 3,186	\$ 2,668	\$ 2,323
Current Liabilities	\$ 731	\$ 521	\$ 319
Noncurrent Liabilities	1,239	1,011	925
Total Liabilities	\$ 1,970	\$ 1,532	\$ 1,244
Invested in Capital Assets, Net of Related Debt	\$ 632	\$ 592	\$ 583
Restricted - Nonexpendable	17	17	17
Restricted - Expendable	397	345	310
Unrestricted	170	182	169
Total Net Assets	\$ 1,216	\$ 1,136	\$ 1,079

Total Net Assets

OUS's overall financial position improved in fiscal year 2008. Changes to Total Assets and Total Liabilities increased Total Net Assets by \$80.5 million to \$1.2 billion during the fiscal year ended 2008 compared to 2007. 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 2008, 2007 and 2006.



Total Net Assets increased \$80.5 million, or 7.1%, for the fiscal year ended June 30, 2008 compared to a \$56.5 million increase in the prior year.

- **Net Assets Invested in Capital Assets, Net of Related Debt** increased \$40 million due to increased construction activities.

- **Net Assets Restricted for Capital Projects** increased \$44 million relating to an increase in unspent bond proceeds for current construction projects.
- **Unrestricted Net Assets** decreased \$12 million due mainly to declines in intercollegiate athletics and service department funds.

Total Assets and Liabilities

Total Assets increased \$518 million, or 19%, and Total Liabilities increased \$438 million, or 29% during the fiscal year ended 2008. These increases were mainly due to increased securities lending activity of \$174 million. OUS receives temporary cash collateral from investment firms who borrow OUS securities. Absent the securities lending increase, Total Assets increased by \$344 million or 14% and Total Liabilities increased by \$264 million or 20%.

- **Current Assets** increased \$51 million, or 10%, due to higher Accounts Receivable, Net due to increased student tuition and fees and federal grants and contracts.
- **Noncurrent Assets** increased \$166 million, or 35%, mainly relating to cash increases from debt proceeds to construct capital assets. This was partially offset by declines in the market value of Long-Term Investments.
- **Capital Assets, Net** increased \$128 million, or 9%, primarily due to new construction of buildings.
- **Current Liabilities** increased \$36 million, or 13%, mainly due to Accounts Payable and Accrued Liabilities increases relating to the timing of construction payments for current construction projects.
- **Noncurrent Liabilities** increased \$228 million, or 23%, mainly due to new debt issued to construct or purchase Capital Assets.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Due to the classification of certain revenues as nonoperating revenue, OUS shows a loss from operations. State Appropriations and Gifts, although considered nonoperating revenue under GASB 35 standards and reflected accordingly in the nonoperating section of the SRE, are used solely for operating purposes.

The following summarizes the revenue and expense activity of OUS:

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2008

For the Year Ended June 30,	2008	2007	2006
	(In millions)		
Operating Revenues	\$ 1,252	\$ 1,192	\$ 1,137
Operating Expenses	1,757	1,655	1,600
Operating Loss	(505)	(463)	(463)
Nonoperating Revenues, Net of Expenses	514	480	425
Other Revenues	71	40	47
Increase In Net Assets	80	57	9
Net Assets, Beginning of Year	1,136	1,079	1,070
Net Assets, End of Year	\$ 1,216	\$ 1,136	\$ 1,079

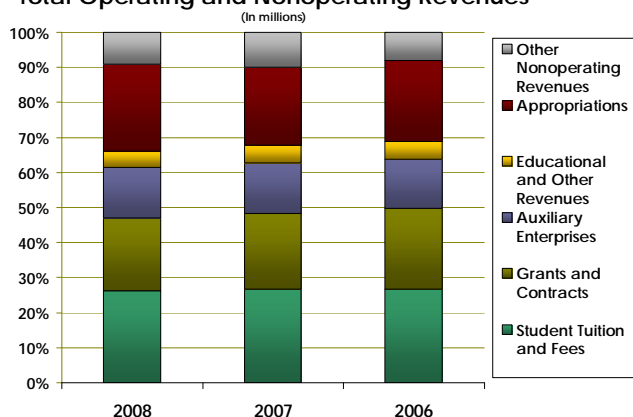
The Net Assets increased by \$80 million in 2008 compared to \$57 million in 2007.

Revenues

Revenues increased \$133 million, or 8%, in 2008 compared to the prior year.

For the Year Ended June 30,	2008	2007	2006
	(In millions)		
Student Tuition and Fees	\$ 496	\$ 470	\$ 440
Grants and Contracts	394	378	385
Auxiliary Enterprises	271	254	231
Educational and Other	91	90	81
Total Operating Revenues	1,252	1,192	1,137
Appropriations	465	392	384
Investment Activity	17	36	23
Capital Grants and Gifts	55	40	29
Other Nonoperating Items	102	98	81
Total Nonoperating Revenues	639	566	517
Total Revenues	\$ 1,891	\$ 1,758	\$ 1,654

Total Operating and Nonoperating Revenues



Operating Revenues

Operating revenues increased \$60 million in fiscal year 2008, or 5% over fiscal year 2007, to \$1.3 billion. This vari-

ance is primarily due to increases in Student Tuition and Fees, Grants and Contracts and Auxiliary Enterprise Revenues.

Student Tuition and Fees increased \$26 million, or 6%, in 2008 compared to 2007.

- Higher tuition and fee rates accounted for \$31 million of the increase.
- Increased enrollment added \$4 million to tuition and fees.
- Increased fee remissions and scholarship allowances reduced Tuition and Fees by \$9 million.

Federal, State and Nongovernmental Grants and Contracts increased \$16 million, or 4%, in 2008 compared to 2007.

- Federal grants and contract revenue were higher during fiscal year 2008 when compared to the prior year by \$16 million relating to increased research and development grants and contracts and Pell grants.

Auxiliary Enterprise revenue increased \$17 million, or 7%, compared to the prior year.

- Higher Housing and Dining revenues of \$10 million in 2008 related mainly to higher rates and student occupancy.
- Student Incidental Fee revenue increased \$4 million due to higher rates and student enrollment.

Educational and Other Revenues increased \$1 million, or 1%, between the two fiscal periods.

- Educational services increased \$7 million mainly due to an aggregation of small increases.
- Other revenues decreased \$6 million mainly relating to the receipt of Asbestos litigation settlement funds during fiscal year 2007.

Nonoperating Revenues

The increase in Nonoperating Revenues of \$73 million during 2008 can be directly tied to the increases in Government and Capital Appropriations, Other Nonoperating Items and Capital Grants and Gifts.

Government and Capital Appropriations increased \$73 million, or 19% in 2008.

- State Appropriations used to fund operations at OUS increased \$56 million and State Capital Appropriations increased \$17 million. All of the capital appropriations for the 2005-2007 biennium were drawn down in fiscal year 2006.

Investment Activity decreased \$19 million, or 53% in 2008.

- Market value declined \$19 million during fiscal year 2008 causing a \$27 million variance when compared to 2007.
- Partially offsetting the above decline were increased investment sale gains of \$7 million.

Capital Grants and Gifts increased \$15 million in 2008 relating to the timing of the fundraising for construction projects.

Other Nonoperating Items increased \$4 million in 2008.

- Gain on Sale of Assets, Net decreased \$16 million relating to the sale of real property in fiscal year 2007.
- Gifts increased \$16 million mainly relating to increased scholarships.
- Adjustments to capital assets that were not recorded in the prior year increased \$3 million.

Expenses

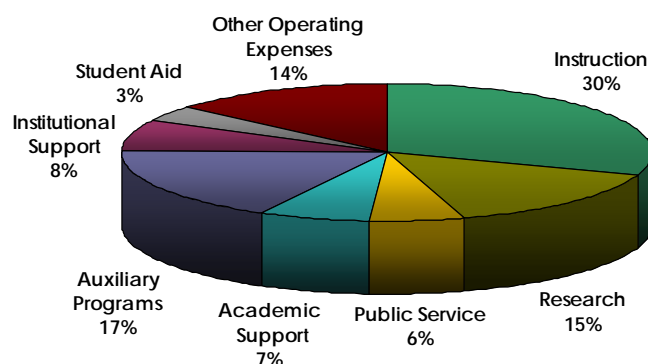
Operating Expenses

Operating expenses increased \$102 million in fiscal year 2008, or 6%, over fiscal year 2007, to \$1.8 billion. This change is due to increases in all expense categories.

The following summarizes operating expenses by functional classification:

For the Year Ended June 30,	2008	2007	2006
	(In millions)		
Instruction	\$ 530	\$ 505	\$ 483
Auxiliary Programs	307	284	261
Research	264	260	256
Institutional Support	133	123	117
Academic Support	119	107	108
Public Service	104	102	99
Student Aid	61	55	52
Other Operating Expenses	239	219	224
Total Operating Expenses	\$ 1,757	\$ 1,655	\$ 1,600

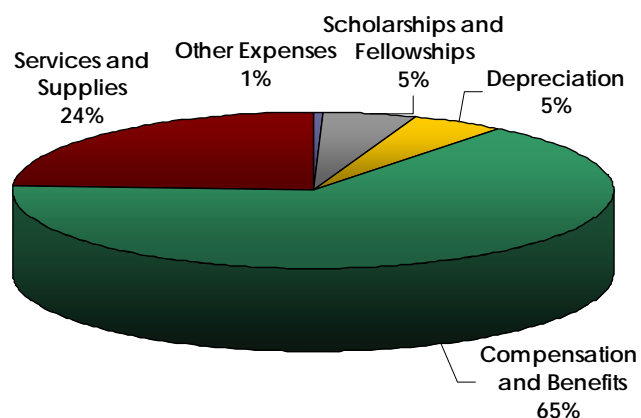
2008 Operating Expenses by Functional Classification



The following summarizes operating expenses by natural classification:

For the Year Ended June 30,	2008	2007	2006
	(In millions)		
Compensation and Benefits	\$ 1,148	\$ 1,087	\$ 1,037
Services and Supplies	422	390	396
Scholarships and Fellowships	86	79	73
Depreciation	92	90	90
Other Expenses	9	9	4
Total Operating Expenses	\$ 1,757	\$ 1,655	\$ 1,600

2008 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.

Compensation and Benefits costs increased \$61 million, or 6%, in fiscal year 2008 compared to 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2008

- Approximately \$24 million of the increase was attributable to wage increases.
- The number of employees increased during fiscal year 2008 causing approximately \$18 million of the increase.
- Benefit costs increased approximately \$15 million. Insurance costs increased 9% and retirement costs were slightly higher than the prior year.
- Other Postemployment Benefit costs were recorded for the first time during fiscal year 2008 causing a \$5 million variance compared to last fiscal year.

Services and Supplies expense increased \$32 million, or 8%, during fiscal year 2008.

- Other services and supplies, fees, rents and leases, utilities, travel, communications, and assessments, all increased during fiscal year 2008.
- Partially offsetting the expense increases were maintenance and repairs, and subcontractor decreases.

Scholarships and Fellowships costs increased \$7 million, or 9%, when comparing fiscal year 2008 and 2007. This was mainly due to increased scholarships.

Depreciation expense increased \$2 million during fiscal year 2008 which was caused by the increase in capital assets.

Other expenses remained the same between fiscal years.

Nonoperating Expenses

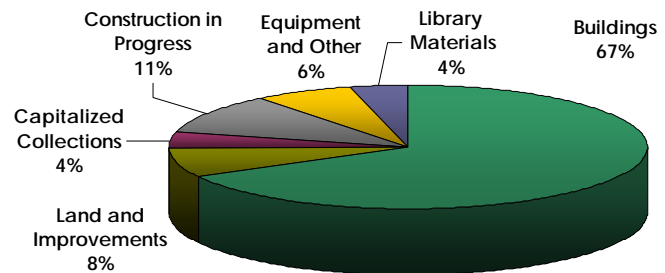
Interest Expense increased by \$7 million due to new debt issuances and higher interest rates. See "Capital Assets and Related Financing Activities," below, and "Note 8. Long-term Liabilities" to the financial statements for information relating to this variance.

CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

Capital Assets

At June 30, 2008, OUS had \$2.7 billion in capital assets, less accumulated depreciation of \$1.2 billion, for net capital assets of \$1.5 billion. 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.

2008 Capital Assets, Net - \$1.5 Billion



	2008	2007	2006
	(In millions)		
Capital Assets, Beginning of Year	\$ 2,558	\$ 2,446	\$ 2,330
Add: Purchases/Construction	228	136	156
Less: Retirements/Disposals	(29)	(24)	(40)
Total Capital Assets, EOY	2,757	2,558	2,446
Accum. Depreciation, Beginning of Year	(1,137)	(1,064)	(999)
Add: Depreciation Expense	(92)	(90)	(90)
Less: Retirements/Disposals	21	17	25
Total Accum. Depreciation, EOY	(1,208)	(1,137)	(1,064)
Total Capital Assets, Net, EOY	\$ 1,549	\$ 1,421	\$ 1,382

Capital additions totaled \$228 million for the fiscal year 2008, \$136 million for 2007 and \$156 million for 2006.

Accumulated depreciation at June 30, 2008 increased \$71 million, which represented \$92 million in depreciation expense offset by \$21 million in asset retirements. Depreciation expense remained at \$90 million during 2007 compared to 2006.

Capital Commitments

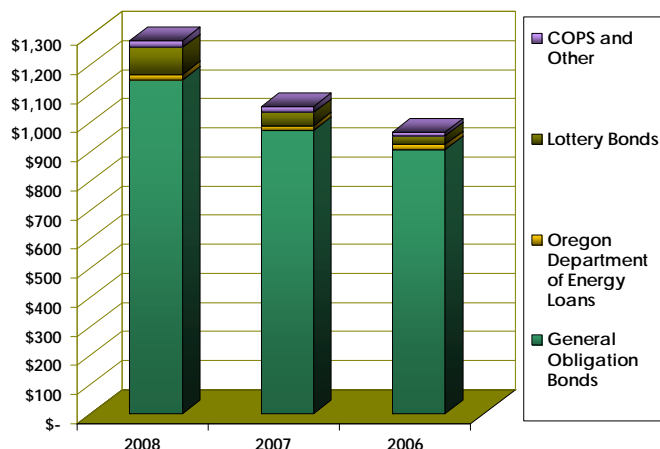
OUS has outstanding capital commitments on partially completed construction projects authorized by the Oregon State Legislature of \$366 million as of June 30, 2008. See

“Note 17. Commitments and Contingent Liabilities” to the financial statements for additional information relating to capital construction commitments.

Debt Administration

During fiscal years 2008, 2007 and 2006, OUS issued bonds totaling \$294 million, \$124 million and \$72 million, respectively, with the proceeds earmarked for construction and acquisition of capital assets. The UO Arena Project debt totaling \$200 million was issued at the end of fiscal year 2008. Construction on this project is expected to begin in fiscal year 2009. During 2007 and 2006, capital expenditures exceeded debt proceeds as debt proceeds were used from the past fiscal years, as well as gifts and other funding sources, to pay for construction.

Long-term Debt
(In millions)



and available to OUS. The Oregon Legislature established limits on tuition and fee increases, further limiting the ability to offset the state funding declines relative to operating cost increases. With lower state support, limits on tuition and fees, and low enrollment growth, all of our institutions, and particularly our regional campuses, are operating in a financially challenging environment.

OUS approved a policy to implement differential tuition which allows universities to establish different tuition rates for academic programs by Fall 2011. Differential tuition is intended to 1) offset higher than average instructional costs; or 2) provide supplemental resources to enhance quality; or 3) reflect the market for programs with high demand. The increase in tuition will be offset by the reduction or elimination of certain fees currently charged to students. The implementation of this policy is expected to be revenue neutral.

OUS continues to seek legislative approval to retain the interest earned on all of its cash balances. Currently, interest for 41% of OUS invested cash is retained by the General Fund. Retaining investment earnings is an important economic factor in OUS's ability to retain and build its service level to students and reduce future tuition increases.

OUS continues to be challenged by insufficient state support 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.

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. Though funding progress was made during the last legislative session, current housing, banking, market and other economic downturns have affected the State's revenue forecast. Tight credit markets are likely to affect the types of long-term debt authorized by the State

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, 2008 and 2007, 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 9% of the total revenues of the System's discretely presented component units as described in Note 18 for the year ended June 30, 2008. We also did not audit 5 of the 8 discretely presented component units which represent 7% of total net assets and 11% of total revenues of the System's discretely presented component units as described in Note 17 for the year ended June 30, 2007. 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, is based solely on the report of other auditors.

We conducted our audits 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1B to the financial statements, on July 1, 2007, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 required the System to recognize and match other postemployment benefit costs with related services received and disclose additional information.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008, 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 listed in the table of contents 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 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Eugene, Oregon
November 19, 2008

STATEMENTS OF NET ASSETS

As of June 30,	University System	
	2008	2007
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 355,334	\$ 343,004
Collateral from Securities Lending (Note 2)	414,901	240,871
Accounts Receivable, Net (Note 3)	181,291	147,075
Accounts Receivable from Component Units (Note 3)	8,976	9,284
Notes Receivable, Net (Note 4)	13,820	14,544
Inventories	6,686	6,594
Prepaid Expenses	16,581	11,541
Total Current Assets	997,589	772,913
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	460,614	278,920
Long-Term Investments (Note 2)	81,729	100,876
Notes Receivable, Net (Note 4)	97,378	94,184
Capital Assets, Net of Accumulated Depreciation (Note 5)	1,548,794	1,421,168
Total Noncurrent Assets	2,188,515	1,895,148
Total Assets	\$ 3,186,104	\$ 2,668,061
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	\$ 119,152	\$ 98,592
Deposits	13,146	13,222
Obligations Under Securities Lending (Note 2)	414,901	240,871
Current Portion of Long-Term Liabilities (Note 8)	88,758	85,131
Deferred Revenue	94,699	83,047
Total Current Liabilities	730,656	520,863
Noncurrent Liabilities		
Long-Term Liabilities (Note 8)	1,239,174	1,011,392
Total Noncurrent Liabilities	1,239,174	1,011,392
Total Liabilities	\$ 1,969,830	\$ 1,532,255
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 631,626	\$ 591,989
Restricted For:		
Nonexpendable Endowments	17,333	17,333
Expendable:		
Gifts, Grants and Contracts	103,297	99,370
Student Loans	86,987	86,188
Capital Projects	124,268	80,109
Debt Service	82,314	78,608
Unrestricted Net Assets (Note 9)	170,449	182,209
Total Net Assets	\$ 1,216,274	\$ 1,135,806

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

STATEMENTS OF FINANCIAL POSITION

As of June 30,	Component Units	
	2008	2007
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	\$ 37,996	\$ 61,617
Contributions, Pledges and Grants Receivable, Net	252,710	93,354
Investments (Note 2)	1,181,254	1,155,596
Prepaid or Deferred Expenses, and Other Assets	34,171	25,060
Property and Equipment, Net	48,447	52,673
Total Assets	\$ 1,554,578	\$ 1,388,300
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 7,212	\$ 4,675
Accounts Payable to Universities	11,579	634
Obligations to Beneficiaries of Split-Interest Agreements	77,238	87,829
Deposits and Deferred Revenue	13,759	13,715
Long-Term Liabilities	60,260	50,496
Total Liabilities	\$ 170,048	\$ 157,349
NET ASSETS		
Unrestricted	\$ 60,775	\$ 69,996
Temporarily Restricted	703,591	608,779
Permanently Restricted	620,164	552,176
Total Net Assets	\$ 1,384,530	\$ 1,230,951

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30,	University System	
	2008	2007
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowance of \$83,395 and \$74,404, respectively)	\$ 496,157	\$ 469,939
Federal Grants and Contracts	322,808	306,824
State and Local Grants and Contracts	34,475	31,815
Nongovernmental Grants and Contracts	37,180	39,738
Educational Department Sales and Services	66,440	59,623
Auxiliary Enterprise Revenues (Net of Scholarship Allowance of \$9,447 and \$8,963, respectively)	270,668	253,877
Other Operating Revenues	24,109	29,843
Total Operating Revenues	1,251,837	1,191,659
OPERATING EXPENSES		
Instruction	530,029	504,918
Research	263,781	259,812
Public Service	103,581	102,163
Academic Support	118,843	107,208
Student Services	65,570	61,322
Auxiliary Programs	307,355	284,232
Operation and Maintenance of Plant	79,971	69,351
Institutional Support	133,270	122,697
Student Aid	60,589	54,982
Other Operating Expenses	94,279	88,218
Total Operating Expenses (Note 11)	1,757,268	1,654,903
Operating Loss	(505,431)	(463,244)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)	448,571	392,425
Investment Activity (Note 10)	16,980	35,866
Gain on Sale of Assets, Net	1,562	17,290
Interest Expense	(53,072)	(46,258)
Other Nonoperating Items	100,141	80,251
Net Nonoperating Revenues	514,182	479,574
Income Before Other Revenues, Expenses, Gains and Losses	8,751	16,330
Capital Appropriations (Note 12)	16,610	-
Capital Grants and Gifts	55,107	40,118
Changes to Permanent Endowments	-	70
Total Other Nonoperating Revenues	71,717	40,188
Increase in Net Assets	80,468	56,518
NET ASSETS		
Beginning Balance	1,135,806	1,079,288
Ending Balance	\$ 1,216,274	\$ 1,135,806

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

STATEMENTS OF ACTIVITIES

For The Years Ended June 30,	Component Units	
	2008	2007
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	\$ 354,406	\$ 165,013
Interest and Dividends	9,467	11,586
Investment (Loss) Income, Net	(19,533)	128,426
Change in Value of Life Income Agreements	(5,700)	6,379
Other Revenues	22,897	12,514
Total Revenues	361,537	323,918
EXPENSES		
General and Administrative	29,506	24,394
Development Expenses	6,170	6,094
University Support	157,653	120,959
Other Expenses	15,195	10,274
Total Expenses	208,524	161,721
Increase In Net Assets Before Capital Contributions	153,013	162,197
Capital Contributions to Real Estate Operations	566	342
Increase In Net Assets	153,579	162,539
NET ASSETS, BEGINNING BALANCE	1,230,951	1,068,412
NET ASSETS, ENDING BALANCE	\$ 1,384,530	\$ 1,230,951

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	University System	
	2008	2007
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 486,937	\$ 468,134
Grants and Contracts	394,089	381,213
Sales and Services of Educational Departments	66,282	59,552
Auxiliary Enterprise Operations	272,661	253,228
Student Loan Collections	12,787	22,591
Payments to Employees for Compensation and Benefits	(1,138,163)	(1,079,686)
Payments to Suppliers	(430,733)	(389,049)
Student Financial Aid	(86,388)	(79,412)
Student Loan Issuance and Costs	(23,901)	(24,959)
Other Operating Receipts	12,610	16,170
Net Cash Used by Operating Activities	(433,819)	(372,218)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	445,509	401,768
Private Gifts Received for Endowment Purposes	-	70
Other Gifts and Private Contracts	98,298	81,202
Net Agency Fund Payments	(3,460)	(483)
Net Cash Provided by Noncapital Financing Activities	540,347	482,557
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	16,610	-
Capital Grants and Gifts	48,714	38,122
Bond Proceeds on Capital Debt	294,053	124,384
Sales of Capital Assets	33,376	40,320
Purchases of Capital Assets	(215,701)	(132,579)
Interest Payments on Capital Debt	(52,647)	(46,248)
Principal Payments on Capital Debt	(72,984)	(34,021)
Net Cash Provided (Used) by Capital and Related Financing Activities	51,421	(10,022)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchases of Investments	(310)	(15,976)
Interest on Investments and Cash Balances	36,385	28,578
Interest Income from Securities Lending	6,195	5,102
Interest Expense from Securities Lending	(6,195)	(5,102)
Net Cash Provided by Investing Activities	36,075	12,602
NET INCREASE IN CASH AND CASH EQUIVALENTS	194,024	112,919
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	621,924	509,005
CASH AND CASH EQUIVALENTS, ENDING BALANCE	\$ 815,948	\$ 621,924

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

For the Years Ended June 30,	University System	
	2008	2007
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (505,431)	\$ (463,244)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	91,724	89,805
Changes in Assets and Liabilities:		
Accounts Receivable	(37,307)	(19,351)
Notes Receivable	915	2,391
Inventories	(92)	(381)
Prepaid Expenses	(5,045)	1,892
Accounts Payable and Accrued Liabilities	4,907	8,168
Long-Term Liabilities	4,108	3,120
Deposits	9	(276)
Deferred Revenue	12,393	5,658
NET CASH USED BY OPERATING ACTIVITIES	\$ (433,819)	\$ (372,218)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ 78	\$ 175
Capital Assets Acquired by Gifts in Kind	7,165	3,584
(Decrease) Increase in Fair Value of Investments Recognized as a Component of Investment Activity	(19,330)	7,309

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

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 (EOU), Oregon Institute of Technology (OIT), Oregon State University (OSU), Portland State University (PSU), Southern Oregon University (SOU), University of Oregon (UO), Western Oregon University (WOU), and the Chancellor's Office. OSU includes a branch campus in Bend and receives separate appropriations for statewide activities including agricultural experiment stations, cooperative extension services and forestry research laboratories. The 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 U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of OUS assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

Financial statements of the OUS discreetly presented component units are presented in accordance with generally

accepted accounting principles prescribed by the Financial Accounting Standards Board. (FASB).

OUS implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the year ended June 30, 2008. 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. See "Note 14. Other Postemployment Benefits" for information about OUS OPEB.

OUS implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB 48 defines reporting requirements when governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. OUS has not sold or pledged receivables or future revenues and has no reporting requirements in this fiscal year.

OUS implemented GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. GASB 50 more closely aligns the financial reporting requirements for pensions with those for OPEB. See "Note 13. Employee Retirement Plans" for referral to the Oregon Public Employees Retirement System report for information relating to GASB 50.

New Accounting Standards – In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements of GASB 49 are effective for the fiscal year ending June 30, 2009. OUS is not anticipating that the adoption of GASB 49 will have a material impact on its financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. GASB 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of GASB 51 are effective for the fiscal year ending June 30,

2010. OUS is not anticipating that the adoption of GASB 51 will have a material impact on its financial statements.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. The requirements for GASB 52 are effective for the fiscal year ending June 30, 2009. OUS is not anticipating that the adoption of GASB 52 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 2007 financial statements reflect certain reclassifications to conform to the fiscal year 2008 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 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); cash and cash equivalents restricted for the payment of the current portion of debt service; and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

Cash and cash equivalents restricted for the long-term portion of debt service, capital construction, and agency funds are classified as noncurrent assets in the 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 real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization threshold of \$50,000 to \$100,000, depending on the type of real property. Expenditures below the capitalization threshold and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

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

Restricted nonexpendable 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. In accordance with current board policy, the amount available for distribution during fiscal year 2009 is \$2,698,000. For the years ended June 30, 2008 and 2007, the net amount of appreciation available for authorization for expenditure was \$17,653,000 and \$22,829,000, respectively.

Nonexpendable Endowments on the Statements of Net Assets of \$17,333,000 at June 30, 2008 and 2007, 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 compensation, 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 \$39,306,000 and \$35,122,000 for the fiscal years ended 2008 and 2007, respectively. Revenues from financial aid pro-

grams (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 \$53,536,000 and \$48,245,000 for the fiscal years ended 2008 and 2007, respectively.

O. Student Loan Programs

OUS universities receive proceeds from the Federal Direct Student Loan Program and the Federal Family Education Loan Program. Since the recipient government (OUS) serves only as a cash conduit, the grant should be reported in an agency fund. A recipient government serves only as a cash conduit if it merely transmits grantor-supplied moneys without having administrative or direct financial involvement in the program. Federal student loans received by OUS students but not reported in operations were \$368,605,000 and \$350,891,000 for the fiscal years ended 2008 and 2007, 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, 2008 and 2007, OUS carrying amounts of cash and cash equivalents were \$813,043,000 and \$618,600,000, respectively, while the State Treasury balances were \$832,338,000 and \$630,481,000, respectively. Differences between the OUS carrying amount and the State Treasury balance occur due to timing differences between transfers.

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

by linking to http://www.ost.state.or.us/about/annual_reports/index.htm.

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 \$136,000 at June 30, 2008.

Other Deposits

OUS cash and cash equivalents held by a fiscal agent outside the State Treasury comprised \$2,905,000 and \$3,324,000 at June 30, 2008 and 2007, 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, 2008, no bondholders had balances exceeding \$100,000.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

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 \$27,000 and were in slightly favorable positions at June 30, 2008.

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, 2008 (in thousands):

University System	Fair Value	Concentration of Credit Risk
Investment Type:		
Money Market Funds	\$ 1,604	2%
US Government Bonds	61	-
Mutual Funds - Domestic Fixed Income	20,850	25%
Guaranteed Investment Contracts	10,913	13%
US Agency Securities	1,009	1%
Fixed Income Investments	<u>34,437</u>	
Mutual Funds - Domestic Equity Securities	14,444	17%
Mutual Funds - International Equity	24,395	30%
Equity Investments	<u>38,839</u>	
Alternative Equities	6,349	8%
Real Estate	3,200	4%
Other Investments	<u>9,549</u>	
Total All Investments	82,825	100%
Less Amounts Recorded As Cash	<u>(1,096)</u>	
Total Investments	<u>\$ 81,729</u>	

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

In 2008, there has been significant volatility in the domestic and international investment markets, primarily as a result of liquidity issues in credit markets. Consequently, the fair value of OUS's investments is exposed to higher than typical price volatility which could result in a substantial reduction in the fair value of certain investments from the amounts reported as of June 30, 2008.

Of the total investments, \$67 million are in pooled endowment investments, \$3 million are separately invested endowments, and \$12 million are investments of unspent bond proceeds. OUS has an endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Investments of the OUS discretely presented component units are summarized at June 30, 2008 as follows (in thousands):

Component Units	Fair Value
Investment Type:	
Corporate Stocks, Bonds, Securities and Mutual Funds	\$ 640,897
Investment in Common Stock, Voting Trust and Partnerships	464,047
US Treasury Notes and Government Obligations	31,936
Money Market Funds and Certificates of Deposit	19,511
Collateralized Mortgages, Mortgage Notes and Contracts, Realty Funds	8,725
Land and Buildings	8,704
Remainder Trusts, Unitrusts and Gift Annuities	4,447
Alternative Investments	2,787
Cash Value of Life Insurance Policies	200
Total Investments	<u>\$ 1,181,254</u>

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, 2008, OUS fixed income investments (in thousands) had the following credit quality ratings:

Investment Type:	Total	Money Market Funds	Mutual Funds - Domestic Fixed Income	Guaranteed Investment Contracts	Other
P1	\$ 1,009				\$ 1,009
AA+	20,850		\$ 20,850		
Aaa	61				61
Unrated	12,517	\$ 1,604		\$ 10,913	
Fair Value	<u>\$ 34,437</u>	<u>\$ 1,604</u>	<u>\$ 20,850</u>	<u>\$ 10,913</u>	<u>\$ 1,070</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 OUS investments are not used to 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 or security, unless part of an index fund. No investments representing five percent or more of total investments were held at June 30, 2008.

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 25% - 35% of total investments. OUS has the following investments in corporate bonds and fixed income mutual funds at June 30, 2008 (in thousands):

Investment Type:	Total	Money Market Funds	Mutual		Other
			Funds- Domestic Fixed	Guaranteed Investment Contracts	
Investment Maturities (in years):					
Less than 1	\$ 10,683	\$ 1,604		\$ 8,070	\$ 1,009
1 to 5	-				
6 to 10	22,858		\$ 20,850	1,947	61
More than 10	896			896	
Fair Value	<u>\$ 34,437</u>	<u>\$ 1,604</u>	<u>\$ 20,850</u>	<u>\$ 10,913</u>	<u>\$ 1,070</u>

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 \$24,395,000 in mutual funds that are primarily invested in international equities at June 30, 2008.

C. Securities Lending

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions. The securities lending balances relating to investment securities owned by 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:

	<u>June 30, 2008</u>	June 30, 2007
OUS Securities on loan:		
Fair Value	\$ 757	\$ 8,941
Cash Collateral held by OUS:		
Fair Value	798	9,154
Reported Value	803	9,146
Securities on loan by OSTF:		
Fair Value	405,970	227,287
Cash Collateral held by OSTF:		
Fair Value	411,639	231,921
Reported Value	414,098	231,725

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for OUS securities on loan in the OSTF. At June 30, 2008, 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. The investments were held by a third-party custodian in the State of Oregon's name. The STIF is not rated by a nationally recognized statistical rating organization, although the STIF's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

The State Treasurer and borrowers 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, 2008	June 30, 2007
Student Tuition and Fees	\$ 91,070	\$ 77,598
Auxiliary Enterprises and Other		
Operating Activities	17,684	15,700
Federal Grants and Contracts	30,640	12,612
State, Other Government, and Private		
Gifts and Contracts	34,079	40,587
Component Units	8,976	9,284
Other	19,395	8,138
	<u>201,844</u>	<u>163,919</u>
Less: Allowance for Doubtful Accounts	(11,577)	(7,560)
Accounts Receivable, Net	<u>\$ 190,267</u>	<u>\$ 156,359</u>

4. NOTES RECEIVABLE

Notes Receivable comprised the following (in thousands):

	June 30, 2008		
	Current	Noncurrent	Total
Institutional and Other Student Loans	\$ 1,553	\$ 8,439	\$ 9,992
Federal Student Loans	14,270	64,801	79,071
Amounts Due from OHSU for Bond			
Indebtedness (See Note 8.G.)	4,215	27,393	31,608
	<u>20,038</u>	<u>100,633</u>	<u>120,671</u>
Less: Allowance for Doubtful			
Accounts	(6,218)	(3,255)	(9,473)
Notes Receivable, Net	<u>\$ 13,820</u>	<u>\$ 97,378</u>	<u>\$ 111,198</u>

	June 30, 2007		
	Current	Noncurrent	Total
Institutional and Other Student Loans	\$ 1,646	\$ 7,980	\$ 9,626
Federal Student Loans	11,823	58,975	70,798
Amounts Due from OHSU for Bond			
Indebtedness (See Note 8.G.)	5,904	30,622	36,526
	<u>19,373</u>	<u>97,577</u>	<u>116,950</u>
Less: Allowance for Doubtful			
Accounts	(4,829)	(3,393)	(8,222)
Notes Receivable, Net	<u>\$ 14,544</u>	<u>\$ 94,184</u>	<u>\$ 108,728</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2008 and 2007. 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, 2006	Additions	Retirements and Adjustments	Balance June 30, 2007	Additions	Retirements and Adjustments	Balance June 30, 2008
Capital Assets, Non-depreciable:							
Land	\$ 80,020	\$ 6,488	\$ (2,100)	\$ 84,408	\$ 5,398	\$ 11,212 A	\$ 101,018
Capitalized Collections	58,551	677	(77)	59,151	2,113	(37)	61,227
Construction in Progress	74,935	98,242	(78,294)	94,883	175,502	(105,765)	164,620
Total Capital Assets, Non-depreciable	213,506	105,407	(80,471)	238,442	183,013	(94,590)	326,865
Capital Assets, Depreciable							
Equipment	261,176	20,596	(13,209)	268,563	35,022	(16,814)	286,771
Library Materials	292,246	10,479	(938)	301,787	11,137	(984)	311,940
Buildings	1,589,193	69,844	(4,675)	1,654,362	97,478	(22,922) A	1,728,918
Land Improvements	24,192	1,087	(1,088)	24,191	979	35	25,205
Improvements Other Than Buildings	14,498	3,576	(981)	17,093	4,080	(19)	21,154
Infrastructure	50,701	2,892	(16)	53,577	2,332	(351)	55,558
Total Capital Assets, Depreciable	2,232,006	108,474	(20,907)	2,319,573	151,028	(41,055)	2,429,546
Less Accumulated Depreciation for:							
Equipment	(185,142)	(20,362)	11,044	(194,460)	(21,069)	15,392	(200,137)
Library Materials	(224,981)	(13,622)	927	(237,676)	(13,261)	589	(250,348)
Buildings	(594,926)	(51,589)	3,316	(643,199)	(52,580)	4,794	(690,985)
Land Improvements	(12,970)	(1,124)	519	(13,575)	(1,110)	(21)	(14,706)
Improvements Other than Buildings	(9,920)	(1,087)	837	(10,170)	(1,627)	(31)	(11,828)
Infrastructure	(35,769)	(2,014)	16	(37,767)	(2,077)	231	(39,613)
Total Accumulated Depreciation	(1,063,708)	(89,798)	16,659	(1,136,847)	(91,724)	20,954	(1,207,617)
Total Capital Assets, Net	\$ 1,381,804	\$ 124,083	\$ (84,719)	\$ 1,421,168	\$ 242,317	\$ (114,691)	\$ 1,548,794
Capital Assets Summary							
Capital assets, nondepreciable	\$ 213,506	\$ 105,407	\$ (80,471)	\$ 238,442	\$ 183,013	\$ (94,590)	\$ 326,865
Capital assets, depreciable	2,232,006	108,474	(20,907)	2,319,573	151,028	(41,055)	2,429,546
Total cost of capital assets	2,445,512	213,881	(101,378)	2,558,015	334,041	(135,645)	2,756,411
Less accumulated depreciation	(1,063,708)	(89,798)	16,659	(1,136,847)	(91,724)	20,954	(1,207,617)
Total Capital Assets, Net	\$ 1,381,804	\$ 124,083	\$ (84,719)	\$ 1,421,168	\$ 242,317	\$ (114,691)	\$ 1,548,794

A— An asset valued at \$12,658,000 was reclassified in fiscal year 2008 from Buildings to Land.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2008	June 30, 2007
Services and Supplies	\$ 74,933	\$ 63,487
Accrued Interest	15,739	12,652
Salaries and Wages	14,903	12,252
Payroll Related Expenses	4,958	4,139
Contract Retainage Payable	5,660	2,720
Matured Bonds, COPs and Interest Payable	2,905	3,324
Financial Aid	54	18
	<u>\$ 119,152</u>	<u>\$ 98,592</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 \$7,154,000 and \$6,081,000 for the years ended June 30, 2008 and 2007, respectively. The original cost of assets leased, net of depreciation, was \$16,291,000 and \$22,717,000 for the years ended June 30, 2008 and 2007, respectively. Minimum future lease revenue for non-cancelable operating leases at June 30, 2008 were (in thousands):

For the year ending June 30,

2009	\$ 6,746
2010	5,829
2011	5,454
2012	5,315
2013	4,914
2014-2018	14,791
2019-2023	13,372
2024-2028	13,421
2029-2033	12,758
2034-2038	11,865
2039-2043	1,411
2044-2048	990
2049-2053	366
Total Minimum Operating Lease Revenue	<u>\$ 97,232</u>

B. Payables

OUS leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were \$9,112,000 and \$7,018,000 for the years ended June 30, 2008 and 2007, respectively. Minimum future lease payments on operating leases at June 30, 2008 were (in thousands):

For the year ending June 30,

2009	\$ 9,663
2010	7,826
2011	6,455
2012	5,899
2013	6,960
2014-2018	20,368
2019-2023	20,445
2024-2028	8,757
2029-2033	39
2034-2038	39
2039-2043	39
2044-2048	39
2049-2053	39
Total Minimum Operating Lease Payments	<u>\$ 86,568</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

8. LONG-TERM LIABILITIES

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

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	\$ 732,269	\$ 227,176	\$ (61,153)	\$ 898,292	\$ 31,031
General Obligation Bonds XI-G	241,918	19,627	(15,028)	246,517	8,738
Oregon Department of Energy Loans (SELP)	13,864	6,526	(1,696)	18,694	1,532
Certificates of Participation (COPs)	20,300	5,606	(3,812)	22,094	3,041
Lottery Bonds	46,198	50,846	(2,697)	94,347	3,109
Capital Leases	233	17	(137)	113	101
Arbitrage	972	303	(138)	1,137	
Other Notes Payable	27			27	6
Total Long-Term Debt	<u>1,055,781</u>	<u>310,101</u>	<u>(84,661)</u>	<u>1,281,221</u>	<u>47,558</u>
Other Noncurrent Liabilities					
Compensated Absences	40,172	41,864	(41,018)	41,018	41,018
Other Postemployment Benefits		5,150		5,150	
Early Retirement Liability	570	135	(162)	543	182
Total Other Noncurrent Liabilities	<u>40,742</u>	<u>47,149</u>	<u>(41,180)</u>	<u>46,711</u>	<u>41,200</u>
Total Long-Term Liabilities	<u>\$ 1,096,523</u>	<u>\$ 357,250</u>	<u>\$ (125,841)</u>	<u>\$ 1,327,932</u>	<u>\$ 88,758</u>
	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Long-Term Debt					
General Obligation Bonds XI-F(1)	\$ 699,496	\$ 168,696	\$ (135,923)	\$ 732,269	\$ 31,255
General Obligation Bonds XI-G	208,814	70,307	(37,203)	241,918	7,703
Oregon Department of Energy Loans (SELP)	15,641		(1,777)	13,864	1,656
Certificates of Participation (COPs)	12,124	10,834	(2,658)	20,300	3,806
Lottery Bonds	28,741	19,059	(1,602)	46,198	1,691
Capital Leases	466	115	(348)	233	136
Arbitrage	182	790		972	85
Other Notes Payable	32		(5)	27	
Total Long-Term Debt	<u>965,496</u>	<u>269,801</u>	<u>(179,516)</u>	<u>1,055,781</u>	<u>46,332</u>
Other Noncurrent Liabilities					
Compensated Absences	37,554	37,370	(34,752)	40,172	38,613
Early Retirement Liability	432	277	(139)	570	186
Total Other Noncurrent Liabilities	<u>37,986</u>	<u>37,647</u>	<u>(34,891)</u>	<u>40,742</u>	<u>38,799</u>
Total Long-Term Liabilities	<u>\$ 1,003,482</u>	<u>\$ 307,448</u>	<u>\$ (214,407)</u>	<u>\$ 1,096,523</u>	<u>\$ 85,131</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

The schedule of principal and interest payments for OUS debt is as follows (in thousands):

For the Year Ending June 30,	Bonds				Lottery Bonds	Capital Leases	Other Borrowings	Total Payments	Principal	Interest
	XI-F(1)	XI-G	SELP	COPs						
2009	\$ 64,996	\$ 18,247	\$ 2,515	\$ 3,862	\$ 6,883	\$ 103	\$ 7	\$ 96,613	\$ 37,277	\$ 59,336
2010	66,923	17,800	2,401	4,251	6,948	7	1,157	99,487	36,309	63,178
2011	66,497	17,888	2,256	3,154	6,484	6		96,285	34,209	62,076
2012	72,152	17,918	2,243	2,515	6,477			101,305	40,111	61,194
2013	71,634	17,936	2,097	1,911	6,481			100,059	39,486	60,573
2014-2018	335,778	89,993	8,181	6,267	42,837			483,056	215,680	267,376
2019-2023	295,082	82,774	3,989	3,026	34,701			419,572	233,426	186,146
2024-2028	256,363	76,984	2,733	2,425	28,580			367,085	254,747	112,338
2029-2033	189,259	47,519	422					237,200	180,049	57,151
2034-2038	118,295	19,186						137,481	118,995	18,486
2039	14,516							14,516	14,100	416
Accreted Interest									69,051	(69,051)
									\$ 1,273,440	\$ 879,219
Total Future Debt Service	1,551,495	406,245	26,837	27,411	139,391	116	1,164	2,152,659		
Less: Interest Component of Future Payments	(659,980)	(157,606)	(8,143)	(6,004)	(47,483)	(3)		(879,219)		
Principal Portion of Future Payments	891,515	248,639	18,694	21,407	91,908	113	1,164	1,273,440		
Adjusted by:										
Unamortized Bond Premiums	19,775	2,379		687	2,805			25,646		
Deferred Gain on Refunding	(12,998)	(4,501)			(366)			(17,865)		
Total Long-Term Debt	\$ 898,292	\$ 246,517	\$ 18,694	\$ 22,094	\$ 94,347	\$ 113	\$ 1,164	\$ 1,281,221		

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 Cash and Cash Equivalents. See "Note 8. Long-term Liabilities, H. Defeased Debt" for information relating to debt issued to refund existing debt.

XI-F(1) bonds, with effective yields ranging from 2.1 percent to 7.5 percent, are due serially through 2039.

During the fiscal year ended June 30, 2008, OUS issued bonded indebtedness as follows:

- XI-F(1) Taxable Bond Series 2008 A, \$200,000,000, effective interest rate of 5.9 percent for capital construction due serially through 2039.

During the fiscal year ended June 30, 2007, OUS issued bonded indebtedness as follows:

- XI-F(1) Tax Exempt Bond Series 2007 A, \$54,935,000, effective rate of 4.3 percent for capital construction due serially through 2038.

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. See "Note 8. Long-term Liabilities, H. Defeased Debt" for information relating to debt issued to refund existing debt.

XI-G bonds, with effective yields ranging from 2.1 percent to 7.0 percent, are due serially through 2038.

During the fiscal year ended June 30, 2008, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bond Series 2007 C, \$7,805,000, effective interest rate of 4.6 percent for capital construction due serially through 2038.
- XI-G Taxable Bond Series 2007 E, \$2,500,000, effective interest rate of 5.8 percent for capital construction due serially through 2028.

During the fiscal year ended June 30, 2007, OUS issued bonded indebtedness as follows:

- XI-G Tax Exempt Bonds Series 2007 B, \$38,015,000, effective rate of 4.3 percent for capital construction and re-funding due serially through 2038.

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 6.8 percent, are due through 2029.

D. Certificates of Participation

Certificates of Participation (COPs) are issued to finance certain equipment, computer software and construction. OUS makes 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 3.0 percent to 4.1 percent, are due through fiscal year 2027.

During the fiscal year ended June 30, 2008, OUS issued COPs as follows:

- Series 2007 B, \$5,543,000, effective interest rate of 4.0 percent for technology projects due serially through 2018.

During the fiscal year ended June 30, 2007, OUS issued COPs as follows:

- Series 2007 A, \$10,330,000, effective rate of 4.1 percent for technology projects and construction due serially through 2027.

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 3.0 percent to 5.3 percent, are due through fiscal year 2028.

During the fiscal year ended June 30, 2008, the State issued on OUS's behalf Lottery Bonds as follows:

- Tax Exempt Bond Series 2007 C with net proceeds of

\$19,865,000 with an effective interest rate of 4.1 percent. Net proceeds were used for capital construction.

- Taxable Bond Series 2007 D with net proceeds of \$2,345,000 with an effective interest rate of 4.9 percent. Net proceeds were used for capital construction.
- Tax Exempt Bond Series 2008 A with net proceeds of \$27,770,000 with an effective interest rate of 4.1 percent. Net proceeds were used for capital construction.

In fiscal year 2007, Tax Exempt Lottery Bond Series 2007 A was issued with net proceeds of \$17,985,000 and an effective interest rate of 4.4 percent. The proceeds were used for capital construction.

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). Non-purpose 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, 2008 and 2007 was \$1,137,000 and \$972,000, 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 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, 2008 and 2007, long-term debt of OUS that relates to OHSU was \$31,608,000 and \$36,526,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

H. Defeased Debt

During the year ended June 30, 2008, OUS issued \$21,305,000 in XI-F(1) bonds with an average interest rate of 4.3 percent to refund \$21,235,000 in XI-F(1) bonds with an average interest rate of 5.2 percent. The net proceeds of the bonds were \$21,519,000 (after bond premium of \$318,000 and payment of \$104,000 in underwriting costs.)

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$445,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 18 years by \$1,895,000 and resulted in an economic gain of \$1,409,000.

During the year ended June 30, 2008, OUS issued \$7,465,000 in XI-G bonds with an average interest rate of 4.3 percent to refund \$7,365,000 in XI-G bonds with an average interest rate of 5.2 percent. The net proceeds of the bonds were \$7,464,000 (after bond premium of \$37,000 and payment of \$38,000 in underwriting costs.)

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$157,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 18 years by \$683,000 and resulted in an economic gain of \$508,000.

During the year ended June 30, 2007, OUS issued \$106,800,000 of XI-F(1) bonds with an average interest rate of 4.5 percent to refund \$103,305,000 in XI-F(1) bonds with an average interest rate of 5.0 percent. The net proceeds of the XI-F(1) bonds were \$107,605,000 (after bond premium of \$1,354,000 and payment of \$549,000 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 \$2,098,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 29 years by \$7,187,000 and resulted in an economic gain of \$4,725,000.

During the year ended June 30, 2007, OUS issued \$30,755,000 of XI-G bonds with an average interest rate of

4.5 percent to refund \$30,085,000 in XI-G bonds with an average interest rate of 5.0 percent. The net proceeds of the XI-G bonds were \$30,960,000 (after net premium of \$362,000 and payment of \$157,000 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 \$1,523,000. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 27 years by \$2,711,000 and resulted in an economic gain of \$1,765,000.

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 \$263,392,000 at June 30, 2008 and \$279,719,000 at June 30, 2007 of which \$150,000 and \$207,000, 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 \$728,000 and \$667,000 as of June 30, 2008 and 2007, respectively. Accumulated depreciation of leased equipment totaled \$530,000 and \$384,000 for June 30, 2008 and 2007, respectively.

The lease purchase (capital lease) contracts expire through fiscal year 2011. 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 1.7 percent to 8.0 percent.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

years after the employee's retirement date. As of June 30, 2008, 27 retirees were participating in the health and benefits option of this plan.

Early retirement liabilities comprised \$182,000 and \$186,000 in Current Portion of Long-Term Liabilities and \$361,000 and \$384,000 in Long-Term Liabilities as of June 30, 2008 and 2007, respectively. This liability was calculated using a discounted present value of expected future benefit payments, with a discount rate of six percent.

9. UNRESTRICTED NET ASSETS

Unrestricted Net Assets comprised the following (in thousands):

	June 30, 2008	June 30, 2007
Budgeted Operating Funds	\$ 94,321	\$ 95,985
Designated Operating Funds	21,727	17,279
Service Department Funds	202	5,216
Housing Funds	26,998	27,542
Intercollegiate Athletics Funds	(12,309)	(3,312)
Other Auxiliary Funds and Other Funds	36,269	35,451
Unrestricted Endowment Funds	3,241	4,048
	<u>\$170,449</u>	<u>\$ 182,209</u>

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows (in thousands):

	June 30, 2008	June 30, 2007
Interest Income	\$ 20,071	\$ 18,901
Net (Depreciation) Appreciation of Investments	(19,318)	7,309
Royalties and Technology Transfer Income	5,416	6,155
Endowment Income	2,549	2,412
Trust Income Distribution	(2,547)	(2,410)
Gain on Sale of Investments	10,804	3,488
Dividend Income	3	3
Other	2	8
	<u>\$ 16,980</u>	<u>\$ 35,866</u>

For the years ended June 30, 2008 and 2007, the fair value of endowment investments depreciated by \$19,318,000 and appreciated by \$7,309,000, respectively.

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, 2008	June 30, 2007
Compensation and Benefits	\$ 1,147,478	\$ 1,086,433
Services and Supplies	422,371	389,785
Scholarships and Fellowships	86,388	79,412
Depreciation	91,724	89,798
Other Expenses	9,307	9,475
	<u>\$ 1,757,268</u>	<u>\$ 1,654,903</u>

12. GOVERNMENT APPROPRIATIONS

Appropriations specific to capital construction are reported separately from general operations and debt service on the Statements of Revenues, Expenses and Changes in Net Assets. Government appropriations comprised the following (in thousands):

	June 30, 2008			
	General Operations	Debt Service	Capital Construc- tion	Total
General Fund	\$ 400,085	\$ 17,837	\$ 16,610	\$ 434,532
Lottery Funding	6,494	6,615		13,109
Harvest Tax	2,552			2,552
Total State	<u>409,131</u>	<u>24,452</u>	<u>16,610</u>	<u>450,193</u>
Federal Appropriations	9,139			9,139
County Appropriations	5,849			5,849
Total Appropriations	<u>\$ 424,119</u>	<u>\$ 24,452</u>	<u>\$ 16,610</u>	<u>\$ 465,181</u>
	June 30, 2007			
	General Operations	Debt Service	Capital Construc- tion	Total
General Fund	\$ 353,784	\$ 16,382	\$ -	\$ 370,166
Lottery Funding	2,553	3,679		6,232
Harvest Tax	2,829			2,829
Total State	<u>359,166</u>	<u>20,061</u>	<u>-</u>	<u>379,227</u>
Federal Appropriations	7,677			7,677
County Appropriations	5,521			5,521
Total Appropriations	<u>\$ 372,364</u>	<u>\$ 20,061</u>	<u>\$ -</u>	<u>\$ 392,425</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

13. EMPLOYEE RETIREMENT PLANS

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

Oregon Public Employees Retirement System/ Oregon Public Service Retirement Plan

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

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

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

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

PERS contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee's contribution rate of 6 percent has been paid by the employer.

The employer contribution rate for Tier One and Two was 5.45 percent for the first six months and 6.54 percent for the second six months of the fiscal year ended 2008 and 8.69 percent for the fiscal year ended 2007.

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

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

The payroll assessment for the pension obligation bond began May 2004 and is currently at a rate of 5.95 percent. Payroll assessments for the fiscal years ended June 30, 2008 and 2007 were \$25,743,000 and \$24,200,000, respectively.

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

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

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee's contribution rate of 6 percent has been paid by the employer, except for one union at PSU where employees self pay. The employer contribution rate for OPSRP was 8.03 percent for the fiscal year ended 2008, and 8.04 percent for the first six months and 4.43 percent for the second six months for the fiscal year ended 2007.

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

An actuarial valuation of the System is performed every two years to determine the level of employer contributions. The most recently completed valuation was performed as of December 31, 2005. The valuation included projected payroll growth at 3.75 percent in 2006. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. It is adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The actuarial accrued liability at December 31, 2006, for PERS and OPSRP, determined through an actuarial valuation performed as of that date, was \$51.1 billion and \$115.0 million, respectively. PERS and OPSRP net assets available for benefits on that date (valued at market) were \$49.2 billion and \$151.4 million, respectively. 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 System 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://www.oregon.gov/PERS/docs/financial_reports/2006CAFRDec20.pdf, or by calling 1-888-320-7377 or 1-503-598-7377 (in Portland Metro area).

OUS employer contributions to PERS and OPSRP for the years ended June 30, 2008 and 2007 were \$27,201,000 and \$30,719,000, 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 Re-

tirement 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 three 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:

	<u>2008</u>	<u>2007</u>
ORP Tier One	16.01%	16.75%
ORP Tier Two	16.01%	16.75%
OPSRP Equivalent	5.82%	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. This plan was closed to new enrollment at the time the ORP started in 1996.

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.

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For the Years Ended June 30, 2008 and 2007

The Federal Employees Retirement System (FERS) was created beginning January 1, 1987. Employees on Federal appointment hired after December 31, 1983 were automatically converted to FERS. Other federal employees not covered by FERS had a one-time option to transfer to FERS up to December 31, 1987. New FERS employees contribute 0.8 percent with an employer contribution rate of 10.7 percent, which changed to 11.2 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, 2008 was \$837,022,000, of which \$625,739,000 was subject to retirement contributions. The following schedule lists payments made by OUS to pension plans for the fiscal year (in thousands):

	June 30, 2008			
	Employer Contri- bution	As a % of Covered Payroll	Employee Contri- bution	As a % of Covered Payroll
PERS/OPSRP	\$ 27,201	4.35%	\$ 25,005	4.00%
ORP	24,331	3.88%	11,943	1.90%
TIAA-CREF	225	0.04%	225	0.04%
Federal	428	0.07%	159	0.03%
FERS - TSP	125	0.02%	319	0.05%
	\$ 52,310	8.36%	\$ 37,651	6.02%

Of the employee share, the employer paid \$24,840,000 of PERS/OPSRP, \$11,857,000 of ORP, and \$225,000 of TIAA-CREF during the fiscal year ended June 30, 2008. The federal contributions of \$159,000 represent FERS and CSRS employees, and the \$319,000 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 2008.

OUS total payroll for the year ended June 30, 2007 was \$790,913,000, of which \$633,102,000 was subject to retirement contributions. The following schedule lists payments made by OUS to pension plans for the fiscal year (in thousands):

	June 30, 2007			
	Employer Contri- bution	As a % of Covered Payroll	Employee Contri- bution	As a % of Covered Payroll
PERS/OPSRP	\$ 30,719	4.85%	\$ 23,378	3.69%
ORP	26,193	4.14%	11,233	1.77%
TIAA-CREF	224	0.03%	224	0.04%
Federal	430	0.07%	175	0.03%
FERS - TSP	121	0.02%	313	0.05%
	\$ 57,687	9.11%	\$ 35,323	5.58%

Of the employee share, the employer paid \$23,180,000 of PERS/OPSRP, \$11,181,000 of ORP, and \$224,000 of TIAA-CREF during the fiscal year ended June 30, 2007. The federal contributions of \$175,000 represent FERS and CSRS employees, and the \$313,000 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 2007.

14. OTHER POSTEMPLOYMENT BENEFITS

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

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

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to OUS's share, estimated at 25 percent of the total PEBB plan costs attributable to the State of Ore-

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

gon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2007.

Funding Policy. OUS's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2008, OUS paid healthcare insurance premiums of \$138,252,000 for the year. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be \$3,669,000.

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

	June 30, 2008
Annual Required Contribution	\$ 8,819
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost	8,819
Contributions Made	(3,669)
Increase in Net OPEB Obligation	5,150
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	\$ 5,150

The OUS annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended 2008 was as follows (dollar amounts in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 8,819	42%	\$ 5,150

Funding Status and Funding Progress. The funded status of the OUS OPEB plan for the current year was as follows (dollar amounts in thousands):

	June 30, 2008
Actuarial Accrued Liabilities	\$ 81,908
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$ 81,908
Funded Ratio	0.00%
Covered Payroll (active plan members)	\$ 535,865
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	15.29%

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

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

Actuarial Valuation Date	7/1/2007
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	29 Years
Actuarial Assumptions:	
Projected Salary Increases	N/A
Initial Healthcare Inflation Rates	5.8% (medical), 2.9% (dental)
Ultimate Healthcare Inflation Rates	5.0% (medical), 4.0% (dental)

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, 2008 and 2007, was \$5,899,000 and \$6,470,000, 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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

risks to the state insurance fund:

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

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

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

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

17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects authorized by the Oregon State Legislature totaled approximately \$366,272,000 and \$150,687,000 at June 30, 2008 and 2007, respectively. These commitments will be primarily funded from gifts and grants, bond proceeds, and other OUS funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2008.

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, 2008.

Construction Commitments as of June 30, 2008

(In thousands)

Campus/Project Description	Total Commitment	Completed to Date	Outstanding Commitment
Eastern Oregon University:			
Campus Energy Savings Project	\$ 3,044	\$ 59	\$ 2,985
Inlow Hall Upgrade	1,312	53	1,259
Capital Renovations	1,142	37	1,105
Oregon Institute of Technology:			
Center for Health Professions	9,000	8,370	630
Capital Renovations	1,284	577	707
Geothermal Well	1,000	137	863
Oregon State University:			
Linus Pauling Institute	20,000	383	19,617
New Energy Center	21,112	6,043	15,069
Apperson Hall Renovation	10,000	5,304	4,696
Education Hall Remodel	7,152	608	6,544
Reser Phase 2 - Gill Annex	5,200	815	4,385
HP Building 11 Renovation	9,500	84	9,416
Goss Stadium Expansion	4,500	3,892	608
Nash Hall Renovation	3,776	227	3,549
Gleeson Renovation	2,337	46	2,291
Scientific Electron Microscope	1,410	-	1,410
McNary Residence Hall Upgrade	1,400	392	1,008
Ntnl Wave Energy Research Ctr	1,000	1	999
Portland State University:			
Archive & Record Center	9,871	3,396	6,475
Shattuck Hall	13,045	10,284	2,761
Campus Loop Maintenance	5,497	2,069	3,428
Lincoln Hall Upgrade	4,433	583	3,850
Capital Repair	5,161	811	4,350
Science Building Upgrade	2,204	732	1,472
Walk of the Heroines	1,690	638	1,052
Science II Asbestos Abatement	1,050	13	1,037
Southern Oregon University:			
SOU/RCC Medford Building	5,550	3,439	2,111
University of Oregon:			
Basketball Arena Project	192,021	192	191,829
Autzen Stadium Expansion	60,300	59,746	554
Education Center Addition	43,400	22,366	21,034
School of Music Addition	9,100	6,466	2,634
Capital Repair	4,351	1,127	3,224
Central Power Station Addition	4,899	2,212	2,687
Living Learning Center	3,000	1,636	1,364
Theatre Complex Addition	3,950	1,409	2,541
Museum of Natural History Curation	1,800	224	1,576
Western Oregon University:			
Physical Plant Upgrade	1,498	325	1,173
Projects with <\$500 thousand remaining to be spent			
	227,063	225,146	1,917
Project Budgets <\$1 million			
	104,518	72,456	32,062
	<u>\$ 808,570</u>	<u>\$ 442,298</u>	<u>\$ 366,272</u>

18. 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.

The financial activity is reported for the years ended June 30, 2008 and 2007, except for Eastern Oregon University Foundation reporting for December 31, 2007 and 2006.

During the years ended June 30, 2008 and 2007, gifts of \$121,211,000 and \$103,772,000, 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 (GAAP); Oregon Tech Foundation financial statements contained a gift of privately held stock that could not be valued by the report date. The effect of these GAAP departures are not material to the total component units.

Please see the combining financial statements for the OUS component units on the following pages.

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, 2125 SW Fourth Avenue, Suite 510, Portland, OR 97201

- Southern Oregon University Foundation, 1250 Siskiyou Boulevard, Ashland, OR 97520-5043
- University of Oregon Foundation, 360 E.10th, Suite 202, Eugene, OR 97401
- 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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

COMPONENT UNITS

COMBINING FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2008 (in thousands)

	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	\$ 638	\$ 983	\$ 18,745
Contributions, Pledges and Grants Receivable, Net	127	3,588	45,727
Investments	3,503	18,009	493,289
Prepaid or Deferred Expenses, and Other Assets	12	138	3,321
Property and Equipment, Net			6,360
Total Assets	\$ 4,280	\$ 22,718	\$ 567,442

LIABILITIES

Accounts Payable and Accrued Liabilities	\$ 5	\$ 447	\$ 1,492
Accounts Payable to Universities			11,192
Obligations to Beneficiaries of Split-Interest Agreements		106	28,495
Deposits and Deferred Revenue	142		
Long-Term Liabilities		1,900	
Total Liabilities	\$ 147	\$ 2,453	\$ 41,179

NET ASSETS

Unrestricted	\$ 111	\$ 7,697	\$ 34,920
Temporarily Restricted	1,347	7,557	240,660
Permanently Restricted	2,675	5,011	250,683
Total Net Assets	\$ 4,133	\$ 20,265	\$ 526,263

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2008 (in thousands)

REVENUES

Grants, Bequests and Gifts	\$ 685	\$ 6,062	\$ 89,388
Interest and Dividends			9,221
Investment Income (Loss), Net	294	(768)	(27,411)
Change in Value of Life Income Agreements		(87)	(880)
Other Revenues	95	51	13,949
Total Revenues	1,074	5,258	84,267

EXPENSES

General and Administrative	75	500	17,006
Development Expenses			
University Support	418	8,971	69,410
Other Expenses	152		8,558
Total Expenses	645	9,471	94,974
Increase (Decrease) In Net Assets Before Other Changes in Net Assets	429	(4,213)	(10,707)
Other Changes in Net Assets			
Increase (Decrease) In Net Assets	429	(4,213)	(10,707)
NET ASSETS, BEGINNING BALANCE	3,704	24,478	536,970
NET ASSETS, ENDING BALANCE	\$ 4,133	\$ 20,265	\$ 526,263

* As of December 31, 2007

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
\$ 1,167	\$ 1,219	\$ 13,943	\$ 248	\$ 1,053	\$ 37,996
6,002	382	196,777	107		252,710
45,009	17,440	580,880	9,451	13,673	1,181,254
6,697	654	23,254	95		34,171
40,129	1,414		536	8	48,447
\$ 99,004	\$ 21,109	\$ 814,854	\$ 10,437	\$ 14,734	\$ 1,554,578
\$ 644	\$ 457	\$ 4,167			\$ 7,212
387					11,579
1,065	481	45,478	\$ 1,613		77,238
41	218	13,358			13,759
48,186	1,635	8,539			60,260
\$ 50,323	\$ 2,791	\$ 71,542	\$ 1,613	\$ -	\$ 170,048
\$ (1,890)	\$ 3,350	\$ 14,482	\$ 642	\$ 1,463	\$ 60,775
22,767	1,389	413,431	4,054	12,386	703,591
27,804	13,579	315,399	4,128	885	620,164
\$ 48,681	\$ 18,318	\$ 743,312	\$ 8,824	\$ 14,734	\$ 1,384,530
\$ 12,768	\$ 2,583	\$ 234,851	\$ 1,288	\$ 6,781	\$ 354,406
	246				9,467
(255)	(2,324)	9,944	(109)	1,096	(19,533)
	(43)	(4,690)			(5,700)
7,043	742	797	220		22,897
19,556	1,204	240,902	1,399	7,877	361,537
1,528	429	9,778	190		29,506
				6,170	6,170
6,615	5,129	65,521	1,589		157,653
6,213	272				15,195
14,356	5,830	75,299	1,779	6,170	208,524
5,200	(4,626)	165,603	(380)	1,707	153,013
748	(182)				566
5,948	(4,808)	165,603	(380)	1,707	153,579
42,733	23,126	577,709	9,204	13,027	1,230,951
\$ 48,681	\$ 18,318	\$ 743,312	\$ 8,824	\$ 14,734	\$ 1,384,530

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

COMPONENT UNITS

COMBINING FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2007 (in thousands)

	Eastern Oregon University Foundation *	Oregon Tech Foundation	Oregon State University Foundation
ASSETS			
Cash and Cash Equivalents	\$ 1,027	\$ 1,655	\$ 39,505
Contributions, Pledges and Grants Receivable, Net	100	3,190	34,110
Investments	2,653	20,459	486,631
Prepaid or Deferred Expenses, and Other Assets	63	120	2,293
Property and Equipment, Net		35	9,512
Total Assets	\$ 3,843	\$ 25,459	\$ 572,051
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 1	\$ 800	\$ 802
Accounts Payable to Universities			371
Obligations to Beneficiaries of Split-Interest Agreements		181	33,908
Deposits and Deferred Revenue	138		
Long-Term Liabilities			
Total Liabilities	\$ 139	\$ 981	\$ 35,081
NET ASSETS			
Unrestricted	\$ 224	\$ 10,296	\$ 41,903
Temporarily Restricted	1,033	9,712	263,876
Permanently Restricted	2,447	4,470	231,191
Total Net Assets	\$ 3,704	\$ 24,478	\$ 536,970
STATEMENTS OF ACTIVITIES			
For the Year Ended June 30, 2007 (in thousands)			
REVENUES			
Grants, Bequests and Gifts	\$ 935	\$ 4,555	\$ 58,124
Interest and Dividends			11,284
Investment Income, Net	231	2,280	47,746
Change in Value of Life Income Agreements		67	1,332
Other Revenues	93	77	4,282
Total Revenues	1,259	6,979	122,768
EXPENSES			
General and Administrative	81	704	14,259
Development Expenses			
University Support	301	3,926	36,411
Other Expenses	130		3,954
Total Expenses	512	4,630	54,624
Increase In Net Assets Before Other Changes in Net Assets	747	2,349	68,144
Other Changes in Net Assets			
Increase In Net Assets	747	2,349	68,144
NET ASSETS, BEGINNING BALANCE	2,957	22,129	468,826
NET ASSETS, ENDING BALANCE	\$ 3,704	\$ 24,478	\$ 536,970

* As of December 31, 2006

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

Portland State University Foundation	Southern Oregon University Foundation	University of Oregon Foundation	Western Oregon University Development Foundation	Agricultural Research Foundation	Total Component Units
\$ 407	\$ 2,187	\$ 16,176	\$ 265	\$ 395	\$ 61,617
3,342	330	52,165	117		93,354
42,012	19,447	561,812	9,958	12,624	1,155,596
6,169	816	15,554	45		25,060
41,164	1,423		531	8	52,673
\$ 93,094	\$ 24,203	\$ 645,707	\$ 10,916	\$ 13,027	\$ 1,388,300
\$ 145	\$ 357	\$ 2,570			\$ 4,675
263					634
1,031	512	50,485	\$ 1,712		87,829
28	208	13,341			13,715
48,894		1,602			50,496
\$ 50,361	\$ 1,077	\$ 67,998	\$ 1,712	\$ -	\$ 157,349
\$ (2,354)	\$ 3,376	\$ 14,981	\$ 534	\$ 1,036	\$ 69,996
20,683	6,801	290,663	4,688	11,323	608,779
24,404	12,949	272,065	3,982	668	552,176
\$ 42,733	\$ 23,126	\$ 577,709	\$ 9,204	\$ 13,027	\$ 1,230,951
\$ 5,977	\$ 3,082	\$ 84,223	\$ 1,785	\$ 6,332	\$ 165,013
	302				11,586
5,517	2,863	67,634	1,276	879	128,426
	(58)	5,038			6,379
6,216	631	1,014	201		12,514
17,710	6,820	157,909	3,262	7,211	323,918
1,510	371	7,274	195		24,394
				6,094	6,094
6,719	1,669	70,647	1,286		120,959
5,886	304				10,274
14,115	2,344	77,921	1,481	6,094	161,721
3,595	4,476	79,988	1,781	1,117	162,197
342					342
3,937	4,476	79,988	1,781	1,117	162,539
38,796	18,650	497,721	7,423	11,910	1,068,412
\$ 42,733	\$ 23,126	\$ 577,709	\$ 9,204	\$ 13,027	\$ 1,230,951

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2008 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 5,111	\$ 11,725	\$ 112,651
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	3,634	3,328	62,326
Accounts Receivable from Component Units	-	-	8,781
Notes Receivable, Net	239	540	4,228
Inventories	373	428	1,902
Prepaid Expenses	32	19	2,616
Total Current Assets	9,389	16,040	192,504
Noncurrent Assets			
Cash and Cash Equivalents	2,958	3,012	46,077
Long-Term Investments	1,350	256	34,007
Notes Receivable, Net	1,697	2,993	27,569
Due From Other OUS Funds and Entities	121	-	4,038
Capital Assets, Net of Accumulated Depreciation	55,728	37,729	527,712
Total Noncurrent Assets	61,854	43,990	639,403
TOTAL ASSETS	\$ 71,243	\$ 60,030	\$ 831,907
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 1,329	\$ 3,206	\$ 27,361
Deposits	438	354	2,741
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,558	1,344	20,914
Deferred Revenue	1,287	1,293	36,434
Total Current Liabilities	4,612	6,197	87,450
Noncurrent Liabilities			
Long-Term Liabilities	47,618	26,015	298,354
Due to Other OUS Funds and Entities	121	140	4,038
Total Noncurrent Liabilities	47,739	26,155	302,392
TOTAL LIABILITIES	\$ 52,351	\$ 32,352	\$ 389,842
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 8,787	\$ 13,026	\$ 264,703
Restricted For:			
Nonexpendable Endowments	554	-	4,183
Expendable:			
Gifts, Grants, and Contracts	1,121	862	46,181
Student Loans	2,013	4,190	33,271
Capital Projects	2,181	261	18,682
Debt Service	19	57	1,679
Unrestricted Net Assets	4,217	9,282	73,366
TOTAL NET ASSETS	\$ 18,892	\$ 27,678	\$ 442,065

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 28,764	\$ 11,485	\$ 91,713	\$ 17,026	\$ 76,859		\$ 355,334
-	-	-	-	414,901		414,901
47,737	5,814	45,374	5,969	7,109		181,291
187	8	-	-	-		8,976
1,010	531	2,805	251	4,216		13,820
485	712	1,856	930	-		6,686
1,384	70	3,070	188	9,202		16,581
79,567	18,620	144,818	24,364	512,287		997,589
41,356	5,401	248,933	5,958	106,919		460,614
2,294	2,143	27,135	67	14,477		81,729
7,906	3,671	22,528	3,621	27,393		97,378
17,205	636	4,215	49	4,073	\$ (30,337)	-
278,247	82,300	517,804	49,250	24		1,548,794
347,008	94,151	820,615	58,945	152,886	(30,337)	2,188,515
\$ 426,575	\$ 112,771	\$ 965,433	\$ 83,309	\$ 665,173	\$ (30,337)	\$ 3,186,104
\$ 21,252	\$ 2,730	\$ 26,358	\$ 4,828	\$ 32,088		\$ 119,152
3,065	610	5,285	783	(130)		13,146
-	-	-	-	414,901		414,901
7,768	2,401	12,126	1,299	41,348		88,758
22,560	2,251	28,230	1,545	1,099		94,699
54,645	7,992	71,999	8,455	489,306		730,656
197,835	61,168	465,242	41,984	100,958		1,239,174
17,358	735	4,299	62	3,584	\$ (30,337)	-
215,193	61,903	469,541	42,046	104,542	(30,337)	1,239,174
\$ 269,838	\$ 69,895	\$ 541,540	\$ 50,501	\$ 593,848	\$ (30,337)	\$ 1,969,830
\$ 86,305	\$ 24,570	\$ 255,264	\$ 10,715	\$ (31,744)		\$ 631,626
1,285	1,812	7,387	2	2,110		17,333
2,509	1,046	47,845	1,041	1,868	\$ 824	103,297
9,702	4,819	25,831	5,654	6	1,501	86,987
15,482	3,779	42,169	3,205	20,242	18,267	124,268
419	92	9,907	110	70,031		82,314
41,035	6,758	35,490	12,081	8,812	(20,592)	170,449
\$ 156,737	\$ 42,876	\$ 423,893	\$ 32,808	\$ 71,325	\$ -	\$ 1,216,274

SUPPLEMENTARY SCHEDULES

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

For The Year Ended June 30, 2008 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 11,511	\$ 11,280	\$ 125,710
Federal Grants and Contracts	5,670	7,127	143,831
State and Local Grants and Contracts	930	388	10,302
Nongovernmental Grants and Contracts	35	312	16,676
Educational Department Sales and Services	206	238	31,613
Auxiliary Enterprise Revenues, Net	6,005	6,520	79,219
Other Operating Revenues	619	423	5,634
Total Operating Revenues	24,976	26,288	412,985
OPERATING EXPENSES			
Instruction	14,952	19,350	150,700
Research	405	111	164,531
Public Service	1,822	3,249	53,322
Academic Support	3,791	4,321	37,106
Student Services	2,184	2,698	18,198
Auxiliary Programs	6,721	7,658	96,929
Operation and Maintenance of Plant	3,165	2,529	24,099
Institutional Support	4,464	4,166	37,612
Student Aid	2,596	2,479	17,083
Other Operating Expenses	2,304	3,002	34,295
Total Operating Expenses	42,404	49,563	633,875
Operating Loss	(17,428)	(23,275)	(220,890)
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	19,519	22,526	187,660
Investment Activity	23	185	2,280
(Loss) Gain on Sale of Assets, Net	(52)	702	(322)
Interest Expense	(2,320)	(1,341)	(15,996)
Other Nonoperating Items	277	586	45,490
Net Nonoperating Revenues	17,447	22,658	219,112
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	19	(617)	(1,778)
Capital Appropriations	1,334	3	4,776
Capital Grants and Gifts	-	8,710	17,671
Additions to Permanent Endowments	-	-	-
Transfers within OUS	(11)	782	18,756
Total Other Nonoperating Revenues	1,323	9,495	41,203
Increase In Net Assets	1,342	8,878	39,425
NET ASSETS, BEGINNING BALANCE	17,550	18,800	402,640
NET ASSETS, ENDING BALANCE	\$ 18,892	\$ 27,678	\$ 442,065

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 126,633	\$ 20,478	\$ 178,794	\$ 21,607	\$ 144		\$ 496,157
52,614	7,353	96,245	13,090	2,297	\$ (5,419)	322,808
10,243	1,569	7,647	3,167	229		34,475
8,487	1,527	9,458	590	95		37,180
5,890	3,661	21,511	3,298	23		66,440
48,989	17,894	96,312	15,549	180		270,668
5,288	1,081	5,309	3,357	2,398	-	24,109
258,144	53,563	415,276	60,658	5,366	(5,419)	1,251,837
125,609	26,073	167,288	24,441	1,616		530,029
28,909	714	66,545	7,116	-	(4,550)	263,781
7,989	3,642	30,464	474	2,619		103,581
25,008	6,257	36,620	5,666	74		118,843
11,260	4,484	22,081	4,665	-		65,570
47,461	18,344	111,987	17,893	362		307,355
20,859	4,091	21,243	3,985	-		79,971
19,384	4,505	44,372	4,981	13,786		133,270
18,475	3,999	11,722	4,235	-		60,589
18,117	4,503	27,696	6,661	(1,430)	(869)	94,279
323,071	76,612	540,018	80,117	17,027	(5,419)	1,757,268
(64,927)	(23,049)	(124,742)	(19,459)	(11,661)	-	(505,431)
79,072	21,814	80,127	20,567	17,286		448,571
1,097	59	3,168	349	9,819		16,980
(637)	-	(56)	(458)	2,385		1,562
(9,743)	(2,994)	(13,676)	(2,216)	(4,786)		(53,072)
4,049	2,714	44,491	242	2,292		100,141
73,838	21,593	114,054	18,484	26,996	-	514,182
8,911	(1,456)	(10,688)	(975)	15,335	-	8,751
6,853	-	981	2,985	(322)		16,610
9,953	3,795	14,390	588	-		55,107
-	-	-	-	-		-
(3,151)	1,323	(4,036)	504	(14,167)		-
13,655	5,118	11,335	4,077	(14,489)	-	71,717
22,566	3,662	647	3,102	846	-	80,468
134,171	39,214	423,246	29,706	70,479		1,135,806
\$ 156,737	\$ 42,876	\$ 423,893	\$ 32,808	\$ 71,325	\$ -	\$ 1,216,274

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	\$ 11,270	\$ 11,677	\$ 121,132
Grants and Contracts	7,642	7,875	172,025
Sales and Services of Educational Departments	216	242	31,490
Auxiliary Enterprise Operations	5,921	6,493	82,225
Student Loan Collections	264	698	4,410
Payments to Employees for Compensation and Benefits	(28,319)	(33,796)	(415,672)
Payments to Suppliers	(8,767)	(13,489)	(171,587)
Student Financial Aid	(2,659)	(2,304)	(26,791)
Student Loan Issuance and Costs	(397)	(767)	(8,814)
Other Operating Receipts	502	433	1,489
Net Cash (Used) Provided by Operating Activities	(14,327)	(22,938)	(210,093)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	19,519	22,527	187,660
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	272	1,622	46,209
Net Agency Fund Receipts (Payments)	64	7	(667)
Net Transfers to (from) Other Funds and OUS Universities	517	1,953	11,989
Net Cash Provided (Used) by Noncapital Financing Activities	20,372	26,109	245,191
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	1,334	3	4,776
Capital Grants and Gifts	-	8,710	14,715
Bond Proceeds on Capital Debt	1,869	1,072	40,700
Sales of Capital Assets	445	1,127	7,572
Purchases of Capital Assets	(903)	(9,203)	(68,373)
Interest Payments on Capital Debt	(2,318)	(1,292)	(7,245)
Principal Payments on Capital Debt	(2,225)	(848)	(16,576)
Net Cash (Used) Provided by Capital and Related Financing Activities	(1,798)	(431)	(24,431)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	243	226	8,041
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided by Investing Activities	243	226	8,041
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,490	2,966	18,708
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	3,579	11,771	140,020
CASH AND CASH EQUIVALENTS, ENDING BALANCE	\$ 8,069	\$ 14,737	\$ 158,728

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 126,213	\$ 19,843	\$ 176,742	\$ 20,786	\$ (726)		\$ 486,937
71,211	10,873	109,175	17,129	3,578	\$ (5,419)	394,089
5,912	3,660	21,453	3,285	24		66,282
48,466	17,612	96,831	15,249	(136)		272,661
1,415	826	4,589	592	(7)		12,787
(204,952)	(47,523)	(350,861)	(47,875)	(9,165)		(1,138,163)
(77,403)	(21,447)	(134,595)	(20,115)	11,251	5,419	(430,733)
(19,506)	(4,350)	(24,371)	(5,146)	(1,261)		(86,388)
(2,373)	(872)	(8,061)	(2,617)	-		(23,901)
1,445	948	2,338	3,059	2,396		12,610
(49,572)	(20,430)	(106,760)	(15,653)	5,954	-	(433,819)
79,072	21,814	80,127	20,566	14,224		445,509
-	-	-	-	-		-
3,215	3,521	43,280	90	89		98,298
(25)	(244)	(840)	(346)	(1,409)		(3,460)
4,948	1,270	(2,675)	1,552	(19,554)		-
87,210	26,361	119,892	21,862	(6,650)	-	540,347
6,853	-	981	2,985	(322)		16,610
9,878	2,805	12,036	570	-		48,714
2,655	6,155	209,196	952	31,454		294,053
8,061	163	3,434	1,106	11,468		33,376
(43,432)	(7,948)	(79,472)	(6,345)	(25)		(215,701)
(7,804)	(3,002)	(11,862)	(2,216)	(16,908)		(52,647)
(6,794)	(2,420)	(7,698)	(1,387)	(35,036)		(72,984)
(30,583)	(4,247)	126,615	(4,335)	(9,369)	-	51,421
-	-	(4)	-	(306)		(310)
1,471	409	7,584	360	18,051		36,385
-	-	-	-	6,195		6,195
-	-	-	-	(6,195)		(6,195)
1,471	409	7,580	360	17,745	-	36,075
8,526	2,093	147,327	2,234	7,680	-	194,024
61,594	14,793	193,319	20,750	176,098		621,924
\$ 70,120	\$ 16,886	\$ 340,646	\$ 22,984	\$ 183,778	\$ -	\$ 815,948

SUPPLEMENTARY SCHEDULES**CONSOLIDATING STATEMENT OF CASH FLOWS—Continued**

For the Year Ended June 30, 2008 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) PROVIDED BY			
OPERATING ACTIVITIES			
Operating Loss	\$ (17,428)	\$ (23,275)	\$ (220,890)
Adjustments to Reconcile Operating Loss to Net Cash (Used) Provided by Operating Activities:			
Depreciation Expense	2,959	1,995	35,848
Changes in Assets and Liabilities:			
Accounts Receivable	442	686	(13,761)
Notes Receivable	(284)	(108)	(3,766)
Inventories	(22)	(59)	(181)
Prepaid Expenses	22	6	(515)
Accounts Payable and Accrued Liabilities	(88)	(2,076)	(9,044)
Long-Term Liabilities	24	(213)	(7,873)
Deposits	(25)	(1)	7
Deferred Revenue	73	107	10,082
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (14,327)	\$ (22,938)	\$ (210,093)

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

Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ 78	-	-
Capital Assets Acquired by Gifts in Kind	-	44	3,576
Decrease 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
\$ (64,927)	\$ (23,049)	\$ (124,742)	\$ (19,459)	\$ (11,661)		\$ (505,431)
14,976	3,710	28,687	3,408	141		91,724
(6,766)	(1,050)	(18,246)	1,328	60		(37,307)
304	(55)	4,711	113	-		915
(91)	(84)	103	242	-		(92)
(565)	33	(1,249)	(158)	(2,619)		(5,045)
3,545	(826)	6,427	1,093	5,876		4,907
1,870	407	(4,523)	(37)	14,453		4,108
25	6	(2)	-	(1)		9
2,057	478	2,074	(2,183)	(295)		12,393
\$ (49,572)	\$ (20,430)	\$ (106,760)	\$ (15,653)	\$ 5,954	\$ -	\$ (433,819)

-	-	-	-	-	-	\$ 78
97	989	2,459	-	-	-	7,165
-	-	-	-	-	(19,330)	(19,330)

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF NET ASSETS

As of June 30, 2007 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 2,551	\$ 9,682	\$ 96,461
Collateral from Securities Lending	-	-	-
Accounts Receivable, Net	4,126	4,012	48,324
Accounts Receivable from Component Units	-	-	8,986
Notes Receivable, Net	165	505	4,308
Inventories	351	369	1,722
Prepaid Expenses	54	25	2,106
Total Current Assets	7,247	14,593	161,907
Noncurrent Assets			
Cash and Cash Equivalents	1,028	2,089	43,559
Long-Term Investments	1,571	298	40,223
Notes Receivable, Net	1,510	2,920	23,723
Due From Other OUS Funds and Entities	103	-	2,384
Capital Assets, Net of Accumulated Depreciation	57,988	30,592	491,661
Total Noncurrent Assets	62,200	35,899	601,550
TOTAL ASSETS	\$ 69,447	\$ 50,492	\$ 763,457
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 958	\$ 3,981	\$ 29,136
Deposits	505	425	2,546
Obligations Under Securities Lending	-	-	-
Current Portion of Long-Term Liabilities	1,657	1,272	20,545
Deferred Revenue	1,214	1,177	27,052
Total Current Liabilities	4,334	6,855	79,279
Noncurrent Liabilities			
Long-Term Liabilities	47,460	24,697	279,154
Due to Other OUS Funds and Entities	103	140	2,384
Total Noncurrent Liabilities	47,563	24,837	281,538
TOTAL LIABILITIES	\$ 51,897	\$ 31,692	\$ 360,817
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 10,131	\$ 6,960	\$ 245,637
Restricted For:			
Nonexpendable Endowments	554	-	4,183
Expendable:			
Gifts, Grants, and Contracts	1,484	779	49,317
Student Loans	1,936	4,148	34,038
Capital Projects	879	(1,169)	10,808
Debt Service	35	312	1,294
Unrestricted Net Assets	2,531	7,770	57,363
TOTAL NET ASSETS	\$ 17,550	\$ 18,800	\$ 402,640

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 37,314	\$ 10,995	\$ 103,962	\$ 15,837	\$ 66,202		\$ 343,004
-	-	-	-	240,871		240,871
40,835	4,565	34,175	6,940	4,098		147,075
298	-	-	-	-		9,284
1,149	463	1,627	424	5,903		14,544
394	627	1,957	1,174	-		6,594
819	103	1,821	29	6,584		11,541
80,809	16,753	143,542	24,404	323,658		772,913
24,280	3,798	89,357	4,913	109,896		278,920
2,668	2,492	31,521	78	22,025		100,876
8,072	3,692	20,085	3,561	30,621		94,184
3,271	344	2,059	-	1,745	\$ (9,906)	-
246,979	77,120	463,969	46,189	6,670		1,421,168
285,270	87,446	606,991	54,741	170,957	(9,906)	1,895,148
\$ 366,079	\$ 104,199	\$ 750,533	\$ 79,145	\$ 494,615	\$ (9,906)	\$ 2,668,061
\$ 10,457	\$ 2,366	\$ 19,191	\$ 3,038	\$ 29,465		\$ 98,592
2,313	752	4,923	714	1,044		13,222
-	-	-	-	240,871		240,871
6,874	2,281	11,477	1,181	39,844		85,131
20,493	1,765	26,156	3,740	1,450		83,047
40,137	7,164	61,747	8,673	312,674		520,863
188,347	57,028	263,299	40,754	110,653		1,011,392
3,424	793	2,241	12	809	\$ (9,906)	-
191,771	57,821	265,540	40,766	111,462	(9,906)	1,011,392
\$ 231,908	\$ 64,985	\$ 327,287	\$ 49,439	\$ 424,136	\$ (9,906)	\$ 1,532,255
\$ 66,682	\$ 21,362	\$ 242,386	\$ 9,159	\$ (10,328)		\$ 591,989
1,285	1,812	7,387	2	2,110		17,333
2,480	1,221	39,681	1,083	2,210	\$ 1,115	99,370
9,822	4,749	25,891	5,593	11		86,188
13,884	4,509	42,639	3,112	2,803	2,644	80,109
199	138	9,274	139	67,217		78,608
39,819	5,423	55,988	10,618	6,456	(3,759)	182,209
\$ 134,171	\$ 39,214	\$ 423,246	\$ 29,706	\$ 70,479	\$ -	\$ 1,135,806

SUPPLEMENTARY SCHEDULES

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

For The Year Ended June 30, 2007 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 12,027	\$ 10,347	\$ 119,764
Federal Grants and Contracts	5,681	7,128	136,048
State and Local Grants and Contracts	1,311	330	9,696
Nongovernmental Grants and Contracts	26	348	19,504
Educational Department Sales and Services	197	221	28,492
Auxiliary Enterprise Revenues, Net	6,179	6,363	72,714
Other Operating Revenues	667	837	6,357
Total Operating Revenues	26,088	25,574	392,575
OPERATING EXPENSES			
Instruction	15,000	18,091	145,570
Research	303	30	164,436
Public Service	1,821	2,771	51,248
Academic Support	3,715	3,457	35,079
Student Services	2,107	2,336	16,659
Auxiliary Programs	6,830	7,015	92,758
Operation and Maintenance of Plant	3,077	2,307	21,489
Institutional Support	4,851	4,038	35,434
Student Aid	2,216	2,333	14,789
Other Operating Expenses	2,605	1,824	34,626
Total Operating Expenses	42,525	44,202	612,088
Operating Loss	(16,437)	(18,628)	(219,513)
NONOPERATING REVENUES (EXPENSES)			
Government Appropriations	16,335	17,509	164,782
Investment Activity	405	272	12,383
Gain on Sale of Assets, Net	-	-	86
Interest Expense	(2,234)	(1,336)	(12,679)
Other Nonoperating Items	122	1,948	42,325
Net Nonoperating Revenues	14,628	18,393	206,897
(Loss) Income Before Other Revenues, Expenses, Gains or Losses	(1,809)	(235)	(12,616)
Capital Appropriations	190	50	-
Capital Grants and Gifts	-	881	8,651
Additions to Permanent Endowments	-	-	-
Transfers within OUS	812	335	(9,652)
Total Other Nonoperating Revenues	1,002	1,266	(1,001)
(Decrease) Increase In Net Assets	(807)	1,031	(13,617)
NET ASSETS, BEGINNING BALANCE	18,357	17,769	416,257
NET ASSETS, ENDING BALANCE	\$ 17,550	\$ 18,800	\$ 402,640

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 117,440	\$ 20,219	\$ 172,091	\$ 17,896	\$ 155		\$ 469,939
47,339	6,300	91,961	12,143	2,877	\$ (2,653)	306,824
7,087	1,739	6,272	3,350	2,030		31,815
8,300	2,030	8,870	630	30		39,738
6,800	3,538	17,291	3,053	31		59,623
45,417	17,194	92,782	13,114	114		253,877
9,439	746	6,242	702	4,853	-	29,843
241,822	51,766	395,509	50,888	10,090	(2,653)	1,191,659
120,634	25,168	157,367	21,564	1,524		504,918
24,232	708	64,969	7,051	-	(1,917)	259,812
9,664	4,152	29,373	430	2,704		102,163
21,200	5,916	32,644	5,072	125		107,208
10,681	4,083	21,328	4,128	-		61,322
45,240	17,211	98,956	15,786	436		284,232
15,906	3,982	19,059	3,531	-		69,351
17,775	4,424	37,884	4,604	13,687		122,697
16,231	3,847	11,748	3,818	-		54,982
14,655	3,823	28,210	2,703	508	(736)	88,218
296,218	73,314	501,538	68,687	18,984	(2,653)	1,654,903
(54,396)	(21,548)	(106,029)	(17,799)	(8,894)	-	(463,244)
68,525	18,730	73,038	18,557	14,949		392,425
1,598	678	11,942	425	8,163		35,866
46	7	17,143	8	-		17,290
(8,902)	(2,698)	(12,205)	(1,962)	(4,242)		(46,258)
3,779	2,573	29,512	199	(207)		80,251
65,046	19,290	119,430	17,227	18,663	-	479,574
10,650	(2,258)	13,401	(572)	9,769	-	16,330
-	-	50	34	(324)		-
3,788	252	26,362	184	-		40,118
1	-	-	-	69		70
3,754	507	1,179	748	2,317		-
7,543	759	27,591	966	2,062	-	40,188
18,193	(1,499)	40,992	394	11,831	-	56,518
115,978	40,713	382,254	29,312	58,648		1,079,288
\$ 134,171	\$ 39,214	\$ 423,246	\$ 29,706	\$ 70,479	\$ -	\$ 1,135,806

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007 (in thousands)	Eastern Oregon University	Oregon Institute of Technology	Oregon State University
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and Fees	\$ 12,227	\$ 10,013	\$ 115,872
Grants and Contracts	7,349	7,707	165,431
Sales and Services of Educational Departments	200	220	28,483
Auxiliary Enterprise Operations	6,172	6,389	70,661
Student Loan Collections	426	812	7,882
Payments to Employees for Compensation and Benefits	(27,939)	(31,168)	(400,889)
Payments to Suppliers	(9,168)	(5,954)	(149,082)
Student Financial Aid	(2,267)	(2,194)	(23,668)
Student Loan Issuance and Costs	(450)	(810)	(8,025)
Other Operating Receipts	584	527	4,853
Net Cash Used by Operating Activities	(12,866)	(14,458)	(188,482)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Government Appropriations	16,525	17,559	164,781
Private Gifts Received for Endowment Purposes	-	-	-
Other Gifts and Private Contracts	211	1,957	43,241
Net Agency Fund Receipts (Payments)	5	49	826
Net Transfers to (from) Other Funds and OUS Universities	204	676	5,631
Net Cash Provided by Noncapital Financing Activities	16,945	20,241	214,479
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Appropriations	-	-	-
Capital Grants and Gifts	-	882	7,180
Bond Proceeds on Capital Debt	372	439	34,632
Sales of Capital Assets	-	56	12,412
Purchases of Capital Assets	(1,617)	(13,272)	(41,929)
Interest Payments on Capital Debt	(2,234)	(1,282)	(12,451)
Principal Payments on Capital Debt	(1,527)	(831)	(7,796)
Net Cash (Used) Provided by Capital and Related Financing Activities	(5,006)	(14,008)	(7,952)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Investments	-	-	-
Interest on Investments and Cash Balances	208	236	7,758
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) by Investing Activities	208	236	7,758
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(719)	(7,989)	25,803
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	4,298	19,760	114,217
CASH AND CASH EQUIVALENTS, ENDING BALANCE	\$ 3,579	\$ 11,771	\$ 140,020

Portland State University	Southern Oregon University	University of Oregon	Western Oregon University	Chancellor's Office	Eliminations	Total OUS
\$ 117,634	\$ 20,192	\$ 173,038	\$ 17,962	\$ 1,196		\$ 468,134
63,536	9,946	110,193	15,436	4,268	\$ (2,653)	381,213
6,787	3,541	17,235	3,055	31		59,552
44,788	16,918	94,742	13,268	290		253,228
2,891	908	8,592	1,080	-		22,591
(194,597)	(46,820)	(325,629)	(43,929)	(8,715)		(1,079,686)
(66,677)	(17,223)	(125,543)	(16,546)	(1,509)	2,653	(389,049)
(17,203)	(3,950)	(24,377)	(4,491)	(1,262)		(79,412)
(4,446)	(1,013)	(9,150)	(1,065)	-		(24,959)
10,601	568	4,103	404	(5,470)		16,170
(36,686)	(16,933)	(76,796)	(14,826)	(11,171)	-	(372,218)
68,525	18,730	73,088	18,591	23,969		401,768
1	-	-	-	69		70
3,007	2,504	29,998	98	186		81,202
250	(56)	1,077	166	(2,800)		(483)
9,012	495	52	3,026	(19,096)		-
80,795	21,673	104,215	21,881	2,328	-	482,557
-	-	-	-	-		-
3,788	1	26,087	184	-		38,122
9,473	569	37,107	842	40,950		124,384
997	283	26,175	397	-		40,320
(14,312)	(3,223)	(56,551)	(1,666)	(9)		(132,579)
(8,507)	(2,570)	(11,228)	(1,961)	(6,015)		(46,248)
(6,821)	(1,789)	(7,233)	(1,320)	(6,704)		(34,021)
(15,382)	(6,729)	14,357	(3,524)	28,222	-	(10,022)
-	-	-	-	(15,976)		(15,976)
1,267	366	8,011	416	10,316		28,578
-	-	-	-	5,102		5,102
-	-	-	-	(5,102)		(5,102)
1,267	366	8,011	416	(5,660)	-	12,602
29,994	(1,623)	49,787	3,947	13,719	-	112,919
31,600	16,416	143,532	16,803	162,379		509,005
\$ 61,594	\$ 14,793	\$ 193,319	\$ 20,750	\$ 176,098	\$ -	\$ 621,924

SUPPLEMENTARY SCHEDULES
CONSOLIDATING STATEMENT OF CASH FLOWS—Continued

For the Year Ended June 30, 2007 (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	\$ (16,437)	\$ (18,628)	\$ (219,513)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Depreciation Expense	3,016	1,751	35,348
Changes in Assets and Liabilities:			
Accounts Receivable	489	(465)	(6,616)
Notes Receivable	(80)	(32)	(487)
Inventories	(37)	6	(112)
Prepaid Expenses	347	21	(8)
Accounts Payable and Accrued Liabilities	(280)	2,837	1,709
Long-Term Liabilities	(154)	(46)	962
Deposits	(52)	7	13
Deferred Revenue	322	91	222
NET CASH USED BY OPERATING ACTIVITIES	\$ (12,866)	\$ (14,458)	\$ (188,482)

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

Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ 68	-	-
Capital Assets Acquired by Gifts in Kind	-	-	2,102
Increase 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
\$ (54,396)	\$ (21,548)	\$ (106,029)	\$ (17,799)	\$ (8,894)		\$ (463,244)
14,592	3,804	27,744	3,313	237		89,805
(3,698)	374	1,910	(1,303)	(10,042)		(19,351)
(467)	2	3,492	(37)	-		2,391
25	(3)	(277)	17	-		(381)
560	329	(23)	53	613		1,892
1,329	765	(2,848)	189	4,467		8,168
(68)	51	202	(19)	2,192		3,120
(286)	(3)	57	-	(12)		(276)
5,723	(704)	(1,024)	760	268		5,658
\$ (36,686)	\$ (16,933)	\$ (76,796)	\$ (14,826)	\$ (11,171)	\$ -	\$ (372,218)

\$ 107	-	-	-	-	-	\$ 175
97	251	1,134	-	-	-	3,584
-	-	-	-	7,309	-	7,309

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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 financial statements of the Oregon University System (System) and its aggregate discretely presented component units as of and for the year ended June 30, 2008 which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 19, 2008. 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. Other auditors audited the financial statements of 5 of the 8 discretely presented component units as described in our report on the System's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal control over financial reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the 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 communicated other matters which were noted during the course of our audit to management of the System, the Oregon State Board of Higher Education, and the Oregon Secretary of State Audits Division.

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

Moss Adams LLP

Eugene, Oregon
November 19, 2008



Oregon University System

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Controller's Division

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